

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 2021/22, 2022/23 and 2023/24 (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

	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Revised	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA	0.71	0.29	0.26	0.24	0.24	0.30	0.35
Non-HRA	(0.40)	(0.49)	(0.46)	(0.30)	(0.27)	(0.30)	(0.32)
Total	(0.29)	(0.41)	(0.39)	(0.26)	(0.23)	(0.25)	(0.26)
<i>At this time last year</i>	(0.29)	(0.04)	(0.35)	(0.42)	(0.33)	(0.18)	-

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 fall in the Non-HRA ratios since 2019/20 reflects the reduction in investment income as a proportion of total revenue streams. The increase in HRA ratios from 2022/23 reflect the additional cost of internal borrowing 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 2020/21 to 2023/24
	£m
Gross External Debt	13.302
Capital Financing Requirement	299.071

To ensure that, over the medium term, borrowing will only be for capital purposes, this indicator demonstrates that gross external debt will not exceed the capital financing requirement over the

period 2020/21 to 2023/24. The current plans for funding of the capital programme, including the major projects, do not anticipate any new external borrowing.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 3

	2017/18 Actual £m	2018/19 Actual £m	2019/20 Actual £m	2020/21 Revised £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
HRA	6.974	10.854	10.867	30.874	65.125	32.398	0.000
Non-HRA	42.58	67.199	41.874	93.041	179.993	201.331	232.469
Total	49.549	78.053	52.741	123.915	245.118	233.729	232.469
<i>At this time last year</i>	<i>49.549</i>	<i>117.122</i>	<i>91.043</i>	<i>150.767</i>	<i>333.252</i>	<i>322.906</i>	-

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 formally agreed for progression. 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.

Estimate of the Capital Financing Requirement

Table 4

	2017/18 Actual £m	2018/19 Actual £m	2019/20 Actual £m	2020/21 Revised £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
HRA	0.000	0.000	0.000	0.000	19.227	29.746	28.211
Non-HRA	44.590	43.592	46.386	64.877	104.755	232.140	270.860
Total	44.590	43.592	46.386	64.877	123.982	261.886	299.071
<i>At this time last year</i>	<i>48.095</i>	<i>46.945</i>	<i>38.355</i>	<i>56.458</i>	<i>317.197</i>	<i>420.610</i>	-

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 some of the major project expenditure will be funded from internal borrowing, using general City Fund cash balances on an interim basis pending the application of disposal proceeds from the sale of investment properties.

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 D.

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

	2020/21	2021/22	2022/23	2023/24
Times cover on unencumbered revenue reserves	+35.4	+8.4	-13.1	-70.0
<i>At this time last year</i>	7.1	3.9	1.1	-

This indicator is calculated by dividing the balance of forecast unencumbered general reserves by annual revenue deficits(-)/surpluses(+). For 2020/21 and 2021/22 revenue surpluses are forecast, with annual deficits from 2022/23 as the benefits of business rates retained growth ends. The revenue position is forecast to be much improved by 2023/24 as savings from the fundamental review are fully realised and incomes improve, albeit partially offset by the impact of major project financing.