

Appendix 4 – Prudential Indicators

Legislative Update

In December 2021, CIPFA published its revised Prudential Code and Treasury Management Code of Practice following concerns around the commercial activity undertaken by several local authorities and the affordability of borrowing plans.

The Code required authorities to not borrow to invest primarily for financial return and all capital expenditure undertaken must be related to the functions of the authority. The Council has not undertaken any activities to invest for a yield or have any commercial plans within the capital programme.

The Code required the Prudential Indicators (which are approved as part of the Council's Treasury Management Strategy) to be reported quarterly (from semi-annually) as part of the financial updates and will be a recurring addition to the quarterly financial reports.

Prudential Indicators

The Council has a significant borrowing requirement and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

Prudential indicators have been calculated using the capital programme data as at quarter one of 2024/25 (May 2024) and include 2023/24 Outturn data.

Capital Expenditure & Financing at 31 March 2024 and Q1 2024/25 (£m)	2023/24	2024/25	2025/26	2026/27	2027/28	Total 2024/25-2027/28
	Actual	Forecast	Forecast	Forecast	Forecast	
Corporate Landlord	10.0	14.3	19.0	10.8	28.2	72.3
Housing GF	99.4	108.0	48.1	30.7	3.6	190.4
Schools	11.7	25.4	26.3	7.3	3.3	62.2
Regeneration	4.5	62.2	117.4	7.3	0.0	186.9
Public Realm	25.1	25.4	11.7	1.0	1.0	39.2
South Kilburn	18.9	33.4	3.9	3.9	0.0	41.2
St Raphael's	0.6	0.5	3.2	3.9	12.5	20.0
HRA	42.8	53.7	96.5	29.5	9.9	189.7
Total Capital Expenditure	213.0	322.8	326.1	94.4	58.5	801.9
Financed By:						
Grants	57.3	50.3	33.6	7.3	3.3	94.5
Section 106	8.9	28.1	16.7	0.0	0.0	44.8
Capital Receipts	4.9	1.8	28.2	23.3	26.1	79.4
Earmarked Reserves	0.9	2.5	1.3	1.4	0.0	5.1
Major Repairs Reserve	10.4	24.0	21.4	0.0	0.0	45.4
Revenue Contributions	9.0	11.6	1.7	9.0	0.5	22.8
Borrowing	121.5	204.6	223.3	53.5	28.6	510.0
Total Capital Financing	213.0	322.8	326.1	94.4	58.5	801.9

(a) Capital Financing Requirement (CFR)

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement. This is the amount of the Capital Programme that is funded by borrowing. The Council's maximum external borrowing requirement for 2024/25 is shown in the table below. The indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and to consider the impact on Council tax and in the case of the HRA, housing rent levels.

CFR Movement at 31 March 2024 and Q1 2024/25 (£m)	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Forecast	Forecast	Forecast	Forecast
Opening CFR	1,139.6	1,236.6	1,419.7	1,619.0	1,646.2
Capital Expenditure	213.0	322.8	326.1	94.4	58.5
External Resources	(66.3)	(78.4)	(50.3)	(7.3)	(3.3)
Internal Resources	(25.3)	(39.9)	(52.5)	(33.6)	(26.6)
MRP	(18.1)	(20.5)	(23.1)	(25.2)	(26.7)
Capital Loans Repaid	(0.9)	(0.9)	(1.0)	(1.1)	(1.2)
I4B Adjustment	(5.8)	0.0	0.0	0.0	0.0
Accounting Adjustments	0.3	0.0	0.0	0.0	0.0
Closing CFR	1,236.6	1,419.7	1,619.0	1,646.2	1,646.9

External resources consist of grants and Developer contributions. Internal resources consist of use of reserves, capital receipts and revenue contributions.

(b) Gross Debt and the Capital Financing Requirement

To ensure that over the medium term, debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The table below shows that the Council complied with this recommendation during 2023/34.

