

## **PRUDENTIAL INDICATORS 2021/22**

### **1.0 The Prudential Code**

Part 1 of the Local Government Act 2003 and C.I.P.F.A.'s Prudential Code for Capital Finance in Local Authorities (the Code) set out a framework for self-regulation of capital spending, in effect allowing council's to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. This allows the Council to determine the appropriate level of capital investment to properly deliver quality public services, subject to affordability.

The revenue costs of capital investment can be supported through the Revenue Support Grant (RSG) mechanism up to a certain level, known as Supported Capital Borrowing. However, since 2010/11 this support has not provided and will not be provided in future years as RSG is phased out.

To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a number of Prudential Indicators.

For housing authorities these are separated for the Housing Revenue Account and non-Housing Revenue Account capital investment.

These indicators are mandatory, but can be supplemented with local indicators if this assists interpretation. The indicators cover affordability, prudence, capital expenditure, external debt and treasury management and form the basis of in year monitoring and reporting.

The indicators are purely for internal use by the Council and are not to be used as comparators between authorities, as any comparisons will be meaningless. In addition, the indicators should not be taken individually; rather the benefit from monitoring will arise from following the movement in indicators over time and the year on year changes.

### **2.0 Capital Expenditure and the Capital Financing Requirement**

The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for a capital purpose; the change year on year will be influenced by the capital expenditure in the year. In simple terms the CFR will increase by the amount of capital expenditure to be financed by borrowing less any amount set aside in the year to repay debt.

The expected movement in the CFR over the next three years is dependent on the level of supported and unsupported capital expenditure decisions taken during the budgeting cycle. There are two main limiting factors on the Council's ability to undertake unsupported capital expenditure:

- Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs. Can the Council afford the implications of the unsupported capital expenditure?
- The Government may use a long stop control to ensure that either the total of all local authorities' plans do not jeopardise national economic policies, or in the event of an assessment by central government that local plans are not affordable at a particular council, it may implement a specific control to limit its capital expenditure plans.

The Council's expectations for capital expenditure and Capital Financing Requirement (CFR) in the next three years are shown in the following tables. These form two of the required Prudential Indicators.

## 2.1 Breakdown of Capital Expenditure by Service

The table below takes into account the Council's estimates of available resources as set out in the Medium Term Financial Strategy and the HRA Business Plan as adjusted for any major changes during the budget setting process.

	2020/21 Estimate £ 000s	2021/22 Estimate £ 000s	2022/23 Estimate £ 000s	2023/24 Estimate £ 000s
General Fund	674	11,475	16,161	20
HRA	2,186	1,500	1,500	1,500
<b>Total</b>	<b>2,860</b>	<b>12,975</b>	<b>17,661</b>	<b>1,520</b>

## 2.2 Capital Financing Requirement

The actual and estimated CFRs are set out below together with a split between supported and unsupported spending.

	2020/21 Estimate £ 000s	2021/22 Estimate £ 000s	2022/23 Estimate £ 000s	2023/24 Estimate £ 000s
<b>Capital Expenditure *</b>				
Supported Spend	1,594	2,346	1,500	1,500
Unsupported Spend	1,266	10,629	16,161	20
<b>Total Spend</b>	<b>2,860</b>	<b>12,975</b>	<b>17,661</b>	<b>1,520</b>
<b>Financed By:</b>				
Borrowing	1,266	10,629	16,161	20
Capital Receipts	0	9	0	0
Capital Grants	77	780	0	0
Earmarked Funds	0	57	0	0
Major Repairs Reserve	1,517	1,500	1,500	1,500
Revenue	0	0	0	0
Other Contributions	0	0	0	0
<b>Total Financing</b>	<b>2,860</b>	<b>12,975</b>	<b>17,661</b>	<b>1,520</b>
<b>Capital Financing Requirement</b>				
CFR – General Fund	17,213	26,990	42,105	40,799
CFR – HRA	20,297	20,297	20,297	20,297
<b>Total CFR</b>	<b>37,510</b>	<b>47,287</b>	<b>62,402</b>	<b>61,096</b>

**\*These figures represent an affordable capital programme rather than the total of capital submissions put forward by budget holders.**

## 2.3 External Debt

The following estimate of gross external debt is provided for information.

