Tyne and Wear Fire and Rescue Authority

Detailed Prudential Indicators 2016/2017 to 2018/2019 **Appendix B**

All Local Authorities are required to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. The key objectives of the Code are to ensure that the capital investment plans of Local Authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice.

It should be noted that all of the prudential indicators continue to fully reflect the requirements of International Financial Reporting Standards (IFRS) which were introduced from 1st April 2010. Should any of the Authority's Prudential Indicators be exceeded during the year then they will be reported to Authority at the next appropriate meeting.

The indicators that must be taken into account include:

P1 The actual capital expenditure that was incurred in 2014/2015 was £3.558 million and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	2014/2015 £000 Actual	2015/2016 £000 Estimate	2016/2017 £000 Estimate	2017/2018 £000 Estimate	2018/2019 £000 Estimate
Capital Expenditure	3,558	6,921	2,317	1,598	2,476

The provision for capital expenditure from 2015/2016 onwards is based on the Capital Programme 2016/2017 being approved by the Authority.

P2 Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2014/2015 are:

Ratio of financing costs to net revenue stream				
2014/2015 Actual	**2015/2016 Estimate**	**2016/2017 Estimate**	**2017/2018 Estimate**	**2018/2019 Estimate**
7.93%	8.10%	8.05%	8.25%	8.82%

The estimates of financing costs include current commitments and the proposals in the revenue budget and this capital programme report. The forecasts provide an indication of the impact of the capital investment plans on the Authority's overall finances. They show an increase in anticipated ratios of financing costs to net revenue streams in future years as a result of the current economic downturn, leading to lower interest rates on investments and forecast reductions in future years Government funding. It should be noted that ratios will vary depending on the interest rates obtained on investments and the level of investments and also future reductions in government grant.

The level of financing costs is considered to be affordable and has been taken into account when assessing the Medium Term Financial Strategy (please see the report on the Revenue Budget 2016/2017 elsewhere on today's agenda).

P3 Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement as at 31st March 2015 are:

Capital Financing Requirement				
31/03/15 £000 Actual	**31/03/16 £000 Estimate**	**31/03/17 £000 Estimate**	**31/03/18 £000 Estimate**	**31/03/19 £000 Estimate**
42,297	47,603	49,542	50,760	47,002

The Capital Financing Requirement measures the Authority's underlying need to borrow for a capital purpose. In accordance with best practice, Sunderland City Council, on the Authority's behalf, does not associate individual borrowing taken out with particular items or types of expenditure. The Authority has an integrated Treasury Management Strategy and has fully adopted the CIPFA Code of Practice for Treasury Management in the Public Services. There are, at any point in time, a number of cash flows, both positive and negative, and the treasury position in terms of its borrowings and investments is managed in accordance with the approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions taking account of the Authority's needs, and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the Authority's underlying need to borrow for a capital purpose.

The Capital Financing Requirement includes other long term liabilities (e.g. PFI schemes and finance leases) brought onto the balance sheet. Whilst this increases the Capital Financing Requirement, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility so the Authority is not required to separately borrow for these schemes. The Authority had £22.469 million of such schemes included in its Capital Financing Requirement at 31st March 2015.

P4 CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following comparator between gross debt and the capital financing requirement as a key indicator of prudence:

> "In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

The Authority had no difficulty meeting this requirement in 2014/2015, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this report.

P5 In respect of its external debt, it is recommended that the Authority approves the following authorised limits for its total external debt (gross of investments) for the next three financial years and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary.

The limits separately identify borrowing from other long term liabilities such as PFI schemes and finance leases. The Authority is asked to approve these limits and to delegate authority to the Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for the Authority. Any such changes made will be reported to the Authority at its next meeting following the change. The figures below have been calculated by reference to the overall Authorised Limit for Sunderland City Council which covers all separate bodies, including the Fire and Rescue Authority, which is subject to the Prudential Code.

	Authorised Limit for External Debt			
	2015/2016 £000	**2016/2017 £000**	**2017/2018 £000**	**2018/2019 £000**
Borrowing	30,564	32,360	33,398	31,036
Other long term liabilities	23,611	23,723	23,904	22,818
Total	54,175	56,083	57,302	53,854

The Finance Officer reports that these authorised limits are consistent with the Authority's current commitments, existing plans and the proposals in this report on the Capital Programme for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Finance Officer confirms that they are based on the estimate of most likely, prudent, but not worst case scenario, with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes.

