

<b>Report to:</b>	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)	<b>Date of Meeting:</b>	Tuesday 8 February 2022
<b>Subject:</b>	Prudential Indicators 2022/23		
<b>Report of:</b>	Executive Director of Corporate Resources and Customer Services	<b>Wards Affected:</b>	All Wards
<b>Portfolio:</b>	Cabinet Member - Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

The CIPFA Prudential Code for Capital Finance in Local Authorities was introduced following the Local Government Act 2003. It details a number of measures / limits / parameters (Prudential Indicators) that are required to be set each financial year. The approval of these limits will provide a benchmark to measure actual performance against, to help ensure that the Council complies with relevant legislation, is acting prudently and that its capital expenditure proposals are affordable.

### Recommendation(s):

Overview and Scrutiny Committee is recommended to:

- 1) Consider the Prudential Indicators (as detailed in the report) as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
- 2) Note that the relevant Prudential Indicators will be revised as required and that any changes will be brought to Cabinet and then to Council for approval;
- 3) Note that the estimates of capital expenditure may change as grant allocations are received; and
- 4) Provide any comments to Council which will be considered as part of the formal approval of the Prudential Indicators for 2022/23.

### Reasons for the Recommendation(s):

To enable the Council to effectively manage its Capital Financing activities and comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year.

**Alternative Options Considered and Rejected:**

None

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

n/a

**(B) Capital Costs**

n/a

**Implications of the Proposals:**

<b>Resource Implications (Financial, IT, Staffing and Assets):</b> The prudential indicators will allow for capital spending obligations to be managed within the budget for 2022/23.	
<b>Legal Implications:</b> None.	
<b>Equality Implications:</b> None.	
<b>Climate Emergency Implications:</b>  The recommendations within this report will	
Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N
The setting of the Prudential Indicators will have no direct impact on the Council's Climate Emergency.	

**Contribution to the Council's Core Purpose:**

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: n/a
Facilitate sustainable economic prosperity: Support Capital Investment by measuring the impact and affordability of decisions over the medium-term financial planning horizon.

Greater income for social investment: n/a
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Cleaner Greener: n/a
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## **What consultations have taken place on the proposals and when?**

### **(A) Internal Consultations**

The Executive Director for Corporate Resources and Customer Services (FD6689/22) is the author of the report.

The Chief Legal and Democratic Officer (LD4889/22) has been consulted and any comments have been incorporated into the report.

### **(B) External Consultations**

None.

## **Implementation Date for the Decision**

With immediate effect.

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## **Appendices:**

Appendix A – Summary of Prudential Indicators.

## **Background Papers:**

There are no background papers available for inspection.

## **1. Introduction**

- 1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. It details a number of measures/limits/parameters (Prudential Indicators) that are required to be set each financial year. The approval of these limits will ensure that the Council complies with the relevant legislation, is acting prudently and that its capital expenditure proposals are affordable.
- 1.2. The Council has adopted CIPFA's 2017 Prudential Code for Capital Finance in Local Authorities. CIPFA published a revised Code of Practice on Treasury Management and a revised Prudential Code for Capital Finance in Local Authorities in December 2021. The new codes take effect immediately, except that authorities may defer introducing revised reporting requirements until 2023/24. Sefton will therefore adopt the revised reporting requirements when setting its prudential indicators for 2023/24 to allow time for proper scrutiny and consultation with treasury management advisers to take place.
- 1.3. The Council is required to approve Prudential Indicators for the following items:
- (i) Capital Expenditure (Section 2);
  - (ii) Financing Costs/Net Revenue Stream (Section 3);
  - (iii) Capital Financing Requirement (Section 4);
  - (iv) External Debt (Section 5-8);
  - (v) Treasury Management Indicators (Section 9).
- 1.4. The above indicators are presented in the following paragraphs and summarised at Appendix A.

## **2. Prudential Indicator – Capital Expenditure**

- 2.1. This indicator details the overall total planned capital expenditure of the Council and therefore reflects the Council's Capital Programme.
- 2.2. The actual capital expenditure that was incurred in 2020/21 is shown below and the estimated current and future years capital programme are recommended for approval:

<b>Capital Expenditure</b>					
	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
TOTAL	26.203	43.542	47.015	23.311	20.566

- 2.3. The estimated levels of expenditure above represent those elements approved by Council and which have been included within the Capital Programme.
- 2.4. The increase in capital expenditure during 2021/22 and 2022/23 represents additional allocations added as part of the traditional capital programme and new schemes included in the Council's Strategic Investment Programme. Due to the

size and complexity of the Council’s capital programme, some schemes may also be rescheduled from previous years and thus increase the overall estimate of expenditure. The majority of the additional expenditure will be funded from external grants, contributions and capital receipts. This may change as grant allocations and additional capital schemes are made known to the Council and are approved for inclusion within the Capital Programme.

