Appendix D

Prudential Indicators 2020/21

Background

1. Through the Local Government Act 2003, the Government relaxed its detailed control of local authority capital expenditure and replaced it with a requirement that Councils should have regard to CIPFA's **Prudential Code for Capital Finance in Local Authorities**. This Code of Practice is intended to ensure that local authorities' capital expenditure plans are **affordable, prudent and sustainable**.

2. The Code of Practice also requires that the Council's treasury management decisions are taken in accordance with professional good practice. More details of this are provided in the Treasury Management Strategy for 2020/21 which will be presented to the Policy and Resources Committee in due course. The format of the Prudential Indicators below is as outlined in the national code of practice.

Indicators of Affordability

3. Prudential indicators of affordability are based on the mix of capital and revenue expenditure in the Council's budget and the effect that the spending plans will have on the Council Tax.

   <u>The Ratio of Financing Costs to the Council's Net Revenue Stream</u>

4. The first indicator is the ratio of financing costs to the Council's "net revenue stream". The net revenue stream is the amount that the Council receives in council tax and revenue support from the government. The indicators for 2019/20 to 2022/23 are shown in Table 1 below:-

Table 1: Ratio of Financing Costs to Net Revenue Stream

	Estimate 2019/20 %	**Estimate 2020/21 %**	**Estimate 2021/22 %**	**Estimate 2022/23 %**
2020/21	10.50	9.02	12.42	12.63

5. Councillors will note that the indicator is increasing year on year reflecting rising borrowing costs as a result of the annual increase in the Council's underlying indebtedness. This reflects the increasing cost of capital investment.

6. To the extent that this additional cost is factored in the General Fund Revenue Budget and is therefore considered affordable, it does not present a problem in the short term although the pressures on the Revenue budget may result in this position not being sustainable over the longer term.

The Incremental Effect of the Proposed Programme of Capital Expenditure on the Council Tax

7. The second indicator of affordability is the incremental effect of this year's proposals in the capital rollforward on the Council Tax. The indicator isolates the cost of the programme and shows it as an amount per Band D Council Tax payment. The proposed programme would produce the following increases in Council Tax at Band D:-

Table 2: Incremental Change in Band D Council Tax

	Estimate 2020/21 £	Estimate 2021/22 £	Estimate 2022/23 £
Additional Cost 2020/21	7.97	18.31	20.31

8. It should be remembered that the additional spending is being seen in isolation in these indicators. The year on year increase in the cost of the programme is accentuated by the fact that no account is taken of older schemes, the borrowing costs of which reduce over a period through the payment of the minimum revenue provision.

Indicators of Prudence

Capital Financing Requirement

9. The Capital Financing Requirement is intended to reflect the Council's underlying need to borrow. It is a notional estimate of the need to borrow and should not be confused with actual cash borrowing.

10. It is a requirement that over the medium term net borrowing will only be for a capital purpose. In order to ensure this remains the case, the Council should ensure that net external borrowing does not exceed the total capital financing requirement for the previous year plus the estimate of any additional Capital Financing Requirement for the current and next two financial years. The Capital Financing Requirements for the years 2020/21 to 2022/23 are:

Table 3: Capital Financing Requirement

	In Year Amount £	Balance at 31st March Total £	Net External Debt *1 £
Balance at 31st March 2019		20,403,877	
2019/20	(519,670)	19,884,207	25,359,166
2020/21	16,955,365	36,839,572	36,359,166
2021/22	(48,923)	36,790,649	37,359,166
2022/23	(98,553)	36,682,096	37,359,166

*1 – Net External Debt is Gross Borrowing less Gross Investments
*2 – The table above assumes full implementation of the Council's Property Investment Strategy whereby £10m will be investment in income-yielding assets

11. As the table indicates, the Capital Financing Requirement on the basis of current estimates is not expected to exceed net external debt. It also illustrates that the Council is presently significantly over-borrowed insofar as the Council's net debt is higher than the underlying need to borrow for capital expenditure. This reflects decisions to incur external borrowing at historically low interest rates in advance of when capital expenditure is necessary.

The Total Estimated Capital Spend for the Next Three Years

12. The Code requires that the Council estimates the total capital spend for the next three years. These figures are shown below and are as provided at **Appendix C** in this report.

Table 4 : Capital Expenditure

	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/21 £m
General Fund	3.063	10.566	1.830	1.826
Property Investment	-	10.000	-	-
Total	**3.063**	**20.566**	**1.830**	**1.826**

13. It should be noted that these figures include capital expenditure to be incurred by the Council but funded through external sources.