In taking its decisions on the Revenue Budget and Capital Programme for 2016/2017, the Authority is asked to note that the authorised limit determined for 2016/2017, will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

P6 The Authority is also asked to approve the following operational boundary for external debt for the same time period and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. The proposed operational boundary for external debt is based on the same estimates as the authorised limit, but reflects directly the estimate of the most likely, prudent but not worst case scenario level, without the additional headroom included within the authorised limit to allow, for example, for unusual cash movements. It equates to the projected maximum external debt and represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The Authority is also asked to delegate authority to the Finance Officer, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, similar to the authorised limit set out above.

The operational boundary limit for 2016/17 will be £51.083 million and will be closely monitored and a report will be made to Authority if it is exceeded at any point. It is not anticipated that there will be any issues in terms of remaining within the operational limit for 2016/2017.

	Operational boundary for external debt			
	2015/2016	**2016/2017**	**2017/2018**	**2018/2019**
	£000	**£000**	**£000**	**£000**
Borrowing	25,564	27,360	28,398	26,036
Other long term liabilities	23,611	23,723	23,904	23,818
Total	49,174	51,083	52,303	49,853

P7 The Authority's actual external debt at 31 March 2015 was £35.512 million (calculated on the basis that all Authority debt is classed as external), comprising £13.720 million borrowing and £21.792 million in respect of other long term liabilities. The Authority includes an element for long term liabilities relating to PFI schemes and finance leases in its calculation of the operational and authorised boundaries to allow flexibility over future financing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time and allowances need to be made for cash flow variations.

P8 The estimate of the incremental impact of new capital decisions proposed in this report, over and above capital investment decisions that have previously been taken by the Authority are:

For the Band D Council Tax Precept		
2016/2017	**2017/2018**	**2018/2019**
£0.56	£0.68	£0.85

The estimates show the revenue effect of all capital expenditure arising from all schemes commencing in 2016/2017 and the following two financial years. The impact on the Band D Council Tax Precept detailed above takes account of estimated government grant funding through Local Government Settlement Grant.

These forward estimates are not fixed and do not commit the Authority. They are based on the Authority's existing commitments, current plans and the capital plans detailed in Appendix A. There are no known significant variations beyond this timeframe that would result from past events and decisions or the proposals in the budget report.

P9 Sunderland City Council, on the Authority's behalf, has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The revised Code was adopted by the full Council on 3rd March 2010 and this is re-affirmed annually.

The objective of the Code is to provide a framework for local authority capital finance that will ensure for individual local authorities that:

(a) capital expenditure plans are affordable

(b) all external borrowing and other long term liabilities are within prudent and sustainable levels

(c) treasury management decisions are taken in accordance with professional good practice

and that in taking decisions in relation to (a) to (c) above the local authority is

(d) accountable, by providing a clear and transparent framework.

Further, the framework established by the Code should be consistent with and support:

(e) local strategic planning

(f) local asset management planning

(g) proper option appraisal.

In exceptional circumstances the objective of the Code is to provide a framework that will demonstrate that, where there is a danger of not ensuring the above, the Authority can take timely remedial action.

CIPFA Treasury Management in the Public Services Code of Practice – Indicators 2016/2017 to 2018/2019

P10 It is recommended that the Authority also adopts the proposed lead authority's upper limit on its fixed interest rate exposures of £330 million in 2016/2017, £320 million in 2017/2018 and £320 million in 2018/2019.

P11 It is further recommended that the Authority also adopts the proposed lead authority's upper limit on its variable interest rate exposures of £48 million in 2016/2017, £56 million in 2017/2018 and £54 million in 2018/2019.

P12 It is recommended that the Authority sets upper and lower limits for the maturity structure of its borrowings, consistent with Sunderland City Council's policy, as follows:

Amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period:

	Upper limit	Lower limit
under 12 months	50%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

P13 The lead authority has set a maximum maturity limit of £75 million for each financial year (2016/2017, 2017/2018 and 2018/2019) for long term investments (those over 364 days) made. This gives additional flexibility to the Authority in undertaking its Treasury Management function. It is proposed that the Fire and Rescue Authority funds may be invested within the limits set by the Sunderland City Council as set out in the Annual Investment Strategy.