

Prudential Code Indicators and Borrowing Limits for 2019/20 to 2023/24

I Introduction

1.1 Through the Local Government Act 2003, the prudential framework for local authority capital investment was introduced in 2004/05. Essentially this meant that authorities could determine their own programmes and borrowing for capital investment without first obtaining consent from Central Government. However, any borrowing must be done with reference to the Prudential Code. The Code requires the setting (and revision) of prudential indicators to ensure that any borrowing undertaken is:

- Affordable
- Prudent and
- Sustainable.

2 The Prudential Indicators

Capital Expenditure

2.1 This represents the basic building block for the Indicators as it sets out the spending plans for the authority, split between the HRA and the General Fund, as required by the Code (Table 1).

Table 1 Projected Capital Expenditure

Capital Expenditure	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
HRA	46.807	72.515	145.934	119.724	72.040
General Fund	101.429	108.232	131.334	120.365	67.246
Total	148.236	180.747	277.269	240.089	139.286

Capital Financing

2.2 Table 2 sets out the resources to be applied in meeting the spending plans shown in Table 1 above.

Table 2 Capital Expenditure Financing

Capital Financing	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Supported Borrowing	0.197	-	-	-	-
Prudential Borrowing	53.417	31.600	90.341	102.049	35.026
Grants & Other Contributions	66.820	61.810	78.128	60.980	51.277
Capital Receipts	27.802	56.590	88.498	49.800	11.114
Total	148.236	150.000	256.967	212.828	97.417

- 2.3 Supported borrowing represents borrowing for which the Council receives revenue support from Central Government to meet the cost of the repayment.
- 2.4 Prudential borrowing is unsupported, but is financed from identified revenue streams.
- 2.5 As required by the Code, all borrowing is undertaken in accordance with the Council's integrated treasury management strategy.

Capital Financing Requirement

- 2.6 This represents the amount of capital spending that has not yet been, nor is planned to be, financed by capital receipts or other grants/contributions. It is, therefore, the measure of an authority's underlying need to borrow to finance both past and future capital expenditure (Table 3).

Table 3 Capital Financing Requirement

Capital Financing Requirement	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	
HRA	334.630	334.630	378.630	428.570	456.510
General Fund	380.542	404.653	442.650	525.112	521.817
Total	715.171	739.283	821.390	953.682	978.327

- 2.7 In accordance with best practice, Greenwich does not associate borrowing with particular items of expenditure. The Council has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Net Borrowing

- 2.8 In order to ensure that, over the medium term, borrowing will only be for a capital purpose, the Code required authorities to ensure that net borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year plus the estimates for the current and next two years.
- 2.9 The Chief Finance Officer confirms that no difficulties are envisaged in complying with this requirement, as evidenced in Table 4 below.

Table 4 – Golden Rule (Borrowing must be less than Capital Financing Requirement in the medium term)

Golden Rule	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Gross Borrowing	378,108	411,653	468,198	563,816	588,755
Capital Financing Requirement	715.172	739.283	821.390	953.682	978.327

Financing Costs

- 2.10 It is necessary to consider the affordability of the planned capital expenditure. Financing costs relate to principal and interest charges. The Code requires financing costs to be expressed as a % of the Net Revenue Stream for both the HRA and the General Fund, where the revenue stream is the amount to be met from Government Grants and tax / rent payers (Table 5).

Table 5 – Financing Ratios

Financing Ratios	2019/20	2020/21	2021/21	2022/23	2023/24
HRA	13.63%	13.34%	13.90%	15.73%	17.25%
General Fund	9.11%	10.43%	10.62%	10.43%	10.41%

- 2.11 The estimated future financing costs are factored into the authority's budget.

External Debt

- 2.12 Authorities are required to set an authorised limit for their external debt (Table 6). The recommended limits are set out in the table below and are based on current commitments and plans and accord with treasury management policy. They allow sufficient headroom for operational management (e.g. undertaking any debt restructuring).

Table 6 Authorised External Debt Limits

Authorised External Debt	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	m	£m
Borrowing	841,609	872,189	955,620	1,053,579	1,078,667
Other I-t liabilities	133,063	130,594	127,770	163,603	159,160
Authorised Limit	974,672	1,002,783	1,083,390	1,217,182	1,237,827

2.13 The authorised limit will represent the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

2.14 The Council also sets an operational boundary for external debt (Table 7). This is based on the same estimates as the authorised limit in Table 6 but without the additional headroom for unusual cash movements. It, therefore, equates to a prudent level for debt as projected by current estimates.

Table 7 Operational External Debt Limits

Operational External Debt	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Borrowing	602,109	628,689	713,620	810,079	839,167
Other I-t liabilities	113,063	110,594	107,770	143,603	139,160
Operational Boundary	715,172	739,283	821,390	953,682	978,327

2.15 Where other sources of capital financing are not available, the estimated notional impact of the capital programme on the council tax payer, with reference to a Band D property, would be £12 for every £1m of debt financing required.