Prudential Indicators

Appendix 3

Mid-year update - September 2023

North Tyneside Council

1.0 Prudential Indicators

1.0 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2023, the Authority has operated within the treasury and prudential indicators set out in the Authority's Treasury Management Strategy Statement for 2023. The Director of Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

1.1 The prudential indicators are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be used as indicators of comparative performance. As a result of local circumstances, local authorities will have widely different debt positions at the start of the prudential system, and the differences are likely to change over time as the result of exercising local choices

1.2 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

1.3 The Treasury Management Strategy Statement, (TMSS), for 2023/24 was approved by this Council on 16 February 2023.

1.4 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

2.0 Prudential Indicators for Limits and Boundaries.

2.1 Table 1 shows the revised estimates for the Authorised Limits, Operational Boundaries and the movement in Capital Financing Limits (CFR).

2.2 The authorised limit is set to establish the outer boundary of the Authority's borrowing based on a realistic assessment of the risks. It is not a limit designed to be brought into consideration during the routine financial management of the Authority – the operational boundary serves this purpose. The authorised limit is not a limit up to which the Authority will expect to borrow up to. However, it does represent a limit beyond which a local authority must not borrow until prudential indicators are reviewed or amended.

Table 1

Prudential Indicator 2023/24	Approved 2023/24 £m	Revised Prudential Indicator 2023/24 £m
Authorised Limit	1,235.00	1,235.00
Operational Boundary	735.00	735.00
Capital Financing Limit (CFR)	607.085	605.932

3.0 Prudential Indicators for Capital Expenditure

3.1 The Prudential Code requires the formal estimate of capital expenditure to be carried out when the prudential indicators are produced for future years (MTFP) and revised for the current year. This will be compared with the actual capital expenditure recorded according to the Prudential Code.

3.2 Table 2 shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget in February 2023.

Table 2

Prudential Indicator 2023/24 - Capital Investment Programme	Approved 2023/24 £m	Revised Prudential Indicator 2023/24 £m
General Fund	61.809	76.582
Housing Revenue Account (HRA)	33.953	34.539
Total	**95.762**	**111.121**

4.0 Changes to the Financing of the Capital Programme

4.1 Table 3 below draws together the main strategy elements of the capital expenditure plans, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table (council contribution) increases the underlying indebtedness of the Authority by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3

Prudential Indicator 2023/24 - Financing of the Capital Programme	Approved 2023/24 £m	Revised Prudential Indicator 2023/24 £m
Council Contribution	17.384	18.373
Grants and Contributions	43.875	55.323
Revenue Contribution	0.550	0.620
Capital Receipts	0.000	1.417
Contribution from Reserves	0.000	0.849
General Fund Total	**61.809**	**76.582**
Capital Receipts	3.280	3.941
Revenue Contribution	11.589	11.589
Major Repairs Reserve	18.219	17.544
Grants and Contributions	0.450	1.050
Contributions from Reserves	0.415	0.415
Housing Revenue Account (HRA) Total	**33.953**	**34.539**
Total	**95.762**	**111.121**

5.0 Capital Financing Requirement (CFR)

5.1 The CFR measures a vital component of the Authority's capital strategy: the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose, although this borrowing is unlikely to need to actually take place externally, given the generally positive net cash flow position of local authorities.

5.2 The table 4 below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, Operational Boundary.

Table 4

Prudential Indicator 2023/24 – Capital Financing Requirement	Approved 2023/24 £m	Revised Prudential Indicator 2023/24 £m
CFR – General Fund	278.881	280.251
CFR – Housing Revenue Account	227.740	224.709
CFR – Private Finance Initiatives (PFI)	100.464	100.971
Total CFR	**607.085**	**605.931**
Net Movement in CFR *(1 April 2023 vs 31 March 2024)*	**1.880**	**7.068**
Operational Boundary for External Debt		
Borrowing	550.000	550.000
Other Long-term Liabilities*	185.000	185.000
Total	**735.000**	**735.000**
Authorised Limit for External Debt		
Borrowing	1,000.00	1,000.00
Other Long-term Liabilities*	235.000	235.000
Total	**1,235.00**	**1,235.00**

*Other long-term liabilities within the operational boundary and authorised limit for external debt include a provision for the future on-boarding of IFRS16 'Leasing' requirements.