- 2.5. There are several Town Deal proposals currently being progressed that may impact upon the estimates of capital expenditure presented in this report, the most significant of which being a new Marine Lake Events Centre and adjacent water and light show in Southport. In June 2021 Cabinet agreed to progress with plans for this project. The Town Deal Board have allocated £33.3m of capital funding to the to the scheme and The Liverpool City Region Combined Authority supports the principle of allocating up to £20m to the events centre subject to a satisfactory business case being approved. The project is currently in the pre-development phase but as this and other Town Deal projects are developed to final business case and the full amount of funding is drawn down, revised estimates of capital expenditure (and any other prudential indicators that may be affected) will to be presented to Cabinet and Council for approval.

**3. Prudential Indicator – Financing Costs/Net Revenue Stream**

- 3.1. This indicator measures the total capital financing costs of capital expenditure as a proportion of the total level of income from Government Grants, local Council Tax and Business Rates payers. This measure demonstrates the affordability of capital plans by comparing the cost of borrowing undertaken to fund the capital programme (in previous years and for planned expenditure in future years) to the net revenue available to the Council in each of those years.
- 3.2. Actual figures for 2020/21 and estimates of the ratio for 2021/22 and future years are:

Financing Costs / Net Revenue Stream					
	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
Ratio	4.2%	4.1%	3.8%	3.6%	3.4%

- 3.3. The estimates of financing costs include current commitments and proposals contained in the capital programme and new borrowing requirements in the Capital Programme. These borrowing requirements include projects and schemes that generate savings and income streams to the Council that support repayment schedules.
- 3.4. The higher level of financing costs during 2020/21 and 2021/22 is the result of an upfront payment to Merseyside Pension Fund (£43.623m) which is funded by borrowing.

- 3.5. The Merseyside Pension Fund offered the Council the opportunity to prepay (in April 2020) a proportion of the total expected contributions for the three-year valuation period at a discount. The Council has previously taken a similar opportunity at the start of the last two valuation periods. Officers discussed the proposal with both the Merseyside Pension Fund and the Council's external auditors.
- 3.6. The borrowing is being repaid across the three years of the valuation period, funded by the Council making significantly reduced payments to the Merseyside Pension Fund each month during the period. After allowing for these borrowing costs, as stated, this will generate a significant net saving to the Council.

#### **4. Prudential Indicator – Capital Finance Requirement**

- 4.3. The Capital Financing Requirement (CFR) indicator reflects the Authority's underlying need to borrow for a capital purpose. This is based on historic capital financing decisions and a calculation of future years planned capital expenditure requirements.
- 4.4. Actual 2020/21 and estimated year-end Capital Financing Requirements for current and future years are set out in the table below:

<b>Capital Financing Requirement</b>					
	31/03/21 £m Actual	31/03/22 £m Estimate	31/03/23 £m Estimate	31/03/24 £m Estimate	31/03/25 £m Estimate
CFR	230.150	233.590	235.437	232.448	229.218

#### **5. Prudential Indicator – Borrowing Limits**

- 5.1. External borrowing undertaken by the Council arises as a consequence of all the financial transactions of the Authority, both capital and revenue, and not simply those arising from capital spending. The Council manages its Treasury Management position in terms of its external borrowings and investments in accordance with its approved Treasury Management Strategy and Policy Statements. These documents are presented for approval elsewhere on this agenda.
- 5.2. The Operational Boundary
- 5.2.1. The Operational Boundary sets a limit on the total amount of long-term borrowing that the Council can undertake. It reflects the Authority's current commitments, existing capital expenditure plans, and is consistent with approved Treasury Management Policy Statement and practices. The figures are based on prudent estimates.
- 5.2.2. In respect of the Operational Boundary, it is recommended that the Council approves the following limits for the next three financial years. These limits separately identify borrowing from other long-term liabilities arising from finance

leases, PFIs and the transferred debt from the now defunct Merseyside Residuary Body.

<b>Operational Boundary</b>				
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Borrowing	200.000	198.000	192.000	196,000
Other Long-Term Liabilities	8.000	7.000	6.000	5,000
<b>TOTAL</b>	<b>208.000</b>	<b>205.000</b>	<b>198.000</b>	<b>201.000</b>

5.2.3. The Council is asked to approve these limits and to delegate authority to the Executive Director for Corporate Resources and Customer Services in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the movement between the separately agreed limits for borrowing and other long-term liabilities within the total limit for any individual year.

