



**South
Derbyshire
District Council**

Prudential Indicators 2023/24

December 2023

Introduction

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

The Authority measures and manages its capital expenditure, borrowing and commercial and service investments (where applicable) with references to the following indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

Estimated Capital Expenditure and Financing

This is the approved capital investment programme for the General Fund, together with stock investment proposals included in the HRA Business Plan. The programme is summarised in the following table.

| Estimated Capital Expenditure £ | Actual 2022/23 | Forecast 2023/24 | Forecast 2024/25 | Forecast 2025/26 | Forecast 2026/27 | Forecast 2027/28 |
|--|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| General Fund | 4,013,345 | 4,742,558 | 6,685,387 | 3,817,000 | 2,880,000 | 747,500 |
| HRA | 2,456,166 | 2,432,186 | 3,119,676 | 3,500,000 | 4,630,000 | 4,200,000 |
| Total | 6,469,511 | 7,174,744 | 9,805,063 | 7,317,000 | 7,510,000 | 4,947,500 |
| | | | | | | |
| Financed by £ | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| Grants and Contribution | 2,914,945 | 2,924,000 | 2,348,000 | 820,000 | 400,000 | 400,000 |
| Council Resources | 3,554,566 | 4,250,744 | 7,457,063 | 6,497,000 | 7,110,000 | 4,547,500 |
| Total | 6,469,511 | 7,174,744 | 9,805,063 | 7,317,000 | 7,510,000 | 4,947,500 |

There have been significant changes to the forecasts than those approved in the Capital Strategy for 2023/24 due to additional capital bids that were put forward as part of the budget round for 2024/25. 8 new projects have also been added to the rolling 5-year programme and an updated fleet replacement programme has also been included.

The main General Fund capital project to date includes revitalising Rosliston Forestry Centre (£832K total project funding), which is still an ongoing project from the 2020 capital bidding round. Delays to this project have been due to public consultations, however it is expected that this project will complete in the new financial year.

The general upward trend of the HRA expenditure relates to the increased level of investment needed for the upkeep of Council houses to ensure that they are compliant with regulations. The major repairs have a five-year plan for improving Council properties to decent homes standard.

Overall, the capital expenditure programme is financed from Government grants, external contributions, Council reserves (including internal borrowing) and capital receipts.

The table highlights that the five-year investment programme is fully funded. If all financing is not secured, expenditure will need to be curtailed or other resources and reserves identified.

Due to the current level of reserves and cash on deposit, current policy is that any longer-term borrowing is undertaken only as a last resort to meet any shortfall; any new borrowing will only be undertaken prudentially within the Council's debt limits.

The Council's Borrowing Need or Capital Financing Requirement (CFR)

The CFR is a measure of the Council's underlying need to borrow for capital investment and is based on the net value of fixed assets contained in the Council's Balance Sheet.

The CFR does not necessarily represent the amount of actual external debt outstanding. This is because not all borrowing previously allowed has in effect taken place against this requirement but is being financed internally through cash deposits and reserves.

Capital expenditure that has not been immediately paid for increases the CFR through additional borrowing, including internally. The CFR is reduced following debt repayment or through setting-aside revenue sums to repay internal borrowing.

The Council is required to pay off an element of the accumulated General Fund CFR each year through a revenue charge called the Minimum Revenue Provision (MRP). In addition, a Voluntary Revenue Provision (VRP) is made where borrowing has taken place on a prudential basis.

There is no requirement to make a MRP for the HRA. However, money is being set-aside to repay HRA debt in accordance with the maturity profile. This strategy is reflected in the HRA's Financial Plan.

A summary of the CFR estimates is shown in the following table.

| Expected CFR | Actual 2022/23 £'000 | Forecast 2023/24 £'000 | Forecast 2024/25 £'000 | Forecast 2025/26 £'000 | Forecast 2026/27 £'000 | Forecast 2027/28 £'000 |
|-------------------------|-------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| CFR b/fwd | 58,639 | 58,444 | 48,406 | 49,493 | 51,532 | 53,706 |
| Add New Financing | 0 | 0 | 1127 | 2095 | 2440 | 252 |
| Less MRP | -175 | -38 | -40 | -56 | -266 | -523 |
| Less VRP | -21 | 0 | 0 | 0 | 0 | 0 |
| Less Debt Repayment | 0 | -10000 | 0 | 0 | 0 | 0 |
| CFR c/fwd | 58,444 | 48,406 | 49,493 | 51,532 | 53,706 | 53,435 |
| General Fund Proportion | 6,860 | 6,822 | 7,909 | 9,948 | 11,682 | 11,465 |
| HRA Proportion | 51,584 | 41,584 | 41,584 | 41,584 | 42,025 | 41,971 |
| Total | 58,444 | 48,406 | 49,493 | 51,532 | 53,706 | 53,435 |

The VRP has reduced to zero due to the repayment of previous internal borrowing schemes relating to the purchase of receptacles to extend the kerbside recycling scheme in 2013, together with the repayment of the internal borrowing for the Grove Hall Extreme Sports projects.

