

Report to:	Cabinet	Date of Meeting:	Thursday 15 February 2018
	Council		Thursday 1 March 2018
Subject:	The Prudential Code for Capital Finance in Local Authorities - Prudential Indicators 2018/19		
Report of:	Head of Corporate Resources	Wards Affected:	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	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):

Cabinet / Council are recommended to:

- 1) Approve the Prudential Indicators (as detailed in the report) as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
- 2) Agree that relevant Prudential Indicators should be revised as required and that any changes required will be brought to cabinet and Council for approval;
- 3) Agree that estimates of capital expenditure may change as grant allocations are received; and
- 4) Delegate authority 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.

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:

Resource Implications (Financial, IT, Staffing and Assets): The prudential indicators will allow for capital spending obligations to be managed within the budget for 2018/19.
Legal Implications: None.
Equality Implications: None.

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
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Head of Corporate Resources (FD4990/18.) and Head of Regulation and Compliance (LD4275/18.) have 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:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

BACKGROUND:

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. CIPFA introduced a revised version of the code in December 2017 and this has been adopted in setting the estimated Prudential Indicators for financial years 2017/18 to 2020/21.
- 1.3. A major change introduced under the 2017 Prudential Code is the requirement to determine a Capital Strategy. CIPFA has recognised however, that due to the timing of the release of the revised codes (December 2017), that it will not be practicable to formulate this documents within the 2018/19 planning process. The Capital Strategy therefore will be introduced during the 2019/20 reporting cycle. The Capital Strategy will set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of outcomes.
- 1.4. 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) Treasury Management Indicators (Section 8).

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 2016/17 and the estimated current and future years capital programme are recommended for approval:-

Capital Expenditure - 2016/17 to 2020/21					
	2016/17 £m Actual	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate
TOTAL	22,499	61,195	31,010	17,592	10,379

- 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 to Members.

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. Actual figures for 2016/17 and estimates of the ratio for 2017/18 and future years are:

Financing Costs / Net Revenue Stream					
	2016/17 £m Actual	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate
Ratio	1.7%	3.6%	3.6%	3.6%	3.4%

- 3.3. The estimates of financing costs include current commitments and proposals contained in the capital programme, additional borrowing required as a result of a payment in advance to Merseyside Pension Fund in 2017/18 (that will result in a revenue saving to the council), 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. An increase of 1.9% in the ratio from 2016/17 to 2017/18 can be explained by:
- Lower statutory charge from Minimum Revenue Provision (MRP) in 2016/17 when compared to 2017/18 due to changes in MRP policy in 2016/17
 - An increase to forecast external interest payments in 2017/18 as a result of new borrowing as mentioned in 3.3 above; and
 - 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 (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.
- 4.2. Actual 2016/17 and estimated year-end Capital Financing Requirements for current and future years are set out in the table below:

Capital Financing Requirement					
	31/03/17 £m Actual	31/03/18 £m Estimate	31/03/19 £m Estimate	31/03/20 £m Estimate	31/03/21 £m Estimate
CFR	203,585	236,212	236,571	233,082	227,993

4.3 The increase in the CFR for 2017/18, compared to 2016/17 reflects the additional borrowing required for capital expenditure in 2017/18 as shown in 2.2 (above).

4.3. 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 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				
	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Borrowing	164,000	164,000	160,000	158,000
Other Long Term Liabilities	3,500	3,000	2,500	2,000
TOTAL	167,500	167,000	162,500	160,000

5.2.3. 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 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 2018/19 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				
	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Borrowing	174,000	174,000	170,000	168,000
Other Long Term Liabilities	3,500	3,000	2,500	2,000
TOTAL	177,500	177,000	172,500	170,000

