Appendix E

# Uttlesford District Council

# Capital Strategy 2023/24

February 2023

## Introduction

1. This Capital Strategy sets out how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, together with how associated risks are managed and the implications for the future financial sustainability of the Council.
2. Decisions made in respect of capital and treasury management can have financial consequences for the Council for many years into the future. As such, there are strict legislative requirements governing how capital expenditure is accounted for and financed, which are explained in further detail throughout this report.
3. In setting this Capital Strategy, the Council is required to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (2021 Edition) (the 'Prudential Code'). This requires a number of prudential indicators to be set before the start of each financial year, and to be monitored throughout the year. These are highlighted within this Capital Strategy.
4. As set out in the Medium Term Financial Strategy (Appendix C), the Council is currently investigating opportunities to divest of a proportion of its commercial investment portfolio. However, this process is still at an early stage, and no decisions have yet been taken around which (if any) investments to sell. As such, this Capital Strategy has been prepared on the basis of the Council's existing commercial property portfolio. Should one or more asset sales be realised, this will result in a reduction in the Council's long-term need to borrow, along with a requirement to invest any excess cash received in the short-term (while the Council waits for fixed-term borrowing to mature).

## Capital Expenditure

5. Capital expenditure is any expenditure on the purchase or improvement of assets, such as property or vehicles, which will be used for more than one year. This includes spending on assets owned by other bodies, and loans and grants to other bodies or individuals enabling them to buy or improve their own assets (for example Disabled Facilities Grants). As a general rule, a de minimis level of £10,000 is applied, with any assets costing less than this charged to a revenue account in the year the spend is incurred.
6. Before any capital expenditure can be incurred, a budget must be agreed within the Council's Capital Programme. This sets out the Council's planned capital expenditure over the next 5 years, and is reviewed and approved by Council on a rolling annual basis.
7. The full Capital Programme setting out each individual project can be seen in detail at Appendix F. Note that, since the figures in this Capital Strategy are rounded to the nearest £1 million, small rounding differences may occur.

<u>Prudential Indicator – Estimate of Capital Expenditure</u>

8. The table below sets out the Council's planned capital expenditure totals for the next 3 years:

| **Estimate of Capital Expenditure** | **2021/22 Actual £m** | **2022/23 Forecast £m** | **2023/24 Budget £m** | **2024/25 Forecast £m** | **2025/26 Forecast £m** |
|---|---|---|---|---|---|
| General Fund services | 7 | 4 | 3 | 1 | 1 |
| Commercial investments | 63 | 24 | 1 | - | - |
| Housing Revenue Account | 7 | 10 | 9 | 9 | 14 |
| **Total - Estimate of capital expenditure** | **77** | **38** | **13** | **10** | **15** |

9. Of the £9 million of capital expenditure planned on Housing Revenue Account (HRA) assets in 2023/24, approximately £5 million relates to improvements to the existing housing stock (for example cyclical replacement of kitchens, bathrooms and boilers), whilst the remainder relates to the development of new build housing and the refurbishment of sheltered accommodation units at Walden Place.

### Capital Financing

10. All capital expenditure must be financed from one of the following sources:

| Financing Source | Description |
|---|---|
| External sources | Includes government grants and contributions from others (for example S106 contributions from developers). These may be restricted for use on particular projects by the terms of the relevant grant agreement. |
| Capital resources | Includes capital receipts from the sale of Council assets, and other reserves which are legally restricted for capital use. Many of these resources are restricted in terms of the capital projects they can support, for example the proceeds from the sale of Council homes under the right-to-buy scheme can only be used to provide replacement housing, whilst the Major Repairs Reserve can only be used to fund capital expenditure on the Council's housing stock. |
| Revenue resources | The use of revenue reserves in either the General Fund or Housing Revenue Account to finance capital expenditure. This can be by way of a direct allocation in the year of spend, or through the use of previously earmarked reserves (such as the capital slippage reserve). |
| Debt | If capital financing is not applied in the year of expenditure, this will result in an increase in the Council's need to borrow (also known as the capital financing requirement or CFR). This need can be met through either external borrowing, or internal borrowing (which is where the Council uses excess cash balances to pay for capital expenditure rather than investing these elsewhere). |

