



**South
Derbyshire
District Council**

Prudential Indicators 2024/25

February 2024

Introduction

The Local Government Act 2003 requires the Council 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 Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

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 £ | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| General Fund | 4,020,795 | 4,742,558 | 6,685,387 | 3,817,000 | 2,880,000 | 747,500 | 685,000 |
| HRA | 2,456,166 | 2,432,186 | 3,119,676 | 3,500,000 | 4,630,000 | 4,200,000 | 4,300,000 |
| Total | 6,476,961 | 7,174,744 | 9,805,063 | 7,317,000 | 7,510,000 | 4,947,500 | 4,985,000 |
| | | | | | | | |
| Financed by £ | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
| Grants and Contribution | 2,906,199 | 2,924,000 | 2,348,000 | 820,000 | 400,000 | 400,000 | 400,000 |
| Council Resources | 3,570,762 | 4,250,744 | 7,457,063 | 6,497,000 | 7,110,000 | 4,547,500 | 4,585,000 |
| Total | 6,476,961 | 7,174,744 | 9,805,063 | 7,317,000 | 7,510,000 | 4,947,500 | 4,985,000 |

In September 2023, consultations for setting the 2024/25 budget were held with each policy committee for approval. The report outlined key principles to develop budget proposals and stated that capital growth will be considered based on need and innovation.

Heads of Service put in capital bids as part of the 2024/25 budget round, for approval at Finance and Management Committee and full Council in February 2024. 8 new projects have been added to the Council's capital programme and an updated fleet replacement programme has also been included.

Of the capital projects approved as part of the 2020 bidding round, revitalisation of Rosliston Forestry Centre will be an ongoing project in 2024/25 but is expected to be completed in year.

The Council continues to invest in its ICT Strategy and public buildings. The Council is also delivering projects across the district funded through the Better Care Fund.

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 due to the fact that 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 | 2022/2 | 2023/2 | 2024/2 | 2025/2 | 2026/2 | 2027/2 | 2028/2 |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| CFR b/fwd | 58,639 | 58,444 | 48,406 | 49,493 | 51,532 | 53,706 | 53,435 |
| Add New Financing | 0 | 0 | 1127 | 2095 | 2440 | 252 | 200 |
| Less MRP | -175 | -38 | -40 | -56 | -266 | -523 | -558 |
| Less VRP | -21 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less Debt Repayment | 0 | -10000 | 0 | 0 | 0 | 0 | 0 |
| CFR c/fwd | 58,444 | 48,406 | 49,493 | 51,532 | 53,706 | 53,435 | 53,077 |
| General Fund Proportion | 6,860 | 6,822 | 7,909 | 9,948 | 11,682 | 11,465 | 11,164 |
| HRA Proportion | 51,584 | 41,584 | 41,584 | 41,584 | 42,025 | 41,971 | 41,914 |
| Total | 58,444 | 48,406 | 49,493 | 51,532 | 53,706 | 53,435 | 53,077 |

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.

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 | 2022/2 | 2023/2 | 2024/2 | 2025/2 | 2026/2 | 2027/2 | 2028/2 |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| General Fund Proportion | 6,860 | 6,822 | 7,909 | 9,948 | 11,682 | 11,465 | 11,164 |
| HRA Proportion | 51,584 | 41,584 | 41,584 | 41,584 | 42,025 | 41,971 | 41,914 |
| Total | 58,444 | 48,406 | 49,493 | 51,532 | 53,706 | 53,435 | 53,077 |

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.

| Estimated Borrowing Compared to the CFR | 2022/2 | 2023/2 | 2024/2 | 2025/2 | 2026/2 | 2027/2 | 2028/2 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Gross Borrowing - HRA | 47,423 | 37,423 | 37,423 | 37,423 | 27,423 | 27,423 | 27,423 |
| Gross Borrowing - General Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Gross Borrowing | 47,423 | 37,423 | 37,423 | 37,423 | 27,423 | 27,423 | 27,423 |
| Total CFR | 58,444 | 48,406 | 49,493 | 51,532 | 53,706 | 53,435 | 53,077 |

The above table shows that as gross borrowing is likely to remain below the CFR, the Council will comply with this Prudential Indicator.