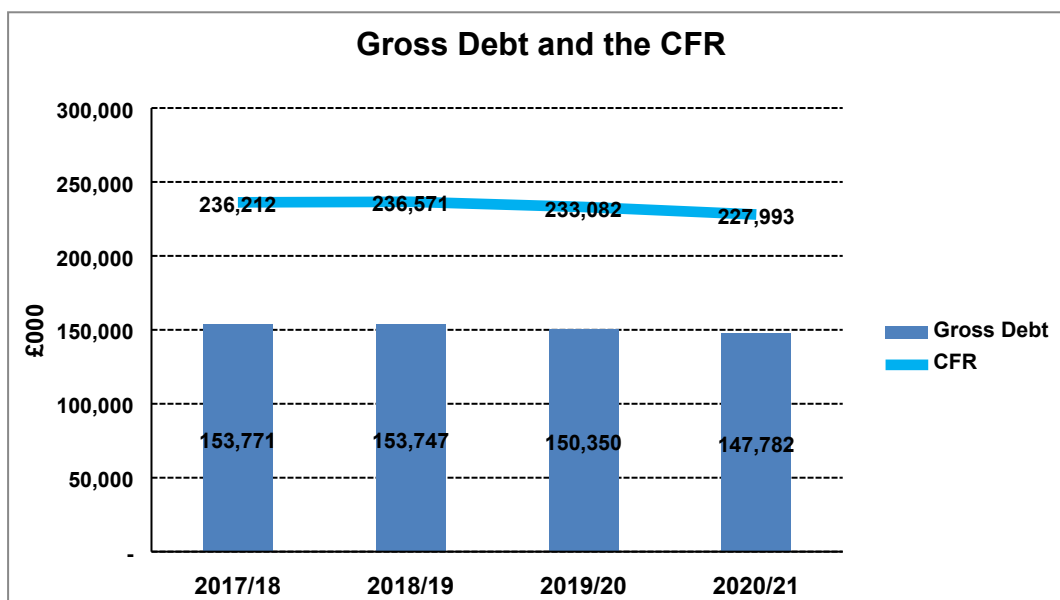
6. Prudential Indicator – Actual External Debt

6.1. The Prudential Code requires that in setting indicators for 2018/19, the Council reports its actual levels of external debt as at 31st March 2017. The Council's actual external debt at 31st March 2017 was:

	31/03/2017 £m
Borrowing	100.177
Finance Lease Liabilities	10.590
Other Long Term Liabilities	3.939
TOTAL	114.706

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 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”.



8. Prudential Indicator – Treasury Management

8.1. 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:

8.2. Debt Maturity Profile

8.2.1. 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 for fixed rate and variable rate debt.

Debt Maturity – Fixed Rate Borrowing

	<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	40%	0%
5 years and within 10 years	40%	0%
10 years and within 15 years	40%	0%
15 years and above	90%	25%

Debt Maturity – Variable Rate Borrowing		
	<u>Upper Limit</u>	<u>Lower Limit</u>
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

8.3. Principal Sums Invested for Periods Longer Than 365 Days

- 8.3.1. An upper limit on the value of principal sums invested for periods over 365 days (as approved in the annual Treasury Management Policy and Strategy Documents) is set at 40% 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.
- 8.3.2. 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.

9. Monitoring Prudential Indicators

- 9.1. 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 - 2016/17 to 2020/21					
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TOTAL	22,499	61,195	31,010	17,592	10,379

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CFR	203,585	236,212	236,571	233,082	227,993

Operational Boundary					
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TOTAL	177,500	177,000	172,500	170,000	

Actual External Debt	31/03/17 £m
Borrowing	100.177
Finance Lease Liabilities	10.590
Other Long Term Liabilities	3.939
TOTAL	114.706

Gross Debt and the CFR				
	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
CFR	236,212	236,571	233,082	227,993
Gross Borrowing	153,771	153,747	150,350	147,782
Under Borrowing	82,441	82,824	82,732	80,211

Debt Maturity – Fixed Rate Borrowing		
	<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	40%	0%
5 years and within 10 years	40%	0%
10 years and within 15 years	40%	0%
15 years and above	90%	25%

Debt Maturity – Variable Rate Borrowing		
	<u>Upper Limit</u>	<u>Lower Limit</u>
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

Principal Sums Invested for Periods Longer Than 365 days	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Limits to be placed on investments (% of Total Investments)	40%	40%	40%