

### Prudential Indicators 2021-22 Out-turn

#### Introduction

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003.

The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the Authority should operate to ensure the objectives of the Prudential Code are met.

Recent revisions to the code have reduced the number of mandatory indicators, but the Treasurer believes that they provide useful information to the Authority so they continue to be included.

#### Prudential Indicators

The Prudential Indicators for which the Authority set limits are as follows:

##### **1. Capital Expenditure**

The actual amount of capital expenditure that was incurred during 2021-22 was as follows:

	Original (Feb 2021) £m	Revised (Feb 2022) £m	Provisional Out-turn £m
Capital Expenditure	6.508	2.307	2.396

##### **2. Ratio of Financing Costs to Net Revenue Stream**

Financing Costs include the amount of interest payable in respect of borrowing or other long-term liabilities and the amount the Authority is required to set aside to repay debt, less interest and investments income.

The actual Net Revenue Stream is the 'amount to be met from government grants and local taxation' taken from the annual Statement of Accounts, and the estimated figure is the Authority's budget net of any transfers to or from the balances.

The indicator only requires that the costs associated with capital expenditure are measured in this way. However, the Authority has used, and may continue to use Operational Leasing as a cost-effective method of acquiring vehicles. In the spirit of the Prudential Code these costs are included for comparative purposes.

	Original (Feb 2021) £m	Revised (Feb 2022) £m	Provisional Out-turn £m
Financing Costs	2.497	2.097	2.087
Net Revenue Stream	35.056	34.901	36.437
Ratio	7.12%	6.01%	5.73%

### **3. Capital Financing Requirement (CFR)**

The capital financing is a measure of the extent to which the Authority needs to borrow to support capital expenditure. It does not necessarily relate to the actual amount of borrowing at any one point in time. The Authority arranges its treasury management activity via a Service Level Agreement (SLA) with Worcestershire County Council (WCC) which has an integrated treasury management strategy where there is no distinction between revenue and capital cash flow, and the day to day position of external borrowing and investments can change constantly.

The capital financing requirement concerns only those transactions arising from capital spending, whereas the amount of external borrowing is a consequence of all revenue and capital cash transactions combined together following recommended treasury management practice.

	Original (Feb 2021) £m	Revised (Feb 2022) £m	Provisional Out-turn £m
CFR at 31st March 2022	22.978	21.902	20.914

### **4. Authorised Limit**

The Authorised Limit represents an upper limit of borrowing that could be afforded in the short term but may not be sustainable.

### **5. Operational Boundary**

The Operational Boundary represents an estimate of the most likely, prudent, but not worst case scenario and provides a parameter against which day to day treasury management activity can be monitored.

The limits for these indicators set for 2021/22

0/21 and the final out-turn are given below, and it can be confirmed that the out-turn figure represents the maximum borrowing at any point in the year, i.e. the Authorized limit was not exceeded.

	£m
Authorized Limit at 31st March 2022	35.000
Operational Boundary at 31st March 2022	32.000
Actual Borrowing at 31st March 2022	10.411

## **6. Fixed Interest Rate Exposures**

The Authority set an upper limit on its fixed interest rate exposures as follows:

	£m
Upper Limit at 31st March 2022	35.000
Actual Borrowing at 31st March 2022	10.411

## **7. Variable Interest Rate Exposures**

The Authority set an upper limit on its variable interest rate exposures, however all current borrowing is at fixed rates.

## **8. Maturity Structure of Borrowing**

The upper and lower limits for the maturity structure of borrowings are as follows:

	Lower Limit £m	<b>Actual</b> £m	Upper Limit £m
Under 12 months	0.000	<b>1.365</b>	2.603
Over 12 months but within 24 months	0.000	<b>0.211</b>	2.603
Over 24 months but within 5 years	0.000	<b>0.347</b>	5.206
Over 5 years but within 10 years	0.000	<b>4.000</b>	7.809
Over 10 years	2.603	<b>4.488</b>	9.370
		<b>10.411</b>	