11. The planned financing sources to support the Council's capital programme over the next 3 years are as follows:-

| Capital Financing | 2021/22 Actual £m | 2022/23 Forecast £m | 2023/24 Budget £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| External sources | 1 | - | 1 | 2 | 2 |
| Capital resources | 5 | 7 | 7 | 5 | 5 |
| Revenue resources | 4 | 5 | 4 | 3 | 4 |
| Debt | 67 | 26 | 1 | - | 4 |
| **Total - Capital Financing** | **77** | **38** | **13** | **10** | **15** |

12. Debt is only considered a temporary source of finance, since loans and leases must be repaid in time. This is therefore replaced by other financing sources over time, usually by way of a charge to revenue resources known as the minimum revenue provision (MRP). This is calculated in line with the Council's Minimum Revenue Provision Statement which is set out at Annexe E1. Alternatively, eligible capital resources (such as capital receipts) can be used to reduce the Council's debt and the need to make future MRP charges.

13. Statutory requirements relating to MRP do not apply to HRA assets. However, there is still a requirement to ensure that borrowing is at an affordable level to support future financial

sustainability, and this is covered by the production of a 30 Year Business Plan. Further information is set out in the HRA budget at Appendix G.

14. Over the next 3 years, it is planned that debt financing will be replaced by the following amounts:-

| Debt Financing Replacement | 2021/22 Actual £m | 2022/23 Forecast £m | 2023/24 Budget £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| General Fund MRP charge | 1 | 3 | 4 | 4 | 4 |
| Use of HRA revenue resources | 2 | - | - | - | - |
| **Total - Debt financing replaced** | **3** | **3** | **4** | **4** | **4** |

Prudential Indicator – Estimate of Capital Financing Requirement

15. The Council's total level of outstanding debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces as debt is replaced with other financing sources as above. Based on the above figures for capital expenditure and financing, the Council's estimated CFR for the next 3 years will be as follows:-

| Estimate of Capital Financing Requirement (CFR) | 31 March 2022 Actual £m | 31 March 2023 Forecast £m | 31 March 2024 Forecast £m | 31 March 2025 Forecast £m | 31 March 2026 Forecast £m |
|---|---|---|---|---|---|
| General Fund services | 16 | 18 | 18 | 17 | 16 |
| Commercial investments | 227 | 248 | 245 | 242 | 240 |
| Housing Revenue Account | 81 | 81 | 81 | 81 | 84 |
| **Total - Estimate of capital financing requirement (CFR)** | **324** | **347** | **344** | **340** | **340** |

## Asset Management

16. The Council has an asset management strategy in place to ensure that it can maximise the value of its capital assets.

17. When an asset is no longer required, it may be sold so that the proceeds (capital receipts) can be used to finance new assets or repay debt. Where capital loans are repaid to the Council, these also constitute capital receipts.

18. The table below sets out the total amount of capital receipts the Council expects to receive over the next 3 years, which has been taken into account in setting the capital financing strategy. Clearly there is some inherent uncertainty around these (for example it is not known how many right-to-buy applications will be made on council homes), and should the actual amount received be higher or lower, then the amounts available to finance new capital spend may differ:-

| Capital Receipts Forecast | 2021/22 Actual £m | 2022/23 Forecast £m | 2023/24 Budget £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| Sale of assets | 1 | 2 | 1 | 2 | 1 |
| **Total - Capital receipts** | **1** | **2** | **1** | **2** | **1** |

## Treasury Management

19. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

20. This section includes a summary of the Council's approach to treasury management, and sets the prudential indicators required by the Prudential Code. More detailed information is set out in the Treasury Management Strategy (Appendix D).

### Borrowing Strategy

21. As explained under 'Capital Financing' above, the Council has a long-term need to borrow in respect of capital expenditure which has not yet been financed. However, in terms of revenue accounts, income is often received in advance of expenditure. Any surplus revenue cash is offset against capital cash shortfalls to reduce the Council's need to borrow externally – this is known as internal borrowing.