### 5.3. The Authorised Limit

5.3.1. The Authorised Limit sets a boundary on the amount of borrowing (both short and long-term) that the Council undertakes. It uses the Operational Boundary as its base but also includes additional headroom to allow, for example, for exceptional cash movements. Under the terms of section 3 (1) of the Local Government Act 2003, the Council is legally obliged to determine and review how much it can afford to borrow i.e. the Authorised Limit. The Authorised Limit determined for 2022/23 will be the statutory limit determined under section 3 (1).

5.3.2. The Council is asked to delegate authority to the Executive Director for Corporate Resources and Customer Services in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the movement between the separately agreed limits for borrowing and other long-term liabilities within the total limit for any individual year. Any such changes will be presented to Cabinet and Council for approval at the next available meeting. The Authorised Limit for external debt is as follows:

<b>Authorised Limit</b>				
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Borrowing	215.000	213.000	207.000	211.000
Other Long Term Liabilities	8.000	7.000	6.000	5.000
<b>TOTAL</b>	<b>223.000</b>	<b>220.000</b>	<b>213.000</b>	<b>216.000</b>

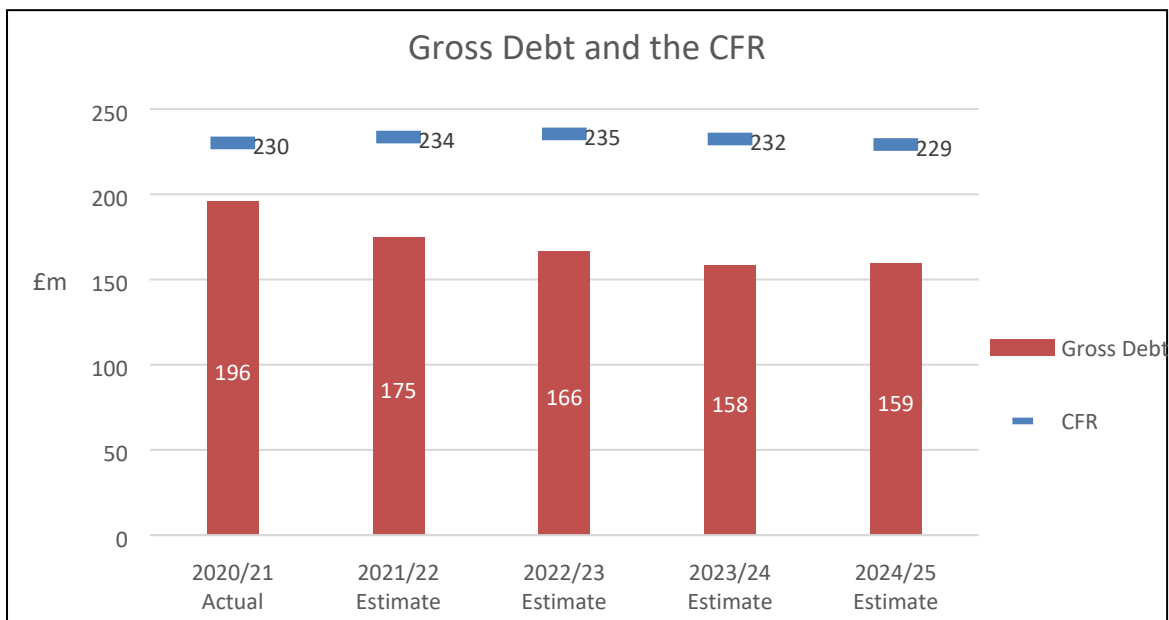
## 6. Prudential Indicator – Actual External Debt

- 6.1. The Prudential Code requires that in setting indicators for 2022/23, the Council reports its actual levels of external debt as at 31st March 2021. The Council's actual external debt at 31st March 2021 was:

	31/03/2021
	£m
Borrowing	187.434
Other Long Term Liabilities	8.357
<b>TOTAL</b>	<b>195.791</b>

## 7. Gross Debt and the Capital Financing Requirement (CFR)

- 7.1. This prudential indicator is used to ensure that the authority does not borrow in advance of need. If the authority borrowed in advance of need then the net position would be negative – i.e. borrowing greater than the CFR.
- 7.2. The chart below illustrates that the Council is not intending to borrow in advance of need, and that there is a significant level of “under borrowing”.

