Report to:	Cabinet	**Date of Meeting:**	16 February 2017
	Council		2 March 2017

Subject: The Prudential Code for Capital Finance in Local Authorities – Prudential Indicators 2017/2018

Report of: Head of Corporate Resources **Wards Affected:** All

Is this a Key Decision? No **Is it included in the Forward Plan?** No

Exempt/Confidential No

Purpose/Summary

To establish the Prudential Indicators for Sefton required under the Prudential Code for Capital Finance in Local Authorities.

Recommendation(s)

Cabinet to recommend to Council that:

a) The Prudential Indicators as detailed in the report, and summarised in Annex A, be approved as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
b) Relevant Prudential Indicators be amended, should any changes to unsupported borrowing be approved as part of the 2017/2018 Revenue Budget;
c) It be noted that estimates of capital expenditure may change as grant allocations are received (paragraph 2.2); and
d) Delegated authority is given to the Head of Corporate Resources in conjunction with the Cabinet Member – Regulatory, Compliance and Corporate Services to manage the Authorised Limit and Operational Boundary for external debt as detailed in Section 5 of the report.

How does the decision contribute to the Council's Corporate Objectives?

Corporate Objective		Positive Impact	Neutral Impact	Negative Impact
1	Creating a Learning Community	✓		
2	Jobs and Prosperity	✓		
3	Environmental Sustainability	✓		
4	Health and Well-Being	✓		
5	Children and Young People	✓		
6	Creating Safe Communities	✓		
7	Creating Inclusive Communities	✓		

8	Improving the Quality of Council Services and Strengthening Local Democracy	✓		

Reasons for the Recommendation:
To enable the Council to effectively manage its Capital Financing activities, and comply with the CIPFA Prudential Code for Capital Finance in Local Authorities.

What will it cost and how will it be financed?

(A) Revenue Costs
There are no financial implications as a result of this report.

(B) Capital Costs
None.

Implications:
The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	Local Authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003
Human Resources	None
Equality	
1. No Equality Implication	√
2. Equality Implications identified and mitigated	
3. Equality Implication identified and risk remains	

Impact on Service Delivery:
None.

What consultations have taken place on the proposals and when?
The Head of Corporate Resources prepared the report (FD 4491/17)

The Head of Regeneration and Compliance has been consulted and has no comments on the report (LD 3774/17).

Are there any other options available for consideration?
None.

Implementation Date for the Decision
With effect from 1 April 2017.

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Background Papers: None.

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. This report presents for approval the Prudential Indicators required to be set by the Council in 2017/2018 to comply with the code.

1.2. 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 5-7);
(v) Impact on Council Tax (Section 8);
(vi) Treasury Management Indicators (Section 9).

These indicators are presented in the following paragraphs and summarised at Annex 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 2015/2016 and the estimates for the current and future years capital programme recommended for approval are:-

Capital Expenditure - 2015/2016 to 2019/2020					
	2015/16 £m Actual	2016/17 £m Estimate	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate
TOTAL	22.489	27.153	25.435	18.875	12.809

2.3. The estimated levels of expenditure above represent those elements approved by Council and which have been included within the capital programme. This may change as grant allocations are made known to the Council and are approved for inclusion within the capital programme. If any changes occur an update will be provided.

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.

3.2. Estimates of the ratio for the current and future years and the actual figures for 2015/2016 are:

Financing Costs / Net Revenue Stream					
	2015/16 £m Actual	2016/17 £m Estimate	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate
Ratio	2.2%	1.6%	4.3%	4.2%	4.1%

3.3. The estimates of financing costs include current commitments, proposals contained in the capital programme, additional borrowing required as a result of a payment in advance to Merseyside Pension Fund in 2017/18, and headroom of £40m to allow for new borrowing requirements in the capital programme. This increase provides the flexibility for the Council to support any potential strategic investment or economic growth activity as set out with the Framework for change. Any opportunities under these pillars of the Framework for change will be evaluated and approved on a case by case basis.

3.4. An increase of 2.5% in the ratio from 2016/17 to 2017/18 can be explained by:
- Lower Minimum Revenue Provision (MRP) in 2016/17 when compared to 2017/18
- An increase to forecast external interest payments in 2017/18 as a result of new borrowing as mentioned in 3.3 above
- Lower external interest receipts in 2017/18 due to increased internal borrowing meaning that less surplus cash is available for investments.

4. Prudential Indicator – Capital Finance Requirement

4.1. The Capital Financing Requirement 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.

4.2. Estimates of the end of year Capital Financing Requirement for the current and future years are set out in the table below:

Capital Financing Requirement					
	31/03/2016 £m Actual	31/03/2017 £m Estimate	31/03/2018 £m Estimate	31/03/2019 £m Estimate	31/03/2020 £m Estimate
General Fund	203.178	200.278	200.107	197.030	195.173

4.3 The reduction in the CFR reflects the reduced borrowing required for the capital programme as spending falls over time.

4.4. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key indicator of prudence:
"In order to ensure that the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short-term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".

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 its 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 the transferred debt from the now defunct Merseyside Residuary Body.

Operational Boundary				
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	120.000	179.000	180.000	180.000
Other Long Term Liabilities	4.500	4.500	3.500	3.500
TOTAL	124.500	183.500	183.500	183.500

5.2.3 The Operational Boundary has been increased in 2017/18 to accommodate new borrowing as outlined in paragraph 3.3.

5.2.4. The Council is asked to approve these limits and to delegate authority to the Head of Corporate Resources 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 reported to Members at the next available meeting.

5.3. The Authorised Limit

5.3.1. The Authorised Limit sets a limit 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 2017/2018 will be the statutory limit determined under section 3 (1).