22. As at 31 December 2022, the Council had £280 million of external borrowing at an average rate of 3.20%.

23. The Council's main objectives when borrowing are to achieve a low but certain cost of finance, and to retain flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheaper short-term loans, and long-term fixed rate loans where the future cost is known but higher.

### Prudential Indicators – Authorised Limit and Operational Boundary

24. The Council is required to set an authorised limit for external debt, which represents the maximum amount it is permitted to hold at any given time. In addition, a lower operational boundary should be set based upon current spending and financing plans, which acts as an early warning should it be breached. The limits set for the next 3 years are as follows:-

| **Authorised Limit and Operational Boundary** | **2021/22 Limit £m** | **2022/23 Limit £m** | **2023/24 Limit £m** | **2024/25 Limit £m** | **2025/26 Limit £m** |
|---|---|---|---|---|---|
| **Authorised limit** | | | | | |
| Authorised limit for borrowing | 415 | 415 | 415 | 415 | 415 |
| Authorised limit for other long-term liabilities* | 5 | 5 | 5 | 5 | 5 |
| **Total - Authorised limit for external debt** | **420** | **420** | **420** | **420** | **420** |
| **Operational boundary** | | | | | |
| Operational boundary for borrowing | 395 | 395 | 395 | 395 | 395 |
| Operational boundary for other long-term liabilities* | 5 | 5 | 5 | 5 | 5 |
| **Total - Operational boundary for external debt** | **400** | **400** | **400** | **400** | **400** |

* Includes Private Finance Initiative (PFI) and lease liabilities

### Prudential Indicator – Gross Debt and the Capital Financing Requirement

25. The Prudential Code requires that the Council's gross debt remains below its CFR, except in the short-term. This provides assurance that the Council is not borrowing in excess of its needs. The table below demonstrates that the Council expects to comply with this requirement for at least the next 3 years:

| Gross Debt and the Capital Financing Requirement (CFR) | 31 March 2022 Actual £m | 31 March 2023 Forecast £m | 31 March 2024 Forecast £m | 31 March 2025 Forecast £m | 31 March 2026 Forecast £m |
|---|---|---|---|---|---|
| Gross debt* | 290 | 308 | 310 | 302 | 302 |
| Capital financing requirement (CFR) | 324 | 347 | 344 | 340 | 340 |
| * Includes Private Finance Initiative (PFI) and lease liabilities | | | | | |

Treasury Investment Strategy

26. Treasury investments are those which arise from receiving cash before it needs to be paid out again. Investments made for service reasons, or primarily for financial return (such as commercial properties), are not considered to form part of the Council's treasury management activities.

27. In making treasury investments, the Council is required to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice (the 'TM Code'). This requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

28. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

29. The Council also aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

30. As at 31 December 2022, the Council held £13 million of treasury investments at an average rate of 3.50%. Planned investment balances for the next 3 years are as follows:-

| Treasury Investment Forecast | 31 March 2022 Actual £m | 31 March 2023 Forecast £m | 31 March 2024 Forecast £m | 31 March 2025 Forecast £m | 31 March 2026 Forecast £m |
|---|---|---|---|---|---|
| Short-term investments | 18 | 10 | 10 | 10 | 10 |
| **Total - Treasury investments** | **18** | **10** | **10** | **10** | **10** |

Risk and Governance

31. The effective management and control of risk are prime objectives of the Council's treasury management activities. The Treasury Management Strategy (Appendix D) therefore sets out various indicators and limits to constrain the risk of unexpected losses, and details the extent to which financial derivatives may be used to manage treasury risks.

32. Decisions on treasury management investment and borrowing are made on a daily basis and are therefore delegated to the Director of Finance and Corporate Services (Section 151 Officer) and Financial Services officers, who must act in line with the Treasury Management Strategy and the Council's Treasury Management Practices. Reports on actual treasury management activity are presented to Cabinet at least twice per year, in line with the requirements of the TM Code.