There have been significant changes to the forecasts than those approved in the Capital Strategy for 2023/24 due to additional internal borrowing required to fund the capital programme resulting from additional capital bids in the 2024/25 budget round. There has also been a change to the 2022/23 actual CFR resulting from the CFR review conducted by Arlingclose.

Debt Pools

The Council operates two separate Debt Pools, one for the General Fund and one for the Housing Revenue Account (HRA). There is no external debt currently outstanding on the General Fund, although it has a positive CFR representing an underlying borrowing need.

The General Fund CFR is reduced each year by a statutory revenue charge known as the Minimum Revenue Provision (MRP). In addition, a Voluntary Revenue Provision (VRP) is made where borrowing has been undertaken on a prudential basis.

There is no requirement to make a MRP or VRP in the Housing Revenue Account. The HRA has debt outstanding of just over £47m. This represents the debt inherited under the self-financing framework for Council Housing.

Although no MRP is required for the HRA, money is being set-aside to repay the HRA debt in accordance with the maturity profile. This strategy is reflected in the HRA's Financial Plan. The expected CFRs over the current financial planning period to 2027/28 are detailed in the following table.

| Expected CFR | Actual 2022/23 £'000 | Forecast 2023/24 £'000 | Forecast 2024/25 £'000 | Forecast 2025/26 £'000 | Forecast 2026/27 £'000 | Forecast 2027/28 £'000 |
|-------------------------|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| General Fund Proportion | 6,860 | 6,822 | 7,909 | 9,948 | 11,682 | 11,465 |
| HRA Proportion | 51,584 | 41,584 | 41,584 | 41,584 | 42,025 | 41,971 |
| Total | 58,444 | 48,406 | 49,493 | 51,532 | 53,706 | 53,435 |

The CFR on the General Fund will increase over the medium-term due to the Council's proposed capital programme. The MRP being applied are included in the Council's base budget.

Effectively, the MRP/VRP creates a cash amount in the Council's budget in order to write down the underlying borrowing requirement.

The larger CFR on the HRA has remained static in previous years, the first repayment of £10m self-financing loans was paid in March 2022, with another repayment in March 24 and March 27. However, given the level of investment required in the Council's houses, MRP will not be applied in March 27, but instead deferred to a later date. The CFR will then increase in 2026/27 due to the fleet replacement programme.

Limits to Borrowing Activity

The Council is required to set limits on overall borrowing (net of investments). This controls borrowing and ensures that the Council does not, except in the short term, exceed the total of the CFR in the preceding year, plus the estimates of any additional CFR for the current and the next two financial years.

A short-term deviation is allowed for flexibility if a limited amount of borrowing was required to meet temporary shortfalls in cash flow. The estimated position is detailed in the following table.

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

| Estimated Borrowing Compared to the CFR | 2022/23 £'000 | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 | 2026/27 £'000 | 2027/28 £'000 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| Gross Borrowing - HRA | 47,423 | 37,423 | 37,423 | 37,423 | 27,423 | 27,423 |
| Gross Borrowing - General Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Gross Borrowing | 47,423 | 37,423 | 37,423 | 37,423 | 27,423 | 27,423 |
| Total CFR | 58,444 | 48,406 | 49,493 | 51,532 | 53,706 | 53,435 |

The Authorised Limit for External Debt

The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

The Operational Boundary for External Debt

This represents the expected external debt during the course of the year, but it is not a limit. It is designed to aid the Chief Finance Officer to manage treasury activity on a daily basis and acts as an early warning sign of any potential issues. It includes a provision for temporary borrowing of £5m. As in recent years, it is not expected that any temporary borrowing will be required but is included as a contingency should cash flow become negative in the short-term.

The Limit and Boundary are summarised in the following table.

| Debt Limits | Actual | Forecast | Forecast | Forecast | Forecast | Forecast |
|---------------------------------|---------|----------|----------|----------|----------|----------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Authorised Limit - General Fund | 6,860 | 6,822 | 7,909 | 9,948 | 11,682 | 11,464 |
| Authorised Limit - HRA | 51,584 | 41,584 | 41,584 | 41,584 | 42,025 | 41,971 |
| Operational Boundary | 52,423 | 42,423 | 42,423 | 42,423 | 32,423 | 32,423 |

There is no longer a debt cap on the HRA and therefore borrowing is no longer restricted but it must remain affordable over the plan.

To ensure affordability, the Chief Finance Officer has retained the former limit.

Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Cost of Debt to Finance Capital Expenditure

This indicator shows how much per year the costs of borrowing impact upon each household (at Band D Council Tax rate) in the District and for each council tenant (HRA).

