

## PRUDENTIAL AND OTHER INDICATORS 2020-21 and 2021-22

The Prudential Indicators are required to be set and approved by Council in accordance with CIPFA's Prudential Code for Capital Finance in Local Authorities. Table 1 shows the 2020-21 actual capital expenditure, the capital programme approved by Council on 24 February 2021 and the latest projection for the current financial year which has incorporated slippage of schemes from 2020-21 together with any new grants and contributions or changes in the profile of funding.

*Table 1: Prudential Indicator: Estimates of Capital Expenditure*

|                       | <b>2020-21<br/>Actual<br/>£m</b> | <b>2021-22<br/>Estimate<br/>(Council<br/>Feb 21)<br/>£m</b> | <b>2021-22<br/>Projection<br/>£m</b> |
|-----------------------|----------------------------------|---|--------------------------------------|
| Council Fund services | 23.461                           | 61.883  | 86.867                               |
| Investment Properties | -                                | 0.480   | 0.480                                |
| <b>TOTAL</b>          | <b>23.461</b>                    | <b>62.363</b>   | <b>87.347</b>                        |

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or net financing requirement (borrowing, leasing and Private Finance Initiative). The planned financing of the expenditure has been projected as follows:

*Table 2: Capital financing*

|                           | <b>2020-21<br/>Actual<br/>£m</b> | <b>2021-22<br/>Estimate<br/>(Council<br/>Feb 21)<br/>£m</b> | <b>2021-22<br/>Projection<br/>£m</b> |
|---------------------------|----------------------------------|---|--------------------------------------|
| External sources          | 15.583                           | 16.563  | 24.728                               |
| Own resources             | 1.511                            | 30.939  | 41.827                               |
| Net Financing Requirement | 6.367                            | 14.861  | 20.792                               |
| <b>TOTAL</b>              | <b>23.461</b>                    | <b>62.363</b>   | <b>87.347</b>                        |

The net financing requirement or 'debt' is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as the Minimum Revenue Provision (MRP). As well as MRP, the Council makes additional voluntary revenue contributions to pay off Prudential or Unsupported Borrowing. The total of these are shown in Table 3 below:-

Table 3: Replacement of debt finance

|   | 2020-21<br>Actual<br>£m | 2021-22<br>Estimate<br>(Council<br>Feb 21)<br>£m | 2021-22<br>Projection<br>£m |
|---|-------------------------|--|-----------------------------|
| Minimum Revenue Provision (MRP)           | 2.927                   | 2.997  | 2.997                       |
| Additional Voluntary Revenue Provision    | 1.502                   | 1.925  | 1.530                       |
| <b>Total MRP &amp; VRP</b>                | <b>4.429</b>            | <b>4.922</b>                                     | <b>4.527</b>                |
| <b>Other MRP on Long term Liabilities</b> | <b>0.743</b>            | <b>0.801</b>                                     | <b>0.801</b>                |
| <b>Total Own Resources</b>                | <b>5.172</b>            | <b>5.723</b>                                     | <b>5.328</b>                |

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces by the MRP amount within the year. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows based on the movement on capital expenditure at quarter 1:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

|   | 2020-21<br>Actual<br>£m | 2021-22<br>Estimate<br>£m | 2021-22<br>Projection<br>£m |
|---|-------------------------|---------------------------|-----------------------------|
| <b>Capital Financing Requirement</b>              |                         |                           |                             |
| Opening CFR excluding PFI & other liabilities     | 155.466                 | 157.405                   | 157.405                     |
| Opening PFI CFR                                   | 16.310                  | 15.566                    | 15.566                      |
| <b>Total opening CFR</b>                          | <b>171.776</b>          | <b>172.971</b>            | <b>172.971</b>              |
| Movement in CFR excluding PFI & other liabilities | 1.938                   | 9.939                     | 16.265                      |
| Movement in PFI CFR                               | (0.743)                 | (0.801)                   | (0.801)                     |
| <b>Total movement in CFR</b>                      | <b>1.195</b>            | <b>9.138</b>              | <b>15.464</b>               |
| <b>Closing CFR</b>                                | <b>172.971</b>          | <b>182.109</b>            | <b>188.435</b>              |
| <b>Movement in CFR represented by:</b>            |                         |                           |                             |
| Net financing need for year (Table 2 above)       | 6.367                   | 14.861                    | 20.792                      |
| Minimum and voluntary revenue provisions          | (4.429)                 | (4.922)                   | (4.527)                     |
| MRP on PFI and other long term leases (Table 3)   | (0.743)                 | (0.801)                   | (0.801)                     |
| <b>Total movement</b>                             | <b>1.195</b>            | <b>9.138</b>              | <b>15.464</b>               |

The capital borrowing need (Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This is known as Internal Borrowing. Projected levels of the Council's

total outstanding debt, which comprises of borrowing, PFI and Other Long Term Liabilities, are shown below compared with the Capital Financing Requirement:-

*Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement*

|                               | <b>2020-21<br/>Actual<br/>£m</b> | <b>2021-22<br/>Estimate<br/>(Council<br/>Feb 20)<br/>£m</b> | <b>2021-22<br/>Projection<br/>£m</b> |
|-------------------------------|----------------------------------|---|--------------------------------------|
| Debt (incl. PFI & leases)     | 113.670                          | <b>123.545</b>  | <b>123.545</b>                       |
| Capital Financing Requirement | 172.971                          | <b>182.109</b>  | <b>188.435</b>                       |

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen, the Council expects to comply with this in the medium term.

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

*Table 6: Prudential Indicators: Authorised limit and operational boundary for external debt in £m*

|  | <b>2020-21<br/>Actual<br/>£m</b> | <b>2021-22<br/>Estimate<br/>(Council<br/>Feb 20)<br/>£m</b> | <b>2021-22<br/>Projection<br/>£m</b> |
|--|----------------------------------|---|--------------------------------------|
| Authorised limit – borrowing                       | 170.000                          | <b>170.000</b>  | 170.000                              |
| Authorised limit – other long term liabilities     | 30.000                           | <b>30.000</b>   | 30.000                               |
| <b>Authorised Limit Total</b>                      | <b>200.00</b>                    | <b>200.000</b>  | <b>200.000</b>                       |
| Operational boundary – borrowing                   | 120.000                          | <b>130.000</b>  | 130.000                              |
| Operational boundary – other long term liabilities | 25.000                           | <b>25.000</b>   | 25.000                               |
| <b>Operational Boundary Limit Total</b>            | <b>145.000</b>                   | <b>155.000</b>  | <b>155.000</b>                       |
|  |                                  |   |                                      |
| <b>Total Borrowing and Long Term Liabilities</b>   | <b>113.670</b>                   | <b>123.545</b>  | <b>123.545</b>                       |

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 receivable. The

net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

*Table 7: Prudential Indicator: Proportion of financing costs to net revenue stream*

|                                  | <b>2020-21<br/>Actual<br/>£m</b> | <b>2021-22<br/>Estimate<br/>(Council<br/>Feb 20)<br/>£m</b> | <b>2021-22<br/>Projection<br/>£m</b> |
|----------------------------------|----------------------------------|---|--------------------------------------|
| Capital Financing Central        | 6.621                            | 6.718   | 6.571                                |
| Other Financing costs            | 3.448                            | 4.147   | 3.534                                |
| <b>TOTAL FINANCING COSTS</b>     | <b>10.070</b>                    | <b>10.866</b>   | <b>10.106</b>                        |
| Proportion of net revenue stream | 3.71%                            | 3.99%   | 3.71%                                |

This shows that in 2020-21, 3.71% of our net revenue income was spent paying back the costs of capital expenditure.