## Commercial Investments

33. The Council holds a number of investments primarily for the purpose of generating income to support wider Council services. These have been acquired and are managed in accordance with the Council's Commercial Strategy (Appendix B), which is approved by Council on an annual basis.

34. In line with the Commercial Strategy, a total allocation of approximately £275 million has been made for building up this portfolio, which consists of the following:-

    - Investment properties owned directly by the Council (7 in total, including commercial space at the Council depot site in Little Canfield)
    - Loans to a Council subsidiary, Aspire (CRP) Ltd, which enabled it to acquire a 50% stake in Chesterford Research Park

### Risks and Governance

35. Since the main objective of commercial investments is financial return, the Council is prepared to accept a higher level of risk than with treasury investments. The principal risks to which the Council is exposed are tenant defaults and unanticipated voids. This risk is managed through the use of a commercial asset reserve, where amounts are set aside to cover any temporary shortfall in income. Further details of the risks and mitigations in relation to the commercial investment portfolio are set out in the Commercial Strategy (Appendix B).

36. Decisions on commercial investments are made by the Director of Finance and Corporate Services (Section 151 Officer) in line with the criteria and limits approved by Council in the Commercial Strategy.

## Other Liabilities

37. In addition to the capital debt set out under 'Borrowing Strategy' above, the Council is committed to making future payments to cover its share of the deficit of the Essex Pension Fund. This was valued at £2 million as at 31 March 2022.

38. Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Director of Finance and Corporate Services (Section 151 Officer). The risk of liabilities crystallising and requiring payment is monitored by Financial Services and reported quarterly to Cabinet where these are significant.

## Revenue Budget Implications

39. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income received. These factors have been taken into account in setting the Council's Medium Term Financial Strategy (Appendix C).

### Prudential Indicator – Financing Costs to Net Revenue Stream

40. The Prudential Code requires the Council to estimate the proportion of its General Fund financing costs to its net revenue stream (taxation and non-specific government grant income) over the next 3 years, as an indicator of the affordability of borrowing and the Council's exposure to risk. This is set out in the following table:-

| Estimate of Financing Costs to Net Revenue Stream | 2021/22 Actual | 2022/23 Forecast | 2023/24 Budget | 2024/25 Forecast | 2025/26 Forecast |
|---|---|---|---|---|---|
| Proportion of financing costs to net revenue stream | 31% | 57% | 84% | 80% | 106% |

41. There are significant increases to this indicator in 2022/23 and 2023/24, as a result of rising interest rates and a resultant increased cost of borrowing. The Council has mitigated against this to some extent by fixing a greater proportion of its borrowing for the longer-term. For example in September 2022, £80 million of fixed rate long-term borrowing was taken out with the Public Works Loan Board (PWLB), to replace short-term borrowing on the local authority market. Whilst this comes at an increased cost, it provides more certainty and reduces the Council's exposure to further interest rate movements in the future.

42. There is another large increase in the indicator forecast in 2025/26. This is related not to any planned significant change in the Council's Capital Strategy, but rather due to a significant drop in the forecast net revenue stream following local government funding reform. Further information on this is set out in the Medium Term Financial Strategy (Appendix C). The timing and effect of any funding reform remains highly uncertain, and the impact on the prudential indicators will be closely monitored as and when announcements are made, so that any required action can be taken.

Prudential Indicator – Net Income from Commercial Investments to Net Revenue Stream

43. The Prudential Code also requires the Council to estimate the proportion of its commercial investment income to its net revenue stream, as an indicator of the Council's exposure to risk in relation to the potential loss of commercial investment income. This is set out in the following table:-

| Estimate of Net Income from Commercial Investments to Net Revenue Stream | 2021/22 Actual | 2022/23 Forecast | 2023/24 Budget | 2024/25 Forecast | 2025/26 Forecast |
|---|---|---|---|---|---|
| Proportion of net income from commercial investments to net revenue stream | 87% | 58% | 54% | 52% | 71% |

44. Again, the increase forecast for 2025/26 is related to anticipated local government funding reform, rather than a change to the Council's Commercial Strategy.

