Appendix B

REVISED 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.

The Prudential Indicators for 2022/23 were approved at Finance Council in March 2022, but delays in changes to the accounting standards mean that the Council is required to review and update the indicators set.

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard was due to come into for force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Authority intends to adopt the new standard on 1st April 2024.

The Prudential and Treasury Management indicators were initially set taking into account the estimated impact of the new accounting standard, it is therefore necessary

to update the indicators, given the decision to delay the adoption of the new accounting standard until 1st April 2024.

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 Actual £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m
Portfolio spending	21.1	17.0	30.9	23.4	17.6
Earmarked schemes	-	0.3	3.3	2.6	2.9
Contingent schemes	-	-	1.5	1.5	1.5
Total Capital Programme	**21.1**	**17.3**	**35.7**	**27.5**	**22.0**

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 Actual £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m
General Fund services	214.1	205.5	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	**298.5**	**289.6**	**296.7**	**296.1**	**297.9**

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 and LCC Debt	84.5	84.2	83.8	83.4
Authorised Limit – Total External Debt	347.6	329.4	316.0	317.9
Operational Boundary – Borrowing	253.1	235.2	222.2	224.5
Operational Boundary – PFI and LCC Debt	84.5	84.2	83.8	83.4
Operational Boundary – Total External Debt	337.6	319.4	306.0	307.9

Gross Debt and the Capital Financing Requirement in £ millions

	2020/21 Actual £m	2021/22 Actual £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m
Debt (including PFI and LCC debt)	299.1	234.6	238.0	241.8	245.2
Capital Financing Requirement	298.5	289.6	296.7	296.1	297.9

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 has complied with this guidance from 2021/22 and expects to continue to do so in 2022/23 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	2021/22 Actual	2022/23 Budget	2023/24 Budget	2024/25 Budget
Financing Costs (£m)	18.1	17.8	19.0	19.3	19.6
Proportion of Net Revenue Stream	10.5%	11.9%	12.6%	12.3%	12.9%

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.

Appendix C

REVISED TREASURY MANAGEMENT INDICATORS 2022/23

Before the start of each year the Council sets a number of Treasury Management Indicators to measure and manage its exposure to treasury management risks. The Treasury Management Indicators for 2022/23 were approved by Executive Board on 10th March 2022, however due to the Council's decision to delay the adoption of the new IFRS16 Leases accounting standard an review and update of the approved indicators is required.

Following this review, the Council will measure and manage its exposures to treasury management risks using the following updated indicators:

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk - i.e. to prevent too much debt maturing at any one time, with a risk the Council will have to refinance at the rates then prevailing. The limits for up to 24 months continue to be relaxed to allow for a higher level of short-term borrowing.

The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and above	95%	20%

This indicator applies to the financial years 2021/22, 2022/23, and 2023/24, from the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Where there is a prospect that a LOBO may be called, this has been reflected in setting these limits.

Principal Sums Invested for Periods Longer than a Year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2022/23 £M	2023/24 £M	2024/25 £M
Limit on principal invested beyond year end	7.0	5.0	3.0

The Indicators above are “standard” Treasury Management Indicators that are generally adopted by local authorities, in line with individual circumstances. These indicators have not directly addressed the key treasury priorities of Security and Liquidity, though these issues are already closely tracked throughout the year. However, working in conjunction with the Council’s Treasury Advisers, options for the formal monitoring of performance in regard to these priorities remain under consideration.

Interest Rate Risk: CIPFA has withdrawn the previous recommendation for standard indicators for Upper Limits on Fixed and Variable Interest Rate Risk. Nonetheless, this Council recognises that it must have regard to the risk that fluctuations in interest rates could create an unexpected burden on its finances, and will therefore continue to monitor its exposure to Fixed and Variable Interest Rate Risk. In addition, without setting a formal limit, this Council will also monitor, on an ongoing basis, the potential impact of a 1% change in interest rates on its current borrowing and investment portfolio.

The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2022/23 £M	2023/24 £M	2024/25 £M
Upper limit on Fixed Interest rate exposures	228.3	216.0	218.2
Upper limit on Variable Interest rate exposures	100.5	94.7	95.7