

## CABINET

<b>Date of Meeting</b>	Tuesday 18 <sup>th</sup> July 2023
<b>Report Subject</b>	Prudential Indicators - Actuals 2022/23
<b>Cabinet Member</b>	Cabinet Member for Finance, Inclusion, Resilient Communities including Social Value and Procurement
<b>Report Author</b>	Corporate Finance Manager
<b>Type of Report</b>	Operational

### EXECUTIVE SUMMARY

Under the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), as updated in 2017, Councils are required to set a range of prudential indicators.

This report provides details of the Council's actual prudential indicators for the 2022/23 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**

<b>1.00</b>	<b>EXPLAINING THE PRUDENTIAL INDICATORS</b>
1.01	<p><b>Background</b></p> <p>The Prudential Code has been developed by the Chartered Institute of Public Finance &amp; 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.</p>
1.02	<p>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 <b>affordable, prudent and sustainable</b>, and that treasury management decisions are taken in accordance with good professional practice.</p>
1.03	<p>The Prudential Code sets out the indicators that must be used, and the factors that must be considered in preparing them.</p>
1.04	<p>Actual prudential indicators for 2022/23 have been calculated in respect of the following: -</p> <ul style="list-style-type: none"> <li>• Estimates of capital expenditure</li> <li>• Estimates of capital financing requirement</li> <li>• Authorised limit</li> <li>• Estimates of financing costs to net revenue stream</li> </ul> <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>
	<p><b><u>Prudential Indicators for Prudence</u></b></p> <p><b>Estimates of Capital Expenditure</b></p>
1.05	<p>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.</p>
1.06	<p>Actual 2022/23 capital expenditure for the Council Fund and the Housing Revenue Account (HRA) is £55.013m as shown in Table 1 below. Actual</p>

expenditure for 2021/22, and the 2022/23 and 2023/24 estimates are included for information.

**Table 1**

<b>ESTIMATES OF CAPITAL EXPENDITURE</b>				
	<b>2021/22</b>	<b>2022/23</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Council Fund	44.052	37.469	30.016	33.041
Housing Revenue Account	23.855	25.074	24.997	29.457
<b>Total</b>	<b>67.907</b>	<b>62.543</b>	<b>55.013</b>	<b>62.498</b>

The decrease in expenditure in 2022/23 is predominantly due to agreed carry forwards as a result of re-profiling capital schemes.

1.07 Detailed analysis and commentary for 2022/23 is provided in the Capital Programme Monitoring 2022/23 (Outturn) report elsewhere on this agenda.

**Estimates of Capital Financing Requirement**

1.08 The actual (average) capital financing requirement for 2022/23 is £352.563m 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.

**Table 2**

<b>ESTIMATES OF CAPITAL FINANCING REQUIREMENT</b>				
	<b>2021/22</b>	<b>2022/23</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Council Fund	220.210	227.096	218.939	240.875
Housing Revenue Account	131.928	134.501	133.623	142.573
<b>Total</b>	<b>352.138</b>	<b>361.597</b>	<b>352.563</b>	<b>383.448</b>

**Authorised Limit**

1.09 Actual external debt for 2022/23 was £312.422m, with separately identified limits for borrowing and other long-term liabilities such as finance leases, as shown in Table 3 below. 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. That is to say the totals in Table 2 are lower than the totals in Table 3.

**Table 3**

<b>AUTHORISED LIMIT FOR EXTERNAL DEBT</b>				
	<b>2021/22</b>	<b>2022/23</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
All Borrowing	304.670	411.000	308.284	433.000
Other Long Term Liabilities	4.140	35.000	4.138	35.000
<b>Total</b>	<b>308.810</b>	<b>446.000</b>	<b>312.422</b>	<b>468.000</b>

**Prudential Indicators for Affordability****Ratio of Financing Costs to Net Revenue Stream**

1.10 The actual ratio of financing costs to net revenue stream for 2022/23 are shown in Table 4 below.

**Table 4**

<b>RATIO OF FINANCING COSTS TO NET REVENUE STREAM</b>				
	<b>2021/22</b>	<b>2022/23</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>	<b>Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Council Fund	4.4%	4.4%	3.6%	4.1%
Housing Revenue Account	17.5%	17.9%	17.2%	17.6%

1.11 As can be seen in Table 4 above, the actual ratios are lower than the estimated ratios for 2022/23 due to the Councils expected borrowing levels for both short and long term, being lower than anticipated during the year.

**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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<b>5.00</b>	<b>APPENDICES</b>
5.01	None.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Council Report on 7th December 2021 - Capital Strategy including Prudential Indicators 2022/23 to 2024/25 Cabinet Report 12th July 2022- Prudential Indicators Actuals 2021/22 Council Report on 24th January 2023 - Capital Strategy including Prudential Indicators 2023/24 to 2025/26 Various Welsh Government papers

<b>7.00</b>	<b>CONTACT OFFICER DETAILS</b>
7.01	<b>Contact Officer:</b> Chris Taylor – Strategic Finance Manager <b>Telephone:</b> (01352) 703309 <b>E-mail:</b> <a href="mailto:christopher.taylor@flintshire.gov.uk">christopher.taylor@flintshire.gov.uk</a>

<b>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<p><b>Capital Expenditure</b> - Expenditure on the acquisition of <b>Non-current Assets</b> or expenditure that extends the life or value of an existing asset</p> <p><b>Council Fund</b> - The fund to which all the Council's revenue and capital expenditure is charged</p> <p><b>Financing</b> - 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><b>Housing Revenue Account</b> - The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged.</p> <p><b>Minimum Revenue Provision (MRP)</b> – A charge made to the <b>Council Fund</b> to repay borrowing taken out for <b>capital expenditure</b>. Councils must determine their own prudent MRP charge each year, taking into consideration statutory guidance issued by the Welsh Government.</p> <p><b>Non-current Asset:</b> 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.