Risk and Sustainability

45. The two prudential indicators above are calculated in line with the strict definitions set out in the Prudential Code. Whilst these show a relatively high degree of inherent risk exposure, they do not take into account the specific measures taken by the Council to mitigate these risks. As set out at paragraph 35, the Council holds a significant commercial assets reserve (forecast to stand at £4 million as at 31 March 2023), which can be used to cover any short-term shortfall in commercial property income. In the longer-term, the Council retains the option to sell some or all of its commercial properties should market conditions dictate, which would reduce both borrowing and MRP costs (although would clearly also result in an associated loss of income). Further information on the risks associated with the commercial property portfolio, and the ways in which these are mitigated, is included within the Commercial Strategy (Appendix B).

46. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years could extend for up to 50 years into the future. Overall, the Director of Finance and Corporate Services (Section 151 Officer) is

satisfied that the proposed capital programme is prudent, affordable and sustainable.

**Knowledge and Skills**

47. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Finance and Corporate Services (Section 151 Officer) and Assistant Director – Finance (Deputy Section 151 Officer) are both qualified accountants. The Council also provides appropriate professional development opportunities to more junior officers within Financial Services, including opportunities to study towards relevant professional qualifications such as the CIPFA Professional Qualification.

48. Where Council officers do not have the requisite knowledge or skills to take important decisions alone, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose as its treasury management adviser, and other specialists may also be engaged depending on the expertise required. This approach is more cost effective than employing highly specialised staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

**List of Annexes**

- Annexe E1 – Minimum Revenue Provision Statement 2023/24
- Annexe E2 – Summary of Prudential Indicators 2023/24 – 2025/26

I. Where the Council finances capital expenditure using debt, it must put aside resources to repay that debt in later years. The amount charged annually to the revenue budget for the repayment of debt is known as minimum revenue provision (MRP), although there has been no statutory minimum since 2008, and it is now up to individual authorities to determine an appropriate amount of MRP which is prudent.

II. In determining the MRP to be charged, the Local Government Act 2003 requires the Council to have regard to the Department for Levelling Up, Housing and Communities' Guidance on Minimum Revenue Provision (the 'DLUHC Guidance') effective from 1 April 2019.

III. The DLUHC Guidance requires the Council to approve an annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

IV. This MRP Statement sets out the policy which will be applied in calculating the MRP charge for 2023/24. The methods set out below are in accordance with the DLUHC Guidance.

**Annuity Method**

V. Under the annuity method, MRP is charged over the expected life of each asset. However, rather than charging on a straight line basis, an adjustment is made to reflect the time value of money, so that a lower charge is made in earlier years, with the charge increasing as time goes on.

VI. The annuity method recognises the fact that the flow of benefits from an asset often increases with time, as income streams increase. This is particularly apparent in the case of commercial properties with regular rent reviews, however operational assets usually exhibit similar characteristics. For example, many of the Council's ICT assets support Council services whose fees and charges to the public increase on an annual basis.

VII. As such, the annuity method is the default method which will be applied to all unfinanced capital expenditure, with the exception of the specific alternative cases set out in this statement.

VIII. The annuity rate to be used for each asset will be calculated as the average interest rate applicable to new annuity loans from the Public Works Loan Board (PWLB) with a duration equal to the expected asset life, during the year the expenditure was incurred. For capital projects spanning multiple years, the rate used will be that for the final year of the project (excluding any snagging or retention payments made in the years following the asset being brought into use).

**Finance Leases and Private Finance Initiative (PFI)**

IX. For assets held under finance leases or Private Finance Initiative (PFI) arrangements, the MRP charge will match the portion of the annual lease or PFI payment used to write down the liability on the Balance Sheet. This is effectively the same as the annuity method, but using the actual annuity rate implicit in the relevant contract.

**Loans to Subsidiaries**

X. For capital loans, MRP will be charged on an annuity basis over the shorter of the life of the loan (assuming no early repayment), or the life of the underlying asset for which the loan has been given.

