

CABINET

Date of Meeting	Tuesday 23 rd July 2024
Report Subject	Prudential Indicators - Actuals 2023/24
Cabinet Member	Cabinet Member for Finance and Social Value
Report Author	Corporate Finance Manager
Type of Report	Operational

EXECUTIVE SUMMARY

Under the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), as updated in 2021, Councils are required to set a range of prudential indicators.

This report provides details of the Council's actual prudential indicators for the 2023/24 financial year compared with the estimates set for:-

- Prudential indicators for Prudence
- Prudential indicators for Affordability

RECOMMENDATIONS

1	That Members approve the prudential indicators within this report.
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REPORT DETAILS

1.00	EXPLAINING THE PRUDENTIAL INDICATORS
1.01	Background The Prudential Code has been developed by the Chartered Institute of Public Finance & Accountancy (CIPFA) as a professional code of practice to support local authorities in determining their programmes for capital investment in fixed assets. Local authorities are required by regulation to have regard to the Prudential Code when carrying out duties under Part 1 of the Local Government Act 2003.
1.02	The framework established by the Prudential Code is intended to support local strategic planning, local asset management planning and robust option appraisal. The objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable , and that treasury management decisions are taken in accordance with good professional practice.
1.03	The Prudential Code sets out the indicators that must be used, and the factors that must be considered in preparing them.
1.04	<p>Actual prudential indicators for 2023/24 have been calculated in respect of the following: -</p> <ul style="list-style-type: none">• Estimates of capital expenditure• Estimates of capital financing requirement• Gross debt and the capital financing requirement• Authorised limit• Estimates of net income from commercial and service investment to net revenue stream• Estimates of financing costs to net revenue stream <p>The Code does not specify how the Council should have regard to these factors, but instead concentrates on the means by which the Council demonstrates that the proposals are affordable, prudent and sustainable.</p>
1.05	<u>Prudential Indicators for Prudence</u> Estimates of Capital Expenditure The prudential indicators for capital expenditure are based on the Council's capital programme (that takes into account the Council's asset management and capital investment strategies). These are supplemented (for capital accounting purposes) by the value of finance leases held. The capital expenditure totals are the starting point for the calculation of the prudential

indicators and essentially provide the base financial data from which all other indicators follow.

1.06 Actual 2023/24 capital expenditure for the Council Fund and the Housing Revenue Account (HRA) is £69.807m as shown in Table 1 below. Actual expenditure for 2022/23, and the 2024/25 and 2025/26 estimates are included for information.

The increase in expenditure in 2023/24 mainly relates to the significant works at Theatr Clwyd and Croes Atti Residential Care Home.

Table 1

ESTIMATES OF CAPITAL EXPENDITURE				
	2022/23	2023/24	2024/25	2025/26
	Actual	Actual	Estimate*	Estimate
	£m	£m	£m	£m
Council Fund	30.016	46.277	28.626	29.737
Housing Revenue Account	24.997	23.530	29.498	24.664
Total	55.013	69.807	58.124	54.401

* £3.3m of capital expenditure in 2024/25 arises from a change in the accounting for leases and does not represent cash expenditure.

1.07 Detailed analysis and commentary for 2023/24 is provided in the Capital Programme Monitoring 2023/24 (Outturn) report elsewhere on this agenda.

1.08 Estimates of Capital Financing Requirement

The actual (average) capital financing requirement for 2023/24 is £352.855m as shown in Table 2 below. This is a measure of the Council's underlying need to finance capital expenditure by borrowing or other long term liabilities. This increases with new debt-financed capital expenditure and reduces with Minimum Revenue Provision (MRP) and capital receipts used to replace debt.

Table 2

ESTIMATES OF CAPITAL FINANCING REQUIREMENT				
	2022/23	2023/24	2024/25	2025/26
	Actual	Actual	Estimate*	Estimate
	£m	£m	£m	£m
Council Fund	218.939	219.706	318.425	325.603
Housing Revenue Account	133.623	133.149	139.369	141.665
Total	352.563	352.855	457.795	467.268

* £75m of the CFR increase in 2024/25 arises from a change in the accounting for leases.

1.09 The increase in estimated CFR between 2023/24 and 2024/25 in the main, relates to the change in accounting for leases under IFRS 16. This means that under the new rules, the lease of any assets must be recognised on the Council's balance sheet.

In addition to this, is estimated expenditure for the HRA and NEW Homes, Supported Borrowing, and Council Fund schemes including the Sustainable Communities for Schools programme, Theatr Clwyd and Croes Atti Residential Care Home.

1.10 **Gross Debt and the Capital Financing Requirement**

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Council has complied and expects to continue to comply with this requirement in the medium term as is shown below in Table 3.

Table 3

GROSS DEDT AND THE CAPITAL FINANCING REQUIREMENT				
	2022/23	2023/24	2024/25	2025/26
	Actuals	Actuals	Estimate	Estimate
Debt (Incl Leases)	297.951	334.743	403.781	419.685
Capital Financing Requirement	352.563	352.855	457.795	467.268

1.11 **Authorised Limit**

The Council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Actual external debt for 2023/24 was £335m. It is compared with the Authorised Limit for borrowing, which allows ‘headroom’ to absorb unforeseen unfunded expenditure. As can be seen, the actual position was well within the limit.