The Authorised Limit for External Debt

This is the limit beyond which external debt is prohibited. It is the statutory limit determined under section 3(1) of the Local Government Act 2003. The debt cap for HRA self-financing was removed by the Government in 2018/19.

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 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Authorised Limit - General Fund | 6,860 | 6,822 | 7,909 | 9,948 | 11,682 | 11,464 | 11,163 |
| Authorised Limit - HRA | 51,584 | 41,584 | 41,584 | 41,584 | 42,025 | 41,971 | 41,914 |
| Operational Boundary | 52,423 | 42,423 | 42,423 | 42,423 | 32,423 | 32,423 | 32,423 |

As noted above, 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.

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 | 2022/23 Actual £ | 2023/24 Forecast £ | 2024/25 Budget £ | 2025/26 Budget £ | 2026/27 Budget £ | 2027/28 Budget £ | 2028/29 Budget £ |
|--|----------------------------|------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Estimated Net Interest Received - General Fund | -751,544 | -1,927,973 | -846,658 | -423,329 | -419,096 | -414,905 | -410,756 |
| Estimated Band D Properties (per MTFP) | 36,702 | 37,663 | 38,809 | 39,585 | 40,377 | 41,184 | 42,008 |
| Cost per Band D Property | -£20.48 | -£51.19 | -£21.82 | -£10.69 | -£10.38 | -£10.07 | -£9.78 |
| Estimated Net Interest Payable - HRA | 1,504,805 | 1,504,805 | 1,234,805 | 1,234,805 | 1,234,805 | 933,805 | 933,805 |
| Estimated Dwellings (per MTFP) | 2,945 | 2,927 | 2,909 | 2,891 | 2,873 | 2,855 | 2,837 |
| Annual Cost per Dwelling | £510.97 | £514.11 | £424.48 | £427.12 | £429.80 | £327.08 | £329.15 |

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 Treasury Management Investment Strategy. The expected level of reserves and balances is shown in the following table.

| Estimated Usable Reserves | 2022/23 3 £'000 | 2023/24 4 £'000 | 2024/25 5 £'000 | 2025/26 6 £'000 | 2026/27 7 £'000 | 2027/28 8 £'000 | 2028/29 9 £'000 |
|-----------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| General Fund (inc Earmarked) | 42,557 | 35,833 | 28,943 | 21,431 | 14,420 | 6,181 | -726 |
| Capital Receipts and Grants (GF) | 3,732 | 2,087 | 1,412 | 1,181 | 969 | 850 | 782 |
| HRA Reserves | 4,609 | 2,254 | 1,093 | 1,480 | 1,851 | 2,650 | 3,323 |
| Capital Receipts and Grants (HRA) | 9,227 | 4,703 | 7,112 | 8,780 | 10,096 | 11,065 | 11,936 |
| Major Repairs Reserve | 4,987 | 4,987 | 5,487 | 5,987 | 6,487 | 6,987 | 7,487 |
| Total Reserves | 65,112 | 49,863 | 44,046 | 38,860 | 33,823 | 27,733 | 22,802 |

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 Treasury Management 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 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|------------------------------|---------------------------|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| | £ | £ | £ | £ | £ | £ | £ |
| General Fund | | | | | | | |
| Estimated Council Tax Income | 6,346,143 | 6,577,466 | 6,980,186 | 7,311,082 | 7,710,229 | 8,104,811 | 8,535,372 |
| Net Interest Receivable | -751,544 | -1,927,973 | -846,658 | -423,329 | -419,096 | -414,905 | -410,756 |
| Proportion | -11.84% | -29.31% | -12.13% | -5.79% | -5.44% | -5.12% | -4.81% |
| HRA | | | | | | | |
| Estimated Rental Income | 12,381,712 | 12,901,323 | 14,304,000 | 14,589,000 | 14,880,000 | 15,176,000 | 15,479,000 |
| Estimated Interest Payable | 1,504,805 | 1,504,805 | 1,234,805 | 1,234,805 | 1,234,805 | 933,805 | 933,805 |
| Proportion | 12.15% | 11.66% | 8.63% | 8.46% | 8.30% | 6.15% | 6.03% |

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.