XI. This is a change from the policy set out in the 2022/23 MRP Statement, which stated that MRP would only be charged on infrastructure loans where the projected residual value falls below the original expenditure. This change has been put into place as it is represents a more prudent approach, which better aligns with the DLUHC Guidance. As such, this will be backdated to apply with effect from 1 April 2022.

XII. In addition, MRP on all loans will now be charged on an annuity basis. Previously, MRP on loans to support fixtures and fittings was charged on a straight-line basis. The annuity basis is deemed to better reflect the flow of benefits from the holding of investment assets, as explained at paragraph VI above. Again, this change will be backdated to apply with effect from 1 April 2022.

**Commencement and Asset Lives**

XIII. MRP charges will commence in the year following the year in which an asset is brought into use. As such, MRP is only charged on assets which are already in use by 1 April of the financial year in question.

XIV. Where subsequent unfinanced expenditure takes place on an asset already in use, this will either be treated as a separate capital project with its own associated MRP charge (if significant), or (where smaller) be added to the total unfinanced balance for the asset and future years' MRP charges adjusted accordingly.

XV. MRP will be charged over the asset life as estimated at the point of completion. Should the estimated asset life subsequently be extended or shortened, no change will be made to the MRP charge in future years. Similarly, should an asset be sold or otherwise disposed of before the end of its original useful life, MRP will continue to be charged in line with the original estimate (unless receipts from the sale of the asset are used to repay some or all of the associated debt in which case future MRP charges will reduce or cease).

XVI. For assets which are deemed to have an infinite useful economic life for accounting purposes (such as land and investment properties), MRP will be charged over a maximum of 50 years, unless it is deemed prudent to use a shorter life given the nature of the asset.

**Consultation and Review**

XVII. In late 2021, a consultation took place on changes to the DLUHC Guidance. Work is still ongoing in this area. Whilst there will be no formal changes for 2023/24, the Council will continue to monitor this area closely. Should any changes be announced, the Council will consider whether or not it would be prudent (or beneficial) to review this policy mid-year. Any changes to this policy during the year will require Council approval.

## Summary of Prudential Indicators 2023/24 – 2025/26 Annexe E2

| Prudential Indicators 2023/24 - 2025/26 | 2021/22 Actual £m | 2022/23 Forecast £m | 2023/24 Budget £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| **Estimate of capital expenditure** | | | | | |
| General Fund services | 7 | 4 | 3 | 1 | 1 |
| Commercial investments | 63 | 24 | 1 | - | - |
| Housing Revenue Account | 7 | 10 | 9 | 9 | 14 |
| **Total - Estimate of capital expenditure** | **77** | **38** | **13** | **10** | **15** |
| **Estimate of capital financing requirement (CFR) at 31 March** | | | | | |
| General Fund services | 16 | 18 | 18 | 17 | 16 |
| Commercial investments | 227 | 248 | 245 | 242 | 240 |
| Housing Revenue Account | 81 | 81 | 81 | 81 | 84 |
| **Total - Estimate of capital financing requirement (CFR) at 31 March** | **324** | **347** | **344** | **340** | **340** |
| **Gross debt at 31 March*** | **290** | **308** | **310** | **302** | **302** |
| **Authorised limit** | | | | | |
| Authorised limit for borrowing | 415 | 415 | 415 | 415 | 415 |
| Authorised limit for other long-term liabilities* | 5 | 5 | 5 | 5 | 5 |
| **Total - Authorised limit for external debt** | **420** | **420** | **420** | **420** | **420** |
| **Operational boundary** | | | | | |
| Operational boundary for borrowing | 395 | 395 | 395 | 395 | 395 |
| Operational boundary for other long-term liabilities* | 5 | 5 | 5 | 5 | 5 |
| **Total - Operational boundary for external debt** | **400** | **400** | **400** | **400** | **400** |
| **Proportion of financing costs to net revenue stream** | **31%** | **57%** | **84%** | **80%** | **106%** |
| **Proportion of net income from commercial investments to net revenue stream** | **87%** | **58%** | **54%** | **52%** | **71%** |

* Includes Private Finance Initiative (PFI) and lease liabilities