

PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix (F) 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 2024/25, 2025/26 and 2026/27 (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

	2022/23	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA	- 0.39	- 0.49	- 0.32	- 0.49	- 0.42
Non-HRA	0.00	0.00	- 0.02	- 0.08	- 0.10
Total	- 0.39	- 0.49	- 0.34	- 0.57	- 0.52
<i>At this time last year</i>	- 0.20	- 0.24	- 0.24	0.00	0.00

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 increase in HRA ratios from 2023/24 reflect the additional cost of internal borrowing from City Fund to finance 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 2023/24 to 2026/27
	£m
Gross External Debt*	12.5
Capital Financing Requirement	359.0

*Gross External Debt is based on Finance Lease (Lessee) liability

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 2023/24 to 2027/28. The current plans for funding of the capital programme, including the major projects, do not anticipate any external borrowing.

Prudential Indicators for Capital Expenditure and External Debt**Estimate of Capital Expenditure****Table 3**

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non-HRA	95.3	264.2	327.3	394.6	133.7	44.8
HRA	11.3	50.8	66.3	31.8	10.0	0
Total	106.6	315.0	393.6	426.4	143.7	44.8
<i>At this time last year</i>	<i>158.8</i>	<i>444.2</i>	<i>469.0</i>	<i>219.0</i>	<i>0.00</i>	<i>0.00</i>

This indicator is based on the capital budget (excluding supplement revenue programme), 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 several 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**

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non-HRA	90.4	148.3	305.6	339.7	356.8	227.2
HRA	0	2.0	14.6	5.8	2.2	0
Total	90.4	150.3	320.2	345.5	359.0	227.2
<i>At this time last year</i>	<i>94.3</i>	<i>252.4</i>	<i>276.2</i>	<i>299.8</i>	<i>-</i>	<i>-</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, in 2023/24 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 2027/28.

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 the Treasury Management Strategy Statement and Annual Investment Strategy - 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

	2023/24	2024/25	2025/26	2026/27
Times cover on unencumbered revenue reserves	2.1	1.1	0.0	-0.9
<i>At this time last year</i>	3.0	-0.8	-1.2	0.0

This indicator is calculated by dividing the balance of forecast unencumbered general reserves by annual revenue deficits (-)/surpluses (+). For 2023/24 to 2025/26 revenue surpluses are forecast but reducing year on year. Deficits are then forecast from 2026/27 as the benefits of business rates retained growth is forecast to end and the impact of high inflation continues to impact on costs. Ratios below -1.0 indicate insufficient general reserves to cover the deficit in a particular financial year, which is not sustainable. This will need to be addressed through additional savings and/or income.