PRUDENTIAL INDICATORS FOR 2024/25

Introduction

Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code provides a framework to ensure that the capital investment plans of the Council are affordable, prudent and sustainable.

The Prudential Indicators recommended in the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparative performance indicators and should be considered in parallel with the Treasury Management Indicators required by the CIPFA *Code of Practice on Treasury Management in the Public Services*.

The Prudential Indicators provide a broad framework to be considered alongside robust forecasting procedures embedded into the budget process of the Council. Forecasts should be regularly updated as the capital programme develops, and proposals should be considered in terms of their impact on the overall corporate position, ensuring that prudence and affordability are taken into account.

Prudential Indicators in relation to previous years' actuals are taken directly from information in the Council's Statement of Accounts. The Prudential Indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. The forward-looking Prudential Indicators include indicative figures for years two and three to allow decisions to be made with an appreciation of future trends. It is recognised that these will be subject to change but exist to promote a move away from the focus on annual decision making towards longer-term strategies. Procedures are in place to monitor performance against the forward-looking indicators in order to highlight significant deviations from expectations.

Prudential Indicators for prudence

Estimates of Capital Expenditure in £ millions

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Portfolio spending	15.6	36.5	71.0	56.7	19.8
Earmarked schemes	-	3.0	3.2	1.5	1.5
Contingent schemes	-	2.2	1.0	1.0	1.0
Total Capital Programme	**15.6**	**41.7**	**75.2**	**59.2**	**22.3**
Estimate of IFRS16 Adjustment *	-	-	45.0	-	-
Total Capital Programme	**15.6**	**41.7**	**120.2**	**59.2**	**22.3**

* £45.0 million of capital expenditure in 2024/25 arises from a change in the accounting for leases and does not represent cash expenditure.

Total capital spend in later years may be higher than currently forecast – however only spend funded from borrowing will impact on the Council's CFR.

Estimates of Capital Financing Requirement in £ millions

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
General Fund services	197.5	200.4	214.1	225.2	230.5
Debt managed by LCC	14.8	14.5	14.3	14.1	13.9
PFI projects	68.9	68.7	68.5	68.2	67.9
Total CFR (Excluding Leases)	**281.2**	**283.6**	**296.9**	**307.5**	**312.3**
Estimate of Leases CFR *	-	-	**45.0**	**45.0**	**45.0**
Total CFR (Including Leases)	**281.2**	**283.6**	**341.9**	**352.5**	**357.3**

* £45 million of the Capital Financing Requirement increase in 2024/25 arises from a change in the accounting for leases and does not represent cash expenditure.

The Council must make reasonable estimates of the total Capital Financing Requirement (CFR) – that is an estimate of the debt outstanding in respect of capital expenditure, including LCC debt and that relating to the recognition of assets acquired under PFI projects, at the end of each of the next three financial years. The LCC element relates to debt still managed by the County Council in respect of services transferred when Blackburn with Darwen became a Unitary Authority. The Other Long Term Liabilities in relation to PFI schemes are in respect of schools built under the Building Schools for the Future (BSF) programme.

Authorised Limit and Operational Boundary for External Debt in £ millions

	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m
Authorised Limit – Borrowing	227.7	233.6	244.6	249.9
Authorised Limit – PFI, Leases and LCC Debt *	84.1	128.3	127.9	127.4
Authorised Limit – Total External Debt	311.8	361.9	372.5	377.3
Operational Boundary – Borrowing	217.7	223.6	234.6	239.9
Operational Boundary – PFI, Leases and LCC Debt *	84.1	128.3	127.9	127.4
Operational Boundary – Total External Debt	301.8	351.9	362.5	367.3

* From 2024/25 onwards the limits have been increased to allow for additional liabilities which will arise from a change in the accounting for leases.

Gross Debt and the Capital Financing Requirement in £ millions

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Debt (including PFI, Leases and LCC debt)	208.2	196.8	235.2	245.2	256.3
Capital Financing Requirement	281.2	283.6	341.9	352.5	357.3

* £45 million of the Capital Financing Requirement and Debt increase in 2024/25 arises from a change in the accounting for leases.

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the table above, the Council expects to comply with this guidance over the medium term.

Prudential Indicators for affordability

Estimates of the Incremental Impact of Capital Investment Decisions on the Council Tax

The incremental cost of any additional, unsupported borrowing required for new schemes to be added to the programme is not expected to be material on the 2024/25 budgets and as such has will have negligible impact on Council Tax. All new proposals are subject to the Council's governance and financial regulations and are reported accordingly, identifying the revenue costs associated with such schemes as applicable.

Estimates of Proportion of Net Income from Commercial and Service Investments to Net Revenue Stream

Historically, the Council has invested in commercial property, primarily for regeneration purposes, but has also received financial gain in the form of rental income.

The Indicator below demonstrates the financial exposure of the authority to the loss of such income.

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Net income from Commercial and Service Investments (£m)	1.1	0.8	0.8	0.8	0.9
Proportion of Net Revenue Stream	0.7%	0.4%	0.4%	0.4%	0.4%

Appendix 4

Estimates of Proportion of Financing Costs to Net Revenue Stream

Although capital expenditure is not charged directly to the revenue budget, there are revenue budget implications i.e. interest payable on loans and MRP repayments. The net annual charge is known as financing costs i.e. the cost of financing capital expenditure.

The Council must estimate the proportion of the revenue budget taken up in financing costs, by comparing financing costs to the net revenue stream i.e. the amount available to fund the Council's revenue budget from Council Tax, business rates and general government grants.

The Indicator below is calculated on the basis that all of the Capital Programme, including Contingent elements, is delivered and assumes no reduction in Settlement Funding Assessment (SFA) when projecting the future Net Revenue Stream beyond 2024/25. However, given the Council has been provided with no indication of future funding beyond the next financial year, it is inevitable that these estimates will change.

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Financing Costs (£m)	16.6	13.7	18.0	20.8	20.8
Proportion of Net Revenue Stream	10.3%	7.7%	9.4%	10.2%	9.8%

£2.5 million of the increase in financing costs in 2024/25 and future years arises from a change in the accounting for leases and does not represent additional cost to the authority.

As the table indicates, Financing Costs as a proportion of the Net Revenue Stream remains broadly constant at c10% over the medium term.

The Council's capital financing costs in respect of BSF PFI schemes – both MRP and financing charges (interest elements) – are included, but this cost is largely covered by central government grant and does not put a pressure on Council resources.

It remains the case that a significant proportion of the net revenue budget is taken up in supporting the element of the Capital Programme that is funded by borrowing (also referred to as the Main Programme).