5.3.2. The Council is asked to delegate authority to the Head of Corporate Resources 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 reported to Members at the next available meeting. The Authorised Limit for external debt is as follows:

Authorised Limit				
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	135.000	194.000	195.000	197.000
Other Long Term Liabilities	4.500	4.500	3.500	3.500
TOTAL	139.500	198.500	198.500	200.500

5.2.3 The Authorised Limit has been increased in 2017/18 to accommodate new borrowing as outlines in paragraph 3.3.

6. Prudential Indicator – Actual External Debt

6.1. The Prudential Code requires that in setting indicators for 2017/2018, the Council reports it actual levels of external debt as at 31 March 2016. The Council's actual external debt at 31 March 2016 was £126.828m comprising £110.177m borrowing, £12.275m in respect of finance lease liabilities, and £4.376m other long-term liabilities.

7. Gross Debt and the Capital Financing Requirement

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. The figures below illustrate that the Council is not intending to borrow in advance of need, and that there is a significant level of "internal borrowing".

Gross and Net Debt				
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
CFR	200.278	200.107	197.030	195.173
Net Borrowing	115.143	174.353	175.049	176.644
Net Position	85.135	25.754	21.981	18.529

8. Prudential Indicator – Impact on Council Tax

8.1. Under the Prudential Code, Local Authorities are able to decide the level of borrowing required to meet the demands of the capital programme. Any unsupported borrowing will have to be funded by Council Taxpayers. As such, these indicators are a key measure of affordability of unsupported borrowing undertaken to support capital investment decisions.

8.2. The indicators for the impact on Council Tax of unsupported borrowing are to reflect any ADDITIONAL/NEW unsupported borrowing approval. As stated in 3.3 (above) headroom of £40m has been forecast in 2017/18 for new starts in the capital programme.

Incremental Impact of Capital Investment Decisions on Council Tax			
	2017/18	2018/19	2019/20
Unsupported Borrowing (£m)	40.000	0	0
Incremental Impact on Council Tax (£)	12.13	44.69	43.87

8.3. In the event that any amendments are made to the New Starts Capital Programme, the indicator will be recalculated accordingly.

9. Prudential Indicator – Treasury Management

9.1. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The annual Policy and Strategy Documents establish the following limits/controls for interest rate exposure, debt maturity profiles and an upper limit for investments made by the Council for more than 364 days:

9.2 Interest Rate Exposure

i) An upper limit on its fixed interest rate exposures for 2017/2018 – 2019/2020 of 340% of its net outstanding principal sums;
ii) An upper limit on its variable interest rate exposures for 2017/2018 – 2019/2020 of -20% of its net outstanding principal sums.

This indicator calculates exposure of either fixed or variable rate borrowings, less fixed or variable rate investments, expressed as a percentage of both fixed and variable rate borrowings net of fixed and variable rate investments.

9.3 Debt Maturity Profile

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

Fixed Rate Debt Maturity	Upper Limit	Lower Limit
Under 12 months	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	90%	25%

9.4 Investments Over 1 Year

An upper limit on the value of non-specified investments over 1 year, but less than 5 years (as approved in the annual Treasury Management Policy and Strategy Documents) is set at 40% of Total Investments. This limit will be kept under review to take advantage of any opportunities in the current money market. Members will be advised of any change.

10. Monitoring Prudential Indicators

10.1. Having established the Prudential Indicators the Head of Corporate Resources will monitor them during the year and report on actual performance to the Audit & Governance Committee and also as part of the Council's Annual Accounts. In the event of any variations during a financial year, reports will be presented to Cabinet highlighting the variation, the reason and the corrective action to be taken.

Summary of Prudential Indicators.

ANNEX A

Capital Expenditure - 2015/2016 to 2019/2020 (Para 2)					
	2015/16 £m Actual	2016/17 £m Estimate	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate
TOTAL	22.489	27.153	25.435	18.875	12.809

Financing Costs / Net Revenue Stream (Para 3)					
	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Ratio	2.2%	1.6%	4.3%	4.2%	4.1%

Capital Financing Requirement (Para 4)					
	31/03/2016 £m Actual	31/03/2017 £m Estimate	31/03/2018 £m Estimate	31/03/2019 £m Estimate	31/03/2020 £m Estimate
General Fund	203.178	200.278	200.107	197.030	195.173

Operational Boundary (Para 5)				
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	120.000	179.000	180.000	180.000
Other Long Term Liabilities	4.500	4.500	3.500	3.500
Total	124.500	183.500	183.500	183.500

Authorised Limit (Para 5)				
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	135.000	194.000	195.000	197.000
Other Long Term Liabilities	4.500	4.500	3.500	3.500
Total	139.500	198.500	198.500	200.500

Gross Debt and the CFR				
	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
CFR	200.278	200.107	197.030	195.173
Net Borrowing	-115.143	-174.353	-175.049	-176.644
Net Position	85.135	25.754	21.981	18.529

Incremental Impact of Capital Investment Decisions on Council Tax			
	2017/18	2018/19	2019/20
Unsupported Borrowing (£m)	40.000	0.000	0.000
Incremental Impact on Council Tax (£)	12.13	44.69	43.87

Limit on Interest Rate Exposure (Para 9)

	Upper Limit	Lower Limit
Fixed Borrowing / Investment	340%	-20%
Variable Borrowing / Investment	340%	-20%

Fixed Rate Debt Maturity (Para 9)

	Upper Limit	Lower Limit
Under 12 months	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	90%	25%

Investments over 1 Year (Para 9)

Non-specified investments over 1 year but less than 5 years with approved Banks / Building Societies	40% of Total Investments