Gross Debt & the Capital Financing Requirement at 31 March 2024 and Q1 2024/25 (£m)	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Forecast	Forecast	Forecast	Forecast
External Loans	814.3	930.6	1,098.9	1,120.6	1,116.3
PFI & Leases	32.5	28.5	24.7	22.7	20.4
Total External Debt Liabilities	846.8	959.0	1,123.5	1,143.3	1,136.7
Internal Borrowing	422.3	489.2	520.1	525.6	530.6
Capital Financing Requirement	1,236.6	1,419.7	1,619.0	1,646.2	1,646.9
Borrowing in Excess of CFR ?	No	No	No	No	No

(c) Liability Benchmark

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its

strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Liability Benchmark at 31 March 2024 and Q1 2024/25 (£m)	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Forecast	Forecast	Forecast	Forecast
Loans CFR	1,236.6	1,419.7	1,619.0	1,646.2	1,646.9
Less Balance Sheet Resources	(470.5)	(470.5)	(470.5)	(470.5)	(470.5)
Net Loan Requirement	766.1	949.3	1,148.5	1,175.8	1,176.4
Plus, Liquidity Allowance	20.0	20.0	20.0	20.0	20.0
Liability Benchmark	786.1	969.3	1,168.5	1,195.8	1,196.4

(d) Authorised limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Council's estimate of most likely i.e., prudent, but not worst-case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring.

Other long-term liabilities comprise finance leases, Private Finance Initiative contracts and other liabilities that are not borrowing but form part of the Council's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Operational Boundary and Authorised Limit at 31 March 2024 and Q1 2024/25 (£m)	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Approved	Approved	Approved	Approved
Authorised Limit	1,700.0	1,700.0	1,800.0	1,900.0	1,900.0
Operational Boundary	1,500.0	1,500.0	1,600.0	1,700.0	1,700.0
Actual Debt and Other Debt Liabilities	846.8				
Breach in Debt Limits	No				

The Corporate Director for Finance and Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2023/24 financial year.

(e) Upper Limits on one-year revenue impact of a 1% movement in interest rates

This indicator is set to control the Council’s exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans in the current year will be replaced at current rates.

Upper Limits on one-year revenue impact of a 1% movement in interest rates on Maturing 31 March 2024	2023/24	2023/24
	Approved Limit	Actual
Upper limit on one-year revenue impact of a 1% rise in interest rates	5.0	0.9
Compliance with limits:		Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	5.0	(0.9)
Compliance with limits:		Yes

(f) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The Council uses the option date as the maturity date for its LOBO loans.

Maturity Structure of Fixed Rate Borrowing at 31 March 2023/24	Lower limit	Upper Limit	2023/24	2023/24	2023/24
			Actual Borrowing	Actual Borrowing	Compliance with limits
	%	%	£m	%	
Under 12 months	0.0	40.0	84.2	10.3%	Yes
12 months & within 24 months	0.0	40.0	48.7	6.0%	Yes
24 months and within 5 years	0.0	40.0	47.0	5.8%	Yes
5 years and within 10 years	0.0	60.0	73.4	9.0%	Yes
10 years and within 20 years	0.0	75.0	144.3	17.7%	Yes
20 years and within 30 years	0.0	75.0	122.3	15.0%	Yes
30 years and within 40 years	0.0	75.0	189.3	23.3%	Yes
Over 40 years	0.0	75.0	105.0	12.9%	Yes
Total			814.3	100.0%	

(g) Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Financing Costs to Net Revenue Stream at 31 March 2024 and Q1 2024/25 (£m)	Limit	Actual	Forecast	Forecast	Forecast	Forecast
	2023/24	2023/24	2024/25	2025/26	2026/27	2027/28
Financing Costs (Interest & MRP) (£m)	57.3	30.4	36.3	43.2	41.8	41.7
Net Revenue Stream (£m)	306.4	358.4	387.0	395.0	407.3	420.1
Proportion of net revenue stream (%)	18.7%	8.5%	9.4%	10.9%	10.3%	9.9%

Financing costs can be further broken down as follows.

Capital Financing Costs at Q1 2024/25 (£m) at 31 March 2024 and Q1 2024/25 (£m)	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Estimated	Estimated	Estimated	Estimated
Total Gross External Debt Interest	30.3	37.2	42.7	47.3	48.1
Other Interest Payments	3.3	2.3	1.9	1.3	1.2
Total Interest Payable & Expenses	33.6	39.5	44.6	48.6	49.3
Interest Earned on Treasury Cash Investments	(6.4)	(4.3)	(3.3)	(2.7)	(2.7)
Interest Earned on Subsidiary and Service Loans	(18.1)	(22.8)	(25.1)	(27.9)	(29.9)
Total Interest Receivable	(24.5)	(27.2)	(28.4)	(30.6)	(32.6)
Net Interest	9.1	12.3	16.2	18.0	16.7
MRP (Excluding PFI & Service Loans)	13.4	15.5	18.0	20.3	21.5
Revenue Contributions to Capital Programme	8.5	9.0	9.5	4.0	4.0
Total Capital Financing Costs	30.9	36.8	43.7	42.3	42.2
Budget	25.0	26.2	27.4	28.6	29.8
Revenue Contribution from Service	0.5	0.5	0.5	0.5	0.5
Total Budget	25.5	26.7	27.9	29.1	30.3
Variance	(5.4)	(10.1)	(15.8)	(13.2)	(11.9)