As there is no actual debt on the General Fund, the impact on Council Tax is positive as this represents interest on cash deposits.

| Cost of Servicing Debt | Actual | Forecast | Forecast | Forecast | Forecast | Forecast |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| | £ | £ | £ | £ | £ | £ |
| Estimated Net Interest Received - General Fund | -751,544 | -1,927,973 | -846,658 | -423,329 | -419,096 | -414,905 |
| Estimated Band D Properties (per MTFP) | 36,702 | 37,663 | 38,809 | 39,585 | 40,377 | 41,184 |
| Cost per Band D Property | -£20.48 | -£51.19 | -£21.82 | -£10.69 | -£10.38 | -£10.07 |
| Estimated Net Interest Payable - HRA | 1,117,245 | 323,144 | 798,648 | 798,648 | 798,648 | 497,648 |
| Estimated Dwellings (per MTFP) | 2,945 | 2,927 | 2,909 | 2,891 | 2,873 | 2,855 |

| | | | | | | |
|--------------------------|---------|---------|---------|---------|---------|---------|
| Annual Cost per Dwelling | £379.37 | £110.40 | £274.54 | £276.25 | £277.98 | £174.31 |
|--------------------------|---------|---------|---------|---------|---------|---------|

The Use of the Council's Resources and the Investment Position

The Council has available at any one time, reserves and balances which are held to finance future expenditure commitments or to act as a contingency sum as recommended by the Council's Chief Finance Officer.

These balances are available for investment on a short-term basis in accordance with the Investment Strategy. The expected level of reserves and balances is shown in the following table.

| Estimated Usable Reserves | Actual 2022/23 £'000 | Forecast 2023/24 £'000 | Forecast 2024/25 £'000 | Forecast 2025/26 £'000 | Forecast 2026/27 £'000 | Forecast 2027/28 £'000 |
|-----------------------------------|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| General Fund (inc Earmarked) | 42,557 | 35,833 | 28,943 | 21,431 | 14,420 | 6,181 |
| Capital Receipts and Grants (GF) | 3,732 | 2,087 | 1,412 | 1,181 | 969 | 850 |
| HRA Reserves | 4,609 | 2,254 | 1,093 | 1,480 | 1,851 | 2,650 |
| Capital Receipts and Grants (HRA) | 9,227 | 4,703 | 7,112 | 8,780 | 10,096 | 11,065 |
| Major Repairs Reserve | 4,987 | 4,987 | 5,487 | 5,987 | 6,487 | 6,987 |
| Total Reserves | 65,112 | 49,863 | 44,046 | 38,860 | 33,823 | 27,733 |

The above table shows that overall the level of resources is expected to decrease over the financial period and it assumes in particular, that forecasted deficits on the General Fund will be financed from general reserves until budget savings or additional income are identified. When identified, the level of resources will remain higher.

Based on this level of reserves, it is estimated that the Council will continue to have funds available for investment each year. In accordance with the Investment Strategy, these investments will continue to be held in short-term (less than 364 days) deposit accounts.

Ratio of Financing Costs to Net Revenue Stream

This indicator shows the trend in the net cost of borrowing (allowing for investment income) against the net revenue stream, i.e. Council Tax for the General Fund and Rent Income for the HRA. Estimates are included in the Council's Medium Term Financial Plan (MTFP) and are shown in the following table.

| Financing Ratios | Actual 2022/23 £ | Forecast 2023/24 £ | Forecast 2024/25 £ | Forecast 2025/26 £ | Forecast 2026/27 £ | Forecast 2027/28 £ |
|------------------------------|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| General Fund | | | | | | |
| Estimated Council Tax Income | 6,346,143 | 6,577,466 | 6,980,186 | 7,311,082 | 7,710,229 | 8,104,811 |
| Net Interest Receivable | -751,544 | -1,927,973 | -846,658 | -423,329 | -419,096 | -414,905 |
| Proportion | -11.84% | -29.31% | -12.13% | -5.79% | -5.44% | -5.12% |
| HRA | | | | | | |
| Estimated Rental Income | 12,381,712 | 12,901,323 | 14,304,000 | 14,589,000 | 14,880,000 | 15,176,000 |

| | | | | | | |
|----------------------------|---------------|---------------|--------------|--------------|--------------|--------------|
| Estimated Interest Payable | 1,504,805 | 1,504,805 | 1,234,805 | 1,234,805 | 1,234,805 | 933,805 |
| Proportion | 12.15% | 11.66% | 8.63% | 8.46% | 8.30% | 6.15% |

With no debt on the General Fund, the indicator is negative. The ratio reflects the level of “gearing” - how much of the Council’s revenue is tied up in borrowing costs. Although the proportion for the HRA is greater in percentage terms, this is a relatively fixed cost but affordable within the HRA’s Financial Plan.

Treasury Management Indicators: These indicators (Liability Benchmark, Maturity Structure of Borrowing, Long-Term Treasury Management Investments, and Interest Rate Exposure) are within the Treasury Management Report Q3 2023/24.