

PRUDENTIAL INDICATORS 2020/21

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

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2020/21 budget	2021/22 budget	2022/23 budget
General Fund services	19.023	8.749	3.702
General Fund – right of use assets/finance leases*	0.000	3.713	1.509
Council housing (HRA)	12.013	10.304	12.150
TOTAL	31.036	22.766	17.361

*This includes notional expenditure on recognition of right of use assets in line with IFRS16, a new accounting standard which takes effect from 1st April 2021

The right of use assets are properties that the Council leases for temporary accommodation (DPLS scheme) and the 20/21 figure is the initial recognition of these. From 2021/22 onwards the capital expenditure for right of use assets is solely new leases of temporary accommodation to replace expiring agreements.

Table 2: Capital financing in £ millions

	2020/21 budget	2021/22 budget	2022/23 budget
External sources	7.657	7.534	4.472
Contribution From Revenue/Reserves	10.010	8.263	9.185
Right of use assets/finance leases MRP*	0	1.290	0.221
Capital Receipts	13.369	3.256	2.195
Right of use assets/finance leases Capital Financing Requirement**	0	2.423	1.288
TOTAL	31.036	22.766	17.361

* This is equivalent to the current revenue cost of the leases.

**Increases in debt/capital financing requirement is the recognition of right of use/finance assets which will increase CFR initially but will be gradually extinguished with the revenue cost of the leases applied each year.

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Table 3: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 forecast	31.3.2023 forecast
General Fund services	1.215	1.024	3.252	3.147
Council housing (HRA)	51.408	46.963	37.518	33.975
Capital investments	0	0	0	0
TOTAL CFR	52,623	47.987	40.770	37.122

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority 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.

Table 4: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2020 actual	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Debt	51.405	46.961	37.518	33.975
Capital Financing Requirement	52.623	47.987	40.770	37.122

Total debt is expected to remain at or below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority'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 can comprise finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt. The level set includes an allowance for the possibility of significant payments due to successful business rate appeals.

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

Table 5: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2020/21 limit	2021/22 limit	2022/23 limit
Authorised limit – borrowing	120	120	120
Authorised limit – PFI and leases	20	20	20
Authorised limit – total external debt	140	140	140
Operational boundary – borrowing	100	100	100
Operational boundary – PFI and leases	15	15	15
Operational boundary – total external debt	115	115	115

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.

Table 6: Prudential Indicator: Proportion of financing costs to net revenue stream

Proportion of net revenue stream:	2020/21 budget	2021/22 budget	2022/23 budget
General Fund	0.04%	-0.60%	-1.23%
Housing Revenue Account	5.72%	5.18%	4.09%