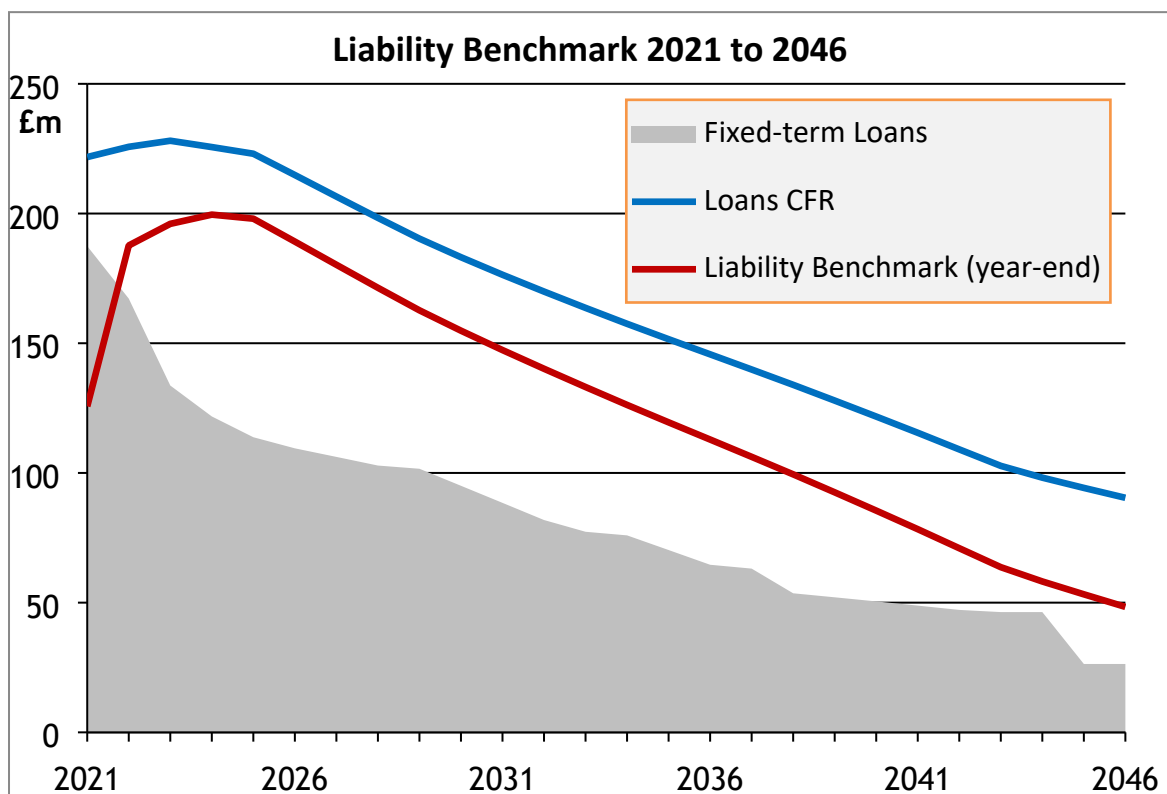


- 7.3. The higher level of gross debt shown during 2020/21 represents an upfront payment to Merseyside Pension Fund funded by borrowing. As mentioned in paragraph 3.6 (above) this will generate a significant saving to the Council whilst still maintaining the under borrowing position.
- 7.4. The estimates of gross debt for 2021/22 to 2024/25 include replacement borrowing for maturing loans and borrowing for schemes previously approved by Council for inclusion in the Capital Programme.



## 8. Liability Benchmark

- 8.1. As mentioned in paragraph 1.2 (above), CIPFA has issued revised codes of practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities. One of the proposed changes to the Treasury Management code is the introduction of a liability benchmark that can be compared to the local authority's borrowing strategy and can be calculated to show the lowest risk level of borrowing.
- 8.2. CIPFA has indicated that authorities may defer the introduction of revised reporting requirements until 2023/24. Sefton has however, on the recommendation of CIPFA and following advice from its treasury management advisers, chosen to adopt a liability benchmark from 2022/23 onwards as best practice and to ensure a prudent borrowing strategy is maintained.
- 8.3. The chart below shows the liability benchmark that has been calculated for 2021 and future years:



- 8.4. The following explanations are provided to assist with understanding the chart:
- i. Grey shaded area – represents the Council's current fixed term loans for 2021 and future years. The amounts shown do not include any new borrowing for schemes included in the capital programme or replacement borrowing for maturing loans, hence the line reduces over time as existing loans are paid off.
  - ii. Solid blue line – an estimate of Loans Capital Financing Requirement (the CFR less any other long-term debt liabilities), this being the required level to fund the capital programme.

