PRUDENTIAL INDICATORS FOR 2022/23

Introduction

Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Chartered Institute of Finance and Accountancy (CIPFA) Prudential Code provides a framework to ensure that the capital investment plans of the Council are affordable, prudent and sustainable.

The Prudential Indicators recommended in the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparative performance indicators, and should be considered in parallel with the Treasury Management Indicators required by the CIPFA *Code of Practice on Treasury Management in the Public Services*.

The Prudential Indicators provide a broad framework to be considered alongside robust forecasting procedures embedded into the budget process of the Council. Forecasts should be regularly updated as the capital programme develops, and proposals should be considered in terms of their impact on the overall corporate position, ensuring that prudence and affordability are taken into account.

Prudential Indicators in relation to previous years' actuals are taken directly from information in the Council's statement of accounts. The Prudential Indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. The forward-looking Prudential Indicators include indicative figures for years two and three to allow decisions to be made with an appreciation of future trends. It is recognised that these will be subject to change but exist to promote a move away from the focus on annual decision making towards longer-term strategies.

Procedures are in place to monitor performance against the forward-looking indicators in order to highlight significant deviations from expectations.

Prudential Indicators for prudence

Estimates of Capital Expenditure in £ millions

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m *	2023/24 Budget £m	2024/25 Budget £m
Portfolio spending	21.1	24.9	30.9	23.4	17.6
Earmarked schemes	-	0.8	3.3	2.6	2.9
Contingent schemes	-	-	1.5	1.5	1.5
Total Capital Programme	**21.1**	**25.7**	**35.7**	**27.5**	**22.0**
Estimate of IFRS16 Adjustment *	-	-	45.0	-	-
Total Capital Programme	**21.1**	**25.7**	**80.7**	**27.5**	**22.0**

* £45.0 million of capital expenditure in 2022/23 arises from a change in the accounting for leases and does not represent cash expenditure.

Total capital spend in later years may be higher than currently forecast – however only spend funded from borrowing will impact on the Council's CFR.

Estimates of Capital Financing Requirement in £ millions

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m *	2023/24 Budget £m	2024/25 Budget £m
General Fund services	214.1	209.7	213.0	212.8	215.0
Debt managed by LCC	15.1	15.0	14.8	14.6	14.4
PFI projects	69.3	69.1	68.9	68.7	68.5
Total CFR (Excluding Leases)	**298.5**	**293.8**	**296.7**	**286.1**	**297.9**
Estimate of Leases CFR *	-	-	45.0	45.0	45.0
Total CFR (Including Leases)	**298.5**	**293.8**	**341.7**	**341.1**	**342.9**

* £45 million of the Capital Financing Requirement increase in 2022/23 arises from a change in the accounting for leases.

The Council must make reasonable estimates of the "total Capital Financing Requirement" – that is an estimate of the debt outstanding in respect of capital expenditure, including LCC debt and that relating to the recognition of assets acquired under PFI projects, at the end of each of the next three financial years. The LCC element relates to debt still managed by the County Council in respect of services transferred when Blackburn with Darwen became a Unitary Authority. The Other Long Term Liabilities in relation to PFI schemes are in respect of schools built under the Building Schools for the Future programme.

Authorised limit and operational boundary for external debt in £ millions

	2021/22 Limit £m	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m
Authorised Limit – Borrowing	263.1	245.2	232.2	234.5
Authorised Limit – PFI, Leases and LCC Debt *	84.5	139.2	138.8	138.4
Authorised Limit – Total External Debt	347.6	384.4	371.0	372.9
Operational Boundary – Borrowing	253.1	235.2	222.2	224.5
Operational Boundary – PFI, Leases and LCC Debt *	84.5	139.2	138.8	138.4
Operational Boundary – Total External Debt	337.6	374.4	361.0	362.9

* From 2022/23 onwards the limits have been increased to allow for additional liabilities which will arise from a change in the accounting for leases.

Gross Debt and the Capital Financing Requirement in £ millions

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m *	2023/24 Budget £m	2024/25 Budget £m
Debt (including PFI, Leases and LCC debt)	299.1	229.6	278.3	282.0	285.4
Capital Financing Requirement	298.5	293.8	341.7	341.1	342.9

* £45 million of the Capital Financing Requirement and Debt increase in 2022/23 arises from a change in the accounting for leases.

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Council's debt was in excess of the capital financing requirement temporarily at the end of 2020/21, this was due to slippage on some capital schemes, and additional borrowing required for the advance payment of pension costs made in April 2020. The effects of the advance payment of pension costs will cease by the end of 2022/23, at which point debt is anticipated to return to normal levels, when compared to the capital financing requirement. As can be seen from Table 6, the Council expects to comply with this guidance from 2021/22 and over the medium term.

Prudential Indicators for affordability

Estimates of the Incremental Impact of Capital Investment Decisions on the Council Tax

The incremental cost of any additional, unsupported borrowing required for new schemes to be added to the programme is not expected to be material on the 2022/23 budgets and as such has will have negligible impact on Council Tax. All new proposals are subject to the Council's governance and financial regulations and are reported accordingly, identifying the revenue costs associated with such schemes as applicable.

Estimates of proportion of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, there are revenue budget implications i.e. interest payable on loans and MRP repayments, offset by any investment income receivable. The net annual charge is known as financing costs i.e. the cost of financing capital expenditure.

The Council must estimate the proportion of the revenue budget taken up in financing costs, by comparing financing costs to the net revenue stream i.e. the amount available to fund the Council's revenue budget from Council Tax, business rates and general government grants.

The Indicator below is calculated on the basis that all of the Capital Programme, including Contingent elements, is delivered and assumes no reduction in SFA when projecting the future Net Revenue Stream beyond 2022/23.

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m
Financing Costs (£m)	18.1	17.5	21.5	21.8	22.1
Proportion of Net Revenue Stream	10.5%	12.1%	14.3%	13.8%	14.5%

£2.5m of the increase in financing costs in 2022/23 on future years arises from a change in the accounting for leases and does not represent additional cost to the authority.

The Council's capital financing costs in respect of BSF PFI schemes – both MRP and financing charges (interest elements) – are included, but this cost is largely covered by central government grant and does not put a pressure on Council resources.

It remains the case that a significant proportion of the net revenue budget is taken up in supporting the Main Programme part of the Capital Programme.