

## TORRIDGE DISTRICT COUNCIL

## PRUDENTIAL INDICATORS

1. The Prudential Code was introduced in response to the Local Government Act 2003 and regulations require local authorities to have regard to it when considering capital expenditure and financing. It requires Members to approve a number of Prudential Indicators in relation to the Capital Programme for the next three years. These are set out in succeeding paragraphs in the format required by the Code, which at times is extremely technical.

A cautious approach has been adopted in operating of the Code. The following indicators are a continuation of the practices adopted in recent years and the uncertainty in the financial markets.

2. The estimates of capital expenditure and finance for the current and future years that are recommended for approval are:

<b>Capital Expenditure</b>	<b>2021/22 Estimate £000</b>	<b>2021/22 Forecast £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>	<b>2024/25 Estimate £000</b>
<b>Total Programme less</b>	12,773	2,627	14,007	6,129	1,228
<b>Grants &amp; Contributions</b>	912	1,827	667	3,000	500
<b>Torrige Resources</b>	5,261	800	6,740	3,129	728
<b>Net financed by borrowing</b>	<b>6,600</b>	<b>-</b>	<b>6,600</b>	<b>-</b>	<b>-</b>

It should be recognised that the estimates for 2021/22 to 2024/25 are based on the schemes approved to date. Any additional schemes will be funded from the Council's own resources and will not involve additional prudential borrowing.

3. The estimated Capital Financing Requirement (CFR) for the authority at the end of the current and future years, is:

	<b>31.3.2022 Estimate £000</b>	<b>31.3.2022 Forecast £000</b>	<b>31.3.2023 Estimate £000</b>	<b>31.3.2024 Estimate £000</b>	<b>31.3.2025 Estimate £000</b>
<b>Capital Financing Requirement</b>	7,316	996	7,276	6,958	6,641

The CFR represents the underlying position as a result of financing decisions taken in earlier years plus new borrowing planned in the current and future year's capital programmes.

4. The Prudential Code includes the following as a key indicator of prudence:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.”

	<b>31.3.2022 Estimate £000</b>	<b>31.3.2022 Forecast £000</b>	<b>31.3.2023 Estimate £000</b>	<b>31.3.2024 Estimate £000</b>	<b>31.3.2025 Estimate £000</b>
Borrowing	6,802	482	6,802	6,396	5,963
Investments	3,470	17,001	14,020	13,542	12,964
<b>Net Borrowing</b>	3,332	(16,519)	(7,218)	(7,145)	(7,000)

The above table shows that the net borrowing is less than the Capital Financing Requirement as shown in 3 above, thus confirming that borrowing is for capital purposes only.

Bracketed totals indicate that investment income exceeded borrowing and other long-term liabilities.

5. In respect of its external debt the Council must set an Authorised Limit for its external debt gross of investments for the current and following three financial years. External debt includes both borrowing and the long term liability of leases and implied leases.

<b>Authorised Limit for External Debt</b>	<b>2021/22 Estimate £000</b>	<b>2021/22 Forecast £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>	<b>2024/25 Estimate £000</b>
Borrowing	12,302	5,982	12,402	11,996	11,563

The S151 Officer reports that these authorised limits are consistent with the authority's current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The S151 Officer confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with additional sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

In taking its decisions on this report, the Council is asked to note that the Authorised Limit determined for 2021/22 Forecast, 2022/23, 2023/24 and 2024/25 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

6. The Council must also set an Operational Boundary for external debt for the same time period. The proposed operational boundary is based on the same estimates as the Authorised Limit but reflects directly the S151 Officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The Operational Boundary represents a key management tool for in year monitoring by the S151 Officer.

<b>Operational Boundary for External Debt</b>	<b>2021/22 Estimate £000</b>	<b>2021/22 Forecast £000</b>	<b>2022/23 Estimate £000</b>	<b>2023/24 Estimate £000</b>	<b>2024/25 Estimate £000</b>
Borrowing	7,803	1,483	7,803	7,397	6,964

It should be noted that actual external debt is not directly comparable to either the Authorised Limit or Operational Boundary, since the external debt reflects the position at one point in time.

7. Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2021/22 Estimate</b>	<b>2021/22 Forecast</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>
% of Revenue	3.24%	0.89%	2.32%	1.38%	1.23%

The estimates of financing costs include current commitments and the proposals in this budget report.

8. The Capital Financing Requirement is the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, Torridge District Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated Treasury Management Strategy and has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*. Torridge District Council has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. The Council's actual external debt at 31 March 2021 was £661K. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement in 3 above measures the authority's underlying need to borrow for a capital purpose.

9. In considering its programme for capital investment, the Council is required within the Prudential Code to have regard to:

- Service Objectives, e.g. strategic planning for the authority
- Stewardship of Assets, e.g. asset management planning
- Value for Money, e.g. option appraisal
- Prudence and Sustainability, e.g. implications for external borrowing and whole life costing
- Affordability, e.g. implications for Council Tax
- Practicality, e.g. achievability of the forward plan.