6.0 Financing Ratio's

6.1 Estimates for net revenue stream for approved and forecast for the year is based on the Authority's estimates of the amounts to be met from government grants and local taxpayers.
The net revenue stream is then compared against the financing costs of the Authority to provide a ratio demonstrating the proportion of financing costs to net revenue stream.

6.2 The prudential borrowing indicator demonstrates the proportion of prudential borrowing finance costs the net revenue stream;

Table 5

Prudential Indicator 2023/24 - Financing Costs Ratios	**Approved 2023/24 %**	**Revised Prudential Indicator 2023/24 %**
Ratio of financing costs to net revenue stream		
General Fund	11.42	10.91
Housing Revenue Account (HRA)	25.73	25.30
Ratio of financing costs for Prudential Borrowing to net revenue stream		
General Fund	6.30	6.24

7.0 Projected Minimum Revenue Provision

7.1 The capital finance regulations and associated statutory guidance place a duty on the Authority to charge to the revenue account a minimum revenue provision (MRP) that is deemed to be prudent.

7.2 An underpinning principle of the Local Authority financial system is that all capital expenditure must be financed either from capital receipts, capital grants (or other contributions) or revenue income. The broad aim of prudent provision is to require the Authority to put aside revenue over time to cover the CFR. In doing so, the Authority should align the period over which MRP is charged to one that is commensurate with the period over which their capital expenditure provides benefits.

Table 6

General Fund Minimum Revenue Charge (MRP) £m		**Budget** **23/24**	**Revised Estimate 23/24**
Investment Plan	Supported Borrowing	3.104	3.104
	Unsupported Borrowing – Asset Life Method	5.689	5.096
Leases / PFI	Annuity Calculation	2.963	3.143
Loans	Annuity Calculation	0.000	0.000
Voluntary Provision	General Fund	0.000	0.000
Total Projected MRP Charge		**11.756**	**11.343**

7.3 The current regulations do not require MRP to be made on housing assets, the rationale for this is that assets held in the Housing Revenue Account are self-financing. Instead, the Housing Revenue Account is required to make a charge to their Major Repairs Reserve, to maintain the functionality of housing assets. The Authority does this with a charge equivalent to depreciation against the Major Repairs Reserves (MRR).

7.4 The Housing Revenue Account make a provision for the interest regarding the current PFI contract for sheltered accommodation, as well as a 'voluntary provision' to repay debt.

Table 7

Housing Revenue Account Minimum Revenue Charge (MRP) £m		**Budget** **23/24**	**Revised Estimate 23/24**
Leases / PFI	Annuity Calculation	1.776	1.776
Voluntary Provision	Housing Revenue Account	3.500	3.397
Total Projected MRP Charge		**5.276**	**5.173**

8.0 Borrowing maturity structure limits.

8.1 The Authority manages fixed rate borrowing structure by setting limits on upper and lower parameters in which maturities can occur. The below limits ensure the maturity structure manages risk sufficiently to forward plan future borrowing maturities.

Table 8

Maturity structure of fixed rate borrowing during 2023/24	Upper limit	Lower limit
under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	100%	25%
20 years and within 30 years	100%	25%
30 years and within 40 years	100%	25%
40 years and within 50 years	100%	25%

9.0 Liability Benchmark

9.1 The Authority estimates and measures the liability benchmark for the full debt maturity profile of the Authority. The benchmark (Chart 1) maps the existing debt maturity profile and how minimum revenue provision (MRP) and other cash flows impact on the future debt requirement. The liability benchmark is not a single measure but presents as a chart of four balances as follows:

- Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.

- Loans CFR: calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP, taking account of approved prudential borrowing.