	2020/21 Estimate £ 000s	2021/22 Estimate £ 000s	2022/23 Estimate £ 000s	2023/24 Estimate £ 000s
Borrowing	33,240	45,670	61,575	60,575
Other Long Term Liabilities	0	0	0	0
Total Debt 31 <sup>st</sup> Match	33,240	45,670	61,575	60,575

## 3.0 Affordability Prudential Indicators

The indicators that follow provide an indication of the impact of the capital investment plans on the overall Council finances.

### 3.1 Ratio of Financing Costs to Net Revenue Stream

The actual and estimates of the ratio of financing costs to net revenue stream identifies the trend in the cost of capital (borrowing costs net of interest and investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the budget report.

	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
General Fund	15.4	17.7	23.5	27.4
HRA	11.2	10.8	10.2	9.7

The substantial increase in the Ratio of Financing Costs to Net Revenue Stream is a result of the proposed housing capital projects, which will require £26M of additional borrowing over the next two years, with consequent materially higher interest charges, due to the need to borrow much of it long-term, in order to maintain the proportion of short-term borrowing to gross debt below 50%. However, since the aim of these schemes is to generate additional revenue streams for the Council which will more than cover the cost of borrowing, this increase may be regarded as notional.

### 3.2 Incremental Impact of Capital Investment Decisions on the Band D Council Tax

The estimates of the incremental impact of capital investment decisions on the Council Tax indicator identifies the trend in the cost of proposed changes in the three year capital programme recommended in the budget report compared to the Council's existing commitments and current plans. The figures are based on the assumptions included in the budget.

	<b>Budget 2020/21</b>	<b>Forward Projection 2021/22</b>	<b>Forward Projection 2022/23</b>
2020/21 Programme	£0.29	£0.29	£0.29
2021/22 Programme	0	£4.56	£4.56
2022/23 Programme	0	0	£11.58
<b>Total</b>	<b>£0.29</b>	<b>£4.84</b>	<b>£16.42</b>

The incremental impact of Capital Investment decisions only considers the impact of borrowing decisions on Council Tax, and not offsetting revenue streams generated by capital investments. As such, per the ratio of financing costs to net revenue stream above, this increase should be regarded as notional, a consequence of the borrowing associated with the proposed capital housing projects, rather than representing a real increase in Council Tax.

### 3.3 Incremental Impact of Capital Investment Decisions on Housing Rent Levels

The estimates of the incremental impact of capital investment decisions on housing rent levels are similar to the Council Tax calculation. This indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the budget report compared to the Council's existing commitments and current plans, expressed as a change in weekly rent levels.

	Budget 2020/21	Forward Projection 2021/22	Forward Projection 2022/23
2020/21 Programme	0.02	0.02	0.02
2021/22 Programme	0	0	0
2022/23 Programme	0	0	0
<b>Total</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>

### 3.4 **Prudential Indicators and Limits on Activity**

A key control over the Council's activity is to ensure that over the medium term net debt will only be for a capital purpose. The Council needs to ensure that net debt does not, except in the short-term, exceed the total of the Capital Financing Requirement (CFR). The following table sets out the estimated net borrowing position in relation to the estimated CFR.

	2020/21 Estimate £ 000s	2021/22 Estimate £ 000s	2022/23 Estimate £ 000s	2023/24 Estimate £ 000s
Borrowing	33,240	45,670	61,575	60,575
Investment	0	0	0	0
<b>Net Debts</b>	33,240	45,670	61,575	60,575
<b>CFR</b>	<b>37,510</b>	<b>47,287</b>	<b>62,402</b>	<b>61,096</b>

**The Section 151 Officer reports that the Council complied with the requirement to keep net borrowing below the relevant CFR in 2020/21 and no difficulties are foreseen for the current year or in respect of net debt for future years. This opinion takes account of current commitments, existing plans and the proposals in this and the budget report.**

It is predicted that the HRA CFR will end 2020/21 at £20.297 million. At present the Council will endeavour to keep it this level steady for this three year cycle of financial planning.

### 3.5 **Treasury Management Prudential Indicators**

These indicators are shown in detail at **Appendix 2**.