

PRUDENTIAL INDICATORS 2023/24

The Local Government Act 2003 requires the council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential 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. To demonstrate that the council has fulfilled these objectives, the Prudential Code sets out several indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported quarterly.

1. Capital Financing Requirement (CFR)

The cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt.

	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26
	Actual	Actual	Forecast	Forecast
General Fund services	342.57	345.36	469.27	471.16
Council housing (HRA)	174.88	182.05	198.25	216.77
TOTAL CFR	517.45	527.41	667.52	687.93

2. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium-term debt will only be for a capital purpose, the council should ensure that debt (including PFI, leases and HCC Transferred debt) does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26
	Actual	Actual	Forecast	Forecast
Capital Financing Requirement	517.45	527.41	667.52	687.93
Debt (incl. PFI & leases)	360.29	366.05	509.62	527.15
Under / (Over) Borrowed	157.16	161.36	157.90	160.78

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement.

The table below details our estimated and actual debt position at the 31 March 2024, this shows that we borrowed £54.7M less than expected, £42.7M on General Fund and £12M on HRA. Further details can be seen in the General Fund and HRA capital Outturn reports being reported to Council in July.

Gross Debt	31/03/2023 Actual	31/03/2024 Forecast Revised Strategy	31/03/2024 Actual	Movement since last reported position
	£M	£M	£M	£M
Borrowing (Long Term GF)	125.82	159.29	116.59	(42.70)
Borrowing (Long Term HRA)	172.37	188.01	176.01	(12.00)
Borrowing (Short Term)	5.00	20.00	20.00	0.00
Total Borrowing	303.19	367.30	312.60	(54.70)
Finance leases and Private Finance Initiatives	44.37	41.08	37.11	(3.97)
Transferred Debt	12.73	12.37	12.01	(0.36)
Total Other Debt	57.10	53.45	49.12	(4.33)
Total Debt	360.29	420.75	361.72	(59.03)

3. Debt and the Authorised Limit and Operational Boundary

The Operational Boundary for External Debt is based on the council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the estimates of capital expenditure, the CFR and cash flow requirements and is a key management tool for monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the overall debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2023/24; borrowing at its peak was £316.10M plus other deferred liabilities of £57.11M.

4. Net Income from Commercial Investment to Net Revenue Stream (NRS)

The income from commercial investments as a proportion of its net revenue stream has been and is expected to be as indicated below. This shows that the council is not over dependent on income from investments.

Ratio of Net Income from Commercial Investment to NRS	2022/23 Actual	2023/24 Actual	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
	£M	£M	£M	£M	£M	£M
Total net income from commercial investments	6.48	6.84	7.03	7.28	7.28	7.28
Net Revenue Stream GF	193.17	203.73	239.17	290.03	305.84	317.76
Proportion of NRS	3.36%	3.36%	2.94%	2.51%	2.38%	2.29%

5. Proportion of Financing Costs to Net Revenue Stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue.

The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. The upper limit for this ratio is set at 15% and this will need to increase going

forward following the award of EFS. The amount to be taken as borrowing is currently unknown.

The increase in the actual for general fund services over the forecast figures is due to the Social Care Grant being reclassified as a ring-fenced grant and the budget and actuals are now shown within directorate income and has therefore reduced the net revenue stream.

Ratio of Financing Costs to Net Revenue Stream	2022/23 Actual	2023/24 Actual	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2026/27 Forecast
	%		%	%	%	%
General Fund	9.58	10.29	12.03	12.63	11.82	11.84
HRA	6.81	7.55	7.50	8.33	8.92	9.15
Total	8.79	9.55	10.84	11.63	11.15	11.23

This indicator is not so relevant for the HRA, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

6. Liability Benchmark

This indicator compares the actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £48M required to manage day-to-day cash flow.

