

## **PRUDENTIAL INDICATORS**

The following Prudential Indicators (and those included in Appendix (E) have been calculated in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. In addition, a local indicator has been calculated to reflect the City's particular circumstances. Those indicators relating to estimates for the financial years 2020/21, 2021/22 and 2022/23 (values shown in bold) are required to be set by the Court of Common Council as part of the budget setting process, and should be taken into account when considering the affordability, prudence and sustainability of capital investments.

### **Prudential Indicators for Affordability**

#### **Estimate of the ratio of financing costs to net revenue stream**

Table 1

|                               | 2016/17<br>Actual | 2017/18<br>Actual | 2018/19<br>Actual | 2019/20<br>Revised | 2020/21<br>Estimate | 2021/22<br>Estimate | 2022/23<br>Estimate |
|-------------------------------|-------------------|-------------------|-------------------|--------------------|---------------------|---------------------|---------------------|
| HRA                           | 0.41              | 0.71              | 0.29              | <b>0.66</b>        | <b>0.43</b>         | <b>0.46</b>         | <b>0.46</b>         |
| Non-HRA                       | -0.17             | -0.40             | -0.49             | <b>-0.41</b>       | <b>-0.42</b>        | <b>-0.36</b>        | <b>-0.27</b>        |
| Total                         | -0.12             | -0.29             | -0.41             | <b>-0.39</b>       | <b>-0.41</b>        | <b>-0.35</b>        | <b>-0.21</b>        |
| <i>At this time last year</i> | -0.12             | -0.29             | -0.04             | -0.30              | -0.35               | -0.31               | -                   |

This ratio is intended to represent the extent to which the net revenue consequences of capital financing and borrowing impact on the net revenue stream. Since the City Fund is currently a net lender in its Treasury operations and is in receipt of significant rental income from investment properties, the Non-HRA and Total ratios are usually negative. The reduction in the Non-HRA ratios from 2021/22 reflects the revenue impact of borrowing costs. The movement in HRA ratios mirrors the revenue contributions to the major repairs reserve, which is used to fund the HRA programme of capital works necessary to maintain the housing estates.

### **Prudential Indicator of Prudence**

#### **Gross Debt and the Capital Financing Requirement**

Table 2

|                               | Period 2019/20<br>to 2022/23 |
|-------------------------------|------------------------------|
|                               | £m                           |
| Gross Debt                    | <b>153,200</b>               |
| Capital Financing Requirement | <b>355,339</b>               |

To ensure that, over the medium term, borrowing will only be for capital purposes, this indicator demonstrates that gross debt will not exceed the capital financing requirement over the period 2019/20 to 2022/23. As a result of the two major projects to be funded through City Fund - the Museum of London relocation and the new combined courts building at Fleet Street – significant external borrowing is anticipated from 2021/22 onwards. The remainder of the capital financing requirement (the underlying need to borrow) is to be met largely through internal borrowing.

## **Prudential Indicators for Capital Expenditure and External Debt**

### **Estimate of Capital Expenditure**

**Table 3**

|                               | 2016/17<br>Actual<br>£m | 2017/18<br>Actual<br>£m | 2018/19<br>Actual<br>£m | 2019/20<br>Revised<br>£m | 2020/21<br>Estimate<br>£m | 2021/22<br>Estimate<br>£m | 2022/23<br>Estimate<br>£m |
|-------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|---------------------------|---------------------------|---------------------------|
| HRA                           | 8.775                   | 6.974                   | 10.854                  | <b>16.219</b>            | <b>48.741</b>             | <b>44.510</b>             | <b>18.410</b>             |
| Non-HRA                       | 250.705                 | 42.58                   | 67.199                  | <b>74.824</b>            | <b>102.026</b>            | <b>288.742</b>            | <b>304.496</b>            |
| Total                         | 259.480                 | 49.549                  | 78.053                  | <b>91.043</b>            | <b>150.767</b>            | <b>333.252</b>            | <b>322.906</b>            |
| <i>At this time last year</i> | 259.480                 | 49.549                  | 117.122                 | 211.045                  | 183.224                   | 286.245                   | -                         |

This indicator is based on the capital budget, augmented to reflect the indicative cost of schemes which have been approved in principle but have yet to be evaluated. It should be noted that the figures represent gross expenditure and that a number of schemes are wholly or partially funded by external contributions. Comparisons with the figures calculated at this time last year are generally reflective of the re-phasing of capital expenditure, including more robust estimates relating to the major projects (Museum of London relocation and the new combined courts building).

### **Estimate of the Capital Financing Requirement**

**Table 4**

|                               | 2016/17<br>Actual<br>£m | 2017/18<br>Actual<br>£m | 2018/19<br>Actual<br>£m | 2019/20<br>Revised<br>£m | 2020/21<br>Estimate<br>£m | 2021/22<br>Estimate<br>£m | 2022/23<br>Estimate<br>£m |
|-------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|---------------------------|---------------------------|---------------------------|
| HRA                           | 0.000                   | 0.000                   | 0.000                   | <b>0.000</b>             | <b>22.000</b>             | <b>26.560</b>             | <b>26.029</b>             |
| Non-HRA                       | 40.628                  | 44.590                  | 43.592                  | <b>38.355</b>            | <b>56.458</b>             | <b>225.897</b>            | <b>329.31</b>             |
| Total                         | 40.628                  | 44.590                  | 43.592                  | <b>38.355</b>            | <b>78.458</b>             | <b>252.457</b>            | <b>355.339</b>            |
| <i>At this time last year</i> | 40.628                  | 48.095                  | 46.945                  | 127.29                   | 224.637                   | 399.843                   | -                         |

The capital financing requirement (CFR) reflects the underlying need to borrow to finance capital expenditure and is calculated by identifying the shortfall in capital financing sources

(e.g. capital receipts, grants, revenue reserves etc) to be applied. Borrowing can either be internal (use of internal cash balances) or external (third party loan finance).

Since 2016/17, the City Fund has been financing some capital expenditure from cash sums received from the sale of long leases, which are treated as deferred income in accordance with accounting standards. For the purposes of this indicator, such funding counts as 'internal borrowing'. In addition, from 2021/22 the City Fund will need to take out loans with third parties (external borrowing) towards funding for the major projects.

In accordance with the guidance contained in the Prudential Code, the 'Actual' indicators are calculated directly from the Balance Sheet, whilst the method of calculating the HRA and Non-HRA elements is prescribed under Statute.

The remaining prudential indicators relating to external debt and treasury management are included within Appendix E.

### **Local Indicators**

A local indicator which gives a useful measure of both sustainability and of the adequacy of revenue reserves has been developed.

#### **Times Cover on Unencumbered Revenue Reserves**

**Table 5**

|  | 2019/20      | 2020/21    | 2021/22    | 2022/23    |
|--|--------------|------------|------------|------------|
| Times cover on unencumbered revenue reserves | <b>(1.8)</b> | <b>6.2</b> | <b>5.0</b> | <b>2.6</b> |
| <i>At this time last year</i>                | (3.8)        | 0.1        | N/a        | -          |

This indicator is calculated by dividing the balance of unencumbered general reserves by the annual revenue deficits/(surpluses). For 2019/20 a revenue surplus is forecast, but from 2020/21 onwards annual revenue deficits are anticipated against steadily declining general reserve balances. Remedial action to address this financial risk is planned through the ongoing fundamental review and further consideration of alternative funding options for the major projects.