Prudential Indicators Q2 2023/24

The Prudential Code requires the Authority to ensure that capital expenditure, investment and borrowing decisions are prudent, sustainable and affordable. There are a number of prudential indicators that must be set prior to the start of each financial year, which is done as part of the Capital and Investment Strategy, which is an appendix to the February budget setting report.

The Prudential Code also then requires the Chief Financial Officer to establish procedures to monitor and report performance against these performance indicators. From 2023/24 this reporting must be on a quarterly basis and the intention is to report this information to the Authority alongside the scheduled budget updates in October (Q1) and December (Q2) of 2023, and February (Q3) and June (Q4) of 2024.

1. Capital programme forecast expenditure (Prudential Indicator 1)

1.1 The most significant elements of the Authority's capital programme relate to the vehicle replacement programme and investment in the estate in addition to investment in carbon reduction and electric vehicle (EV) charging.

1.2 Table 1 shows the forecast capital expenditure flows relating to the approved capital programme.

Table 1: Capital programme forecast expenditure flows (Prudential Indicator 1)

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	Future years Estimate	Total
	£'000	£'000	£'000	£'000	£'000	£'000
February 2023 forecast	18,705	35,660	22,359	6,845	2,854	86,423
Latest forecast	13,144	36,972	20,421	12,136	3,164	85,837

2. Ensuring Borrowing is only for capital purposes (Prudential Indicator 2)

2.1 The Capital Financing Requirement (CFR) is the cumulative outstanding amount of debt finance. The CFR increases with new debt-funded capital expenditure and reduces through annual Minimum Revenue Provision (MRP) charges to the revenue budget and any capital receipts or other contributions used to replace debt.

2.2 The Prudential Code states that a local authority must ensure that gross debt is only for capital purposes over the medium term, which means that gross external debt must not exceed the total of the CFR from the preceding year plus the estimates of any additional CFR for the current and next two financial years, except in the short term. This is a key indicator of prudence.

2.3 Actual figures for the CFR and debt at 31 March 2023 and forecasts for the next three years are shown in Table 2 and confirm that the Authority expects to remain compliant with the requirements linked to this indicator.

2.4 The CFR is expected to rise as the Authority progresses with the delivery of the approved capital programme, which includes the approval for up to £37.45m of prudential borrowing. External debt will increase as the Authority takes on new borrowing to fund this expenditure, resulting in additional capital financing costs to the revenue budget. The CFR and associated borrowing are now expected to rise less quickly than previously forecast in line with the updated capital expenditure forecasts in Table 1.

Table 2: Ensuring Borrowing is Only for Capital Purposes (Prudential Indicator 2)

	31/03/23 Actual £M	31/03/24 Estimate £M	31/03/25 Estimate £M	31/03/26 Estimate £M
CFR	**15.0**	**32.1**	**39.2**	**44.8**
Debt				
Borrowing	5.9	17.5	32.2	39.8
Leases	0.0	0.0	0.4	0.4
Total Debt	**5.9**	**17.5**	**32.6**	**40.2**

3. Affordable borrowing limits (Prudential Indicators 3 and 4)

3.1 The Authority is legally obliged to set an Authorised Limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower 'Operational Boundary' is also set as a warning level should debt approach the limit. The Operational Boundary is based on the Authority's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the CFR and cash flow requirements, and is a key management tool for in-year monitoring.

Table 3: Affordable Borrowing Limits (Prudential Indicators 3 and 4)

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Authorised limit	32.3	51.0	60.1	60.3
Operational boundary	27.1	45.8	54.9	55.1
Estimated max borrowing (incl leases)	6.7	17.5	32.6	40.2
Compliance with authorised limit?	Yes	Yes	Yes	Yes

4. Ratio of financing costs to net revenue stream (Prudential Indicator 5)

4.1 Capital expenditure is not charged directly to the revenue budget, however the interest payable on loans and the annual MRP are charged to revenue, as are other financing costs such as interest payable under finance leases and amounts relating to the early settlement of borrowing. In aggregate these costs are known as financing costs. The impact of these costs needs to be well understood prior to making capital investment decisions and then closely monitored.

4.2 Table 4 shows the proportion of the Authority's net revenue stream (Council Tax, business rates and general government grants) required to meet financing costs. This is an indicator of the affordability of the Authority's capital programme. The forward estimates are based on a prudent assessment of the timings of expenditure funded from borrowing and the interest rates to be paid on that borrowing. There is significant uncertainty about future interest rates and this is being carefully monitored by the Chief Financial Officer with support from the Authority's treasury management advisors, Arlingclose.

Table 4: Ratio of Financing Costs to Net Revenue Stream (Prudential Indicator 5)

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio - budget Feb 2023	0.9%	2.9%	3.5%	4.0%
Ratio – current forecast	0.8%	2.7%	3.2%	3.6%

5. Net income from commercial and service investments to net revenue stream (Prudential Indicator 6)

5.1 The update to the Prudential Code in 2021 introduced a new prudential indicator intended to show how reliant a local authority is on income from commercial and service investments, and therefore how exposed the authority is to the loss of this income.

Table 5: Net Income from Commercial and Service Investments to Net Revenue Stream (Prudential Indicator 6)

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio - budget Feb 2023	0.0%	0.0%	0.0%	0.0%
Ratio – current forecast	0.1%	0.1%	0.1%	0.1%

5.2 The Authority has two discrete buildings at fire station sites classified as investment properties on its Balance Sheet. These buildings are at the Winchester and Redbridge fire stations and have excess capacity not needed in the operation of the Fire and Rescue Service. This excess capacity has been rented out to other public sector organisations. This benefits the partners in providing space at an appropriate site, whilst also generating additional income for the Authority to benefit the revenue budget. Although classed as investment properties on the Balance Sheet, using surplus assets in this way is a very different situation from a risk management point of view from the Authority actively going out to buy and/or develop commercial property for investment purposes. The income from these rental agreements is a very small proportion of the overall financing of the Authority.