Table 4

AUTHORISED LIMIT FOR EXTERNAL DEBT		
	2023/24	31.03.24
	Limit	Actual
Operational Boundary - Total	403	335
Authorised Limit - Total	438	335

1.12	<p><u>Prudential Indicators for Affordability</u></p> <p>Ratio of Net Income from Commercial and Service Investments to Net Revenue Stream</p> <p>The Council's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated in Table 5 below.</p> <p>Table 5</p> <table border="1" data-bbox="300 510 1385 757"> <thead> <tr> <th colspan="5">RATIO OF NET INCOME FROM COMMERCIAL & SERVICE INVESTMENT TO NET REVENUE STREAM</th> </tr> <tr> <th></th> <th>2022/23</th> <th>2023/24</th> <th>2024/25</th> <th>2025/26</th> </tr> <tr> <th></th> <th>Actual</th> <th>Actual</th> <th>Estimate</th> <th>Estimate</th> </tr> </thead> <tbody> <tr> <td>Total net income from service and commercial investment</td> <td>1.672</td> <td>1.705</td> <td>1.652</td> <td>1.652</td> </tr> <tr> <td>Proportion of net revenue stream</td> <td>0.51%</td> <td>0.48%</td> <td>0.45%</td> <td>0.45%</td> </tr> </tbody> </table>	RATIO OF NET INCOME FROM COMMERCIAL & SERVICE INVESTMENT TO NET REVENUE STREAM						2022/23	2023/24	2024/25	2025/26		Actual	Actual	Estimate	Estimate	Total net income from service and commercial investment	1.672	1.705	1.652	1.652	Proportion of net revenue stream	0.51%	0.48%	0.45%	0.45%					
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1.13	<p>Ratio of Financing Costs to Net Revenue Stream</p> <p>The actual ratio of financing costs to net revenue stream for 2023/24 are shown in Table 6 below.</p> <p>Table 6</p> <table border="1" data-bbox="316 1003 1374 1301"> <thead> <tr> <th colspan="5">RATIO OF FINANCING COSTS TO NET REVENUE STREAM</th> </tr> <tr> <th></th> <th>2022/23</th> <th>2023/24</th> <th>2024/25</th> <th>2025/26</th> </tr> <tr> <th></th> <th>Actual</th> <th>Actual</th> <th>Estimate</th> <th>Estimate</th> </tr> <tr> <th></th> <th>%</th> <th>%</th> <th>%</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Council Fund</td> <td>3.9%</td> <td>3.8%</td> <td>4.1%</td> <td>4.2%</td> </tr> <tr> <td>Housing Revenue Account</td> <td>17.1%</td> <td>17.0%</td> <td>16.2%</td> <td>16.7%</td> </tr> </tbody> </table>	RATIO OF FINANCING COSTS TO NET REVENUE STREAM						2022/23	2023/24	2024/25	2025/26		Actual	Actual	Estimate	Estimate		%	%	%	%	Council Fund	3.9%	3.8%	4.1%	4.2%	Housing Revenue Account	17.1%	17.0%	16.2%	16.7%
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1.14	<p>As can be seen in Table 6 above, the actual ratios are lower than the previous year due to the Councils expected borrowing levels for both short and long term, being lower than anticipated during the year.</p>																														

2.00	RESOURCE IMPLICATIONS
2.01	There are no resource implications as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	No consultation is required or carried out.

4.00	RISK MANAGEMENT
4.01	Decisions made which involve the Council's assets and its Capital Programme often have very large and long term financial implications which

	carry a variety of risks. This report assesses the affordability, prudence and sustainability of the capital plans to manage those associated risks.
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5.00	APPENDICES
5.01	None.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Council Report on 24 th January 2023 - Capital Strategy including Prudential Indicators 2023/24 to 2025/26 Cabinet Report 18 th July 2023- Prudential Indicators Actuals 2022/23 Council Report on 6 th December 2023 - Capital Strategy including Prudential Indicators 2024/25 to 2026/27 Various Welsh Government papers

7.00	CONTACT OFFICER DETAILS
7.01	Contact Officer: Chris Taylor – Strategic Finance Manager Telephone: (01352) 703309 E-mail: christopher.taylor@flintshire.gov.uk

8.00	GLOSSARY OF TERMS
8.01	<p>Capital Expenditure - Expenditure on the acquisition of Non-current Assets or expenditure that extends the life or value of an existing asset</p> <p>Council Fund - The fund to which all the Council's revenue and capital expenditure is charged</p> <p>Financing - The process of allocating resources to meet the cost of capital expenditure, which can be done on a project, asset or whole programme basis. This contrasts with making the invoice payments relating to capital expenditure, which should be managed within the authority's overall treasury management policy</p> <p>Housing Revenue Account - The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged.</p> <p>Minimum Revenue Provision (MRP) – A charge made to the Council Fund to repay borrowing taken out for capital expenditure. Councils must determine their own prudent MRP charge each year, taking into consideration statutory guidance issued by the Welsh Government.</p> <p>Non-current Asset: A resource controlled (but not necessarily owned) by the Council, from which economic benefits or service potential are expected to flow to the Council for more than 12 months.</p>

Prudential Code - The code of practice drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA) to underpin the requirements of the Local Government Act 2003 in respect of an authority's duty to determine the affordability, prudence and sustainability of its capital investment needs

Prudential Indicators - Required by the **Prudential Code**, these take the form of limits, estimates or actual figures used to support the local decision making process for capital investment

Unsupported Prudential Borrowing - Borrowing administered under the **Prudential Code**, whereby authorities can set their own policies on acceptable levels and types of borrowing. The Prudential Framework allows authorities to take out loans in response to overall cash flow forecasts and other factors provided they can show that the borrowing is to meet planned capital expenditure in the current year or the next three years.