- iii. Solid red line – a forecast of the year end liability benchmark representing the lowest amount of borrowing that should be undertaken to maintain the Council’s liquidity and minimise credit risk.

8.5. Where the liability benchmark exceeds the amount of fixed term loans then this indicates a borrowing requirement for the local authority. As can be seen above, Sefton has a borrowing requirement from 2022 onwards. This borrowing requirement arises as historic loans are paid off and the level of forecast reserves and balances diminishes over time.

8.6. It is anticipated that the above borrowing requirement is manageable within the current borrowing strategy. As mentioned in paragraph 7.2 (above), the Council is significantly under-borrowed and may reverse this position at any time by borrowing from the PWLB. Replacement loans from the PWLB will also be taken at lower rates than historic loans that were taken out when rates were higher and therefore interest payments on these loans will be lower.

**9. Prudential Indicators – Treasury Management**

9.1. The Council has adopted the CIPFA Code of Practice for Treasury Management in Public Services. The annual Policy and Strategy Documents establish the following debt maturity profiles and an upper limit for investments made by the Council for more than 365 days:

9.2. Debt Maturity Profile

9.2.1. A debt maturity profile is detailed in the following tables i.e. the amount of borrowing that is maturing in each period as a percentage of total projected borrowing:

<b>Debt Maturity</b>	<u>Upper Limit</u>	<u>Lower Limit</u>
Under 12 months	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 15 years	75%	0%
15 years and above	90%	25%

9.3. Principal Sums Invested for Periods Longer Than 365 Days

9.3.1. An upper limit on the value of principal sums invested for periods over 365 days (investments as approved in the annual Treasury Management Policy and Strategy Documents) is set as a percentage of total investments. This limit is set to contain the authority’s exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested.

<b>Principal Sums Invested for Longer Than 365 Days</b>				
	2021/22	2022/23	2023/24	2024/25
Upper Limit	£15m	£15m	£10m	£10m

9.3.2. This limit will be kept under review to take advantage of any opportunities in the current money market.

## **10. Monitoring Prudential Indicators**

10.1. Having established the Prudential Indicators, the Executive Director for Corporate Resources and Customer Services will monitor them during the year and report on actual performance to the Audit & Governance Committee on a quarterly basis. An outturn report of performance against the Prudential Indicators will be presented to both Cabinet and Council following the financial year end.

## Summary of Prudential Indicators

## Appendix A

<b>Capital Expenditure</b>					
	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate
TOTAL	26.203	43.542	47.015	23.311	20.566

<b>Financing Costs / Net Revenue Stream</b>					
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Ratio	4.2%	4.1%	3.8%	3.6%	3.4%

<b>Capital Financing Requirement</b>					
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CFR	230.150	233.590	235.437	232.448	229.218

<b>Gross Debt and the Capital Financing Requirement</b>						
	2020/21 £m Actual	2021/22 £m Estimate	2022/23 £m Estimate	2023/24 £m Estimate	2024/25 £m Estimate	
CFR	230.150	233.590	235.437	232.448	229.218	
Gross Debt	195.791	174.620	166.419	158.359	159.355	
Under / (Over) Borrowing	34.360	58.970	69.018	74.089	69.863	

<b>Liability Benchmark 2021 to 2025</b>						
Projections in £millions						
	31st March:	2021	2022	2023	2024	2025
Loans Capital Financing Requirement *		221.8	225.7	228.1	225.6	223.1
External Borrowing **		187.4	167.2	133.7	121.8	113.8
Liability Benchmark (year-end)		125.7	187.7	196.0	199.6	198.0

\* CFR excluding other long-term debt liabilities

\*\* Excluding new borrowing and other long-term debt liabilities.

<b>Operational Boundary</b>				
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<b>TOTAL</b>	<b>208.000</b>	<b>205.000</b>	<b>198.000</b>	<b>201.000</b>

<b>Authorised Limit</b>				
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<b>TOTAL</b>	<b>223.000</b>	<b>220.000</b>	<b>213.000</b>	<b>216.000</b>

<b>Debt Maturity</b>		
	<u>Upper Limit</u>	<u>Lower Limit</u>
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24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 15 years	75%	0%
15 years and above	90%	25%

<b>Principal Sums Invested for Longer Than 365 Days</b>				
	2021/22	2022/23	2023/24	2024/25
Upper Limit	£15m	£15m	£10m	£10m