(h) Upper Limit for Total Principal Sums invested over 364 Days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for Total Principal Sums invested over 364 Days at 31 March 2024	2023/24	2023/24
	Approved	Actual
Upper Limit for Total Principal Sums Invested Over 364 Days	50.0	0.0

(i) Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator at 31 March 2024	2023/24	2023/24
	Approved	Actual
Portfolio average credit rating	A	A+

(j) Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity Risk Indicator at 31 March 2024 (£m)	2023/24	2023/24
	Approved	Actual
Total cash available within 3 months	20.0	95.3

(k) Investment Forecast

This indicator demonstrates the Council's investment exposure broken down by category for Treasury and non-treasury investments. Non-Treasury investments are directed under the Council's Investment Strategy 2024/25, whilst treasury investments are managed under the Treasury Management Strategy 2024/25.

Total Investment Exposure at 31 March 2024 and Q1 2024/25 (£m)	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Forecast	Forecast	Forecast	Forecast
Treasury management cash investments	95.3	20.0	20.0	21.0	21.0
Service investments: Loans	285.6	284.5	283.3	269.1	267.7
Commercial investments: Property	0.0	0.0	0.0	0.0	0.0
Total Investments	380.9	304.5	303.3	290.1	288.7
Commitments to lend	50.0	50.0	50.0	51.0	51.0
Total Exposure	50.0	50.0	50.0	51.0	51.0

Service investments are further broken down in the table below.

Loans & Investments for service purposes: Category of borrower at Q1 2024/25 (£m)	2023/24	2024/25	2024/25	2025/26	2026/27	2027/28
	Actual	Approved Limit	Forecast	Forecast	Forecast	Forecast
I4B Subsidiary Loans	182.1	400.0	182.1	182.1	182.1	182.1
I4B Subsidiary Equity	36.4		36.4	36.4	36.4	36.4
FWH Subsidiary Loans	34.3		33.8	33.4	32.9	32.5
Local Businesses	0.2	10.0	0.2	0.2	0.2	0.2
Schools, Academies and Colleges	17.9	55.0	17.6	17.4	16.7	16.5
West London Waste Authority	14.8	20.0	14.4	13.9	0.8	0.0
Local Charities	0.0	10.0	0.0	0.0	0.0	0.0
Housing Associations	0.0	50.0	0.0	0.0	0.0	0.0
Local Residents	0.0	5.0	0.0	0.0	0.0	0.0
Total	285.6	550.0	284.5	283.3	269.1	267.7

(l) Investment Funding

This indicator demonstrates the amount of exposure to borrowing because of investments made for service purposes. These investments are the loans to the Council's subsidiaries i4B Holdings Ltd and First Wave Housing Ltd.

Investments Funded by Borrowing at at 31 March 2024 and Q1 2024/25 (£m)	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Forecast	Forecast	Forecast	Forecast
I4B Loans	218.4	218.4	218.4	218.4	218.4
First Wave Housing (FWH)	34.3	33.8	33.4	32.9	32.5
Total Service investments: Loans	252.7	252.3	251.8	251.4	250.9
Total Funded by Borrowing	252.7	252.3	251.8	251.4	250.9

(m) Investment Rate of Return

This indicator demonstrates the rate of return obtained from the different investment categories.

Investments net rate of return at 31 March 2024 and Q1 2024/25	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Forecast	Forecast	Forecast	Forecast
Treasury management investments	5.31%	4.81%	3.63%	3.00%	3.00%
Service investments: Loans	2.4%	2.4%	2.4%	2.4%	2.4%
Commercial investments: Property	0.0	0.0	0.0	0.0	0.0

(n) Other Investment Indicators

Other investment indicators at 31 March 2024 and Q1 2024/25 (£m)	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Forecast	Forecast	Forecast	Forecast
External Debt (Loans)	814.3	903.5	1,097.7	1,119.5	1,115.2
Net Service Expenditure	358.4	387.0	395.0	407.3	420.1
Debt to net service expenditure ratio	2.3	2.3	2.8	2.7	2.7
Commercial income as a % of net service expenditure ratio	0.0	0.0	0.0	0.0	0.0