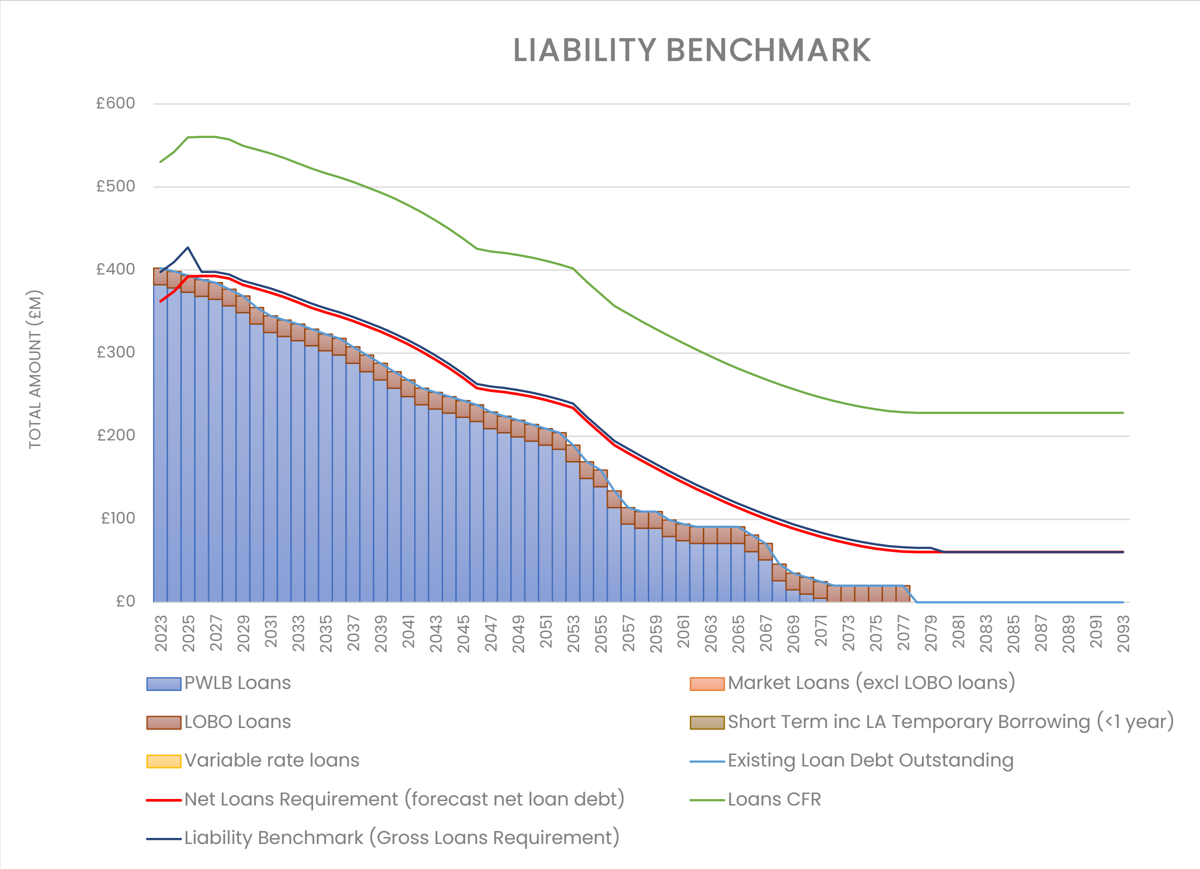
- Net loans requirement: the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

- Liability benchmark (or gross loans requirement) equals net loans requirement plus short-term liquidity allowance.

9.2 The benchmark is to be analysed as follows; where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which may result in excess cash requiring investment.

9.3 The Benchmark for North Tyneside Council demonstrates a long-term 'under borrowed' position. This aligns with the current strategy to minimise long-term external borrowing costs by using 'internal borrowing'.

Chart 1


LIABILITY BENCHMARK
£600
£500
£400
£300
£200
£100
£0
TOTAL AMOUNT (£M)
2023
2025
2027
2029
2031
2033
2035
2037
2039
2041
2043
2045
2047
2049
2051
2053
2055
2057
2059
2061
2063
2065
2067
2069
2071
2073
2075
2077
2079
2081
2083
2085
2087
2089
2091
2093
PWLB Loans
Market Loans (excl LOBO loans)
LOBO Loans
Short Term inc LA Temporary Borrowing (<1 year)
Variable rate loans
Existing Loan Debt Outstanding
Net Loans Requirement (forecast net loan debt)
Loans CFR
Liability Benchmark (Gross Loans Requirement)