	31-Mar-23 Actual £M	31-Mar-24 Actual £M	31-Mar-25 Forecast £M	31-Mar-26 Forecast £M	31-Mar-27 Forecast £M
Loans CFR	460.34	473.96	618.40	642.66	673.43
Less Balance sheet Resources	(211.70)	(197.23)	(193.76)	(196.62)	(201.92)
Plus Minimum Investments	48.01	48.00	48.00	48.00	48.00
Liability Benchmark	296.65	324.73	472.64	494.04	519.51
Less Committed External Borrowing	(303.20)	(312.59)	(281.99)	(271.39)	(260.79)
Minimum Borrowing Need	(6.55)	12.14	190.65	222.65	258.72
Less HRA Borrowing Liability	(0.71)	(4.24)	(28.58)	(50.99)	(66.68)
GF Minimum Borrowing	(7.26)	7.90	162.07	171.66	192.04

7. Maturity Structure of Borrowing

This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit %	Lower Limit %	30.12.24 Actual £M	30.12.24 Actual %	Complied?
Under 12 months	0	50	10.60	4	Yes
12 months and within 24 months	0	50	10.60	4	Yes
24 months and within 5 years	0	50	31.80	11	Yes
5 years and within 10 years	0	55	60.50	21	Yes
10 years and within 20 years	0	60	30.25	10	Yes
20 years and within 40 years	0	60	144.84	49	Yes
Over 40 years	0	75	0.00	0	Yes
Uncertain Date**	0	5	4.00	1	Yes
Total			292.59	100	

8. Long-term Treasury Management Investments

This indicator allows the Council to manage the risk inherent in investments longer than a year and the limit is set at £30M. The actual principal sum invested in 2023/24 is £28.03M and consists of £27M in CCLA property funds (see Appendix 2 paragraphs 21 - 24 for more details) and £1M EIB bond which will mature on 15th April 2025.

9. Security

The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2023/24 Target	Actual	Complied?
Portfolio average credit Rating	A	A+	Yes

10. Liquidity

The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing or can borrow without giving prior notice.

An average balance of £31.48M of liquid cash was maintained during 2023/24, but this reduced to £7.83M at the end of due to a number of large, unexpected payments in the final Creditors run, which we had notice of 3 days before year end. Although we could have borrowed from the market, interest rates were reflecting the shortage of cash, at about 7%, so it decided to defer new borrowing till after 1st April when interest rates returned to around base rate, as we had sufficient cash to meet our cash commitments.

	2023/24 Target	Actual	Complied?
Total cash available within 3 months	£20M	£7.83M	See above
Total sum borrowed in past 6 months without prior notice		£20M	Yes

11. Interest Rate Exposures

This is a voluntary indicator which is set to control the exposure to interest rate risk. Bank Rate rose by 1.00% from 4.25% on 1st April to 5.25% by 31st March 2024.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

For context, the changes in interest rates during the year were:

	<u>31/03/23</u>	<u>30/12/23</u>	<u>31/03/24</u>	<u>Yearly Increase</u>
Bank Rate	4.25%	5.25%	5.25%	1.00%
1-year PWLB certainty rate, maturity loans	4.78%	5.13%	5.36%	0.58%
5-year PWLB certainty rate, maturity loans	4.31%	4.19%	4.68%	0.37%
10-year PWLB certainty rate, maturity loans	4.33%	5.37%	4.74%	0.41%
20-year PWLB certainty rate, maturity loans	4.70%	4.90%	5.18%	0.48%
50-year PWLB certainty rate, maturity loans	4.41%	4.67%	5.01%	0.60%

New long term loans were limited during 2023/24 in preference to short term loans as it is expected that long term rates will fall during 2024/25. New long-term borrowing has been budgeted at 5.00% and the new long term loan was secured at 4.11%, short term borrowing ranged from 5.75% to 5.85% reflecting current market conditions. The benchmark was based on a 1% increase of forecast borrowing as of 31st March 2024. All taken during 2023/24 were within the 1% risk factor.

Interest rate risk indicator	2023/24 Benchmark £M
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	1.0M
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	(1.02M)

12. Summary

As indicated in this report the Council has operated within the limits set by the Prudential Indicators.