



CABINET REPORT

Report Title	PRUDENTIAL INDICATORS FOR CAPITAL FINANCE 2009-10 to 2011-12 – MONITORING TO 30 SEPTEMBER 2009
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AGENDA STATUS:

PUBLIC

Cabinet Meeting Date:	25 November 2009
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Finance and Support
Accountable Cabinet Member:	David Perkins
Ward(s)	Not Applicable

1. Purpose

- 1.1 The CIPFA Prudential Code for Capital Finance in Local Authorities requires the Council, as part of the budget setting process each year, to set a range of prudential indicators for the forthcoming financial year and the two following years. The prudential indicators must then be monitored, and revised, as appropriate, during the year.
- 1.2 This report sets out:
 - The statutory and regulatory background to the prudential indicators
 - The Council's approved prudential indicators for 2009-10 to 2011-12, with a commentary to support the individual prudential indicators (Annex A)

- Monitoring information on the approved prudential indicators for 2009-10 as at 30 September 2009 (Annex B)
- A recommendation for Cabinet to recommend Council to approve revisions to a number of the prudential indicators for 2009-10.

1.3 To inform Cabinet of a change to the Council's investment counterparty limits approved by the Chief Finance Officer on 2 November 2009.

2. Recommendations

2.1 That Cabinet note the prudential indicators monitoring information attached at Annex B

2.2 That Cabinet recommend to Council that they approve revisions to the Council's prudential indicators for 2009-10 as set below.

a) Estimate of capital expenditure

	2009-10
Estimates of Capital Expenditure 2009-10	Estimate as at 30 September 2009
	£000
General Fund (Non HRA)	11,494
Housing Revenue Account (HRA)	14,736
Total	26,230

b) Estimate of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)		
		2009-10
		31 March 2010 Estimate £000
General Fund (Non HRA)		26,205
Housing Revenue Account (HRA)		(6,675)
Total		19,530

2.3 That Cabinet note the following change to the Council's investment counterparty limits, approved by the Chief Finance Officer on 2 November 2009.

- That the maximum period for investments with counterparties on the existing counterparty list be extended from 3 months to 12 months, provided that this is within the Sector recommended time limit for the counterparty, and that a maximum of £10m is invested in this way. The £10m maximum is in addition to £6m already placed in 2-year investments in 2008-09 and due back in June 2010.

3. Issues and Choices

3.1 Report Background

Statutory and Regulatory Requirements

3.1.1 The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) is a professional code of practice. Local authorities have a statutory requirement to comply with the Prudential Code when making capital investment decisions and carrying out their duties under Part 1 of the Local Government Act 2003 (Capital Finance etc and Accounts).

3.1.2 The key objectives of the Prudential Code are to ensure, within a clear framework, that:

- Capital investment plans are affordable, prudent and sustainable
- Treasury management decisions are taken in accordance with good professional practice, and in a manner that supports prudence, affordability and sustainability
- There is consistency with local strategic planning, local asset management planning and proper option appraisal

3.1.3 To ensure that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used (the prudential indicators) and the factors that must be taken into account.

3.1.4 The Prudential Code requires the following matters to be taken into account when setting or revising the prudential indicators:

- a) Affordability - e.g. implications for Council Tax and Council housing rents
- b) Prudence & sustainability - e.g. implications for external borrowing
- c) Value for money - e.g. option appraisal
- d) Stewardship of assets - e.g. asset management planning
- e) Service objectives - e.g. strategic planning for the authority
- f) Practicality – achievability of the forward plan

- 3.1.5 The Prudential Code requires all local authorities to set prudential indicators for capital finance the forthcoming and the two following financial years. The prudential indicators must then be monitored, and revised, as appropriate, during the year.
- 3.1.6 The Prudential Code sets out a clear governance structure for the setting and revising of the prudential indicators. This must be done by the same body that takes decisions for the local authority's budget – i.e. by full Council
- 3.1.7 The Chief Financial Officer is responsible for ensuring that matters required to be taken into account are reported to the decision making body for consideration, and for establishing procedures to monitor performance

2009-10 to 2011-12 Prudential Indicators

- 3.1.8 Council approved the Council's prudential indicators for 2009-10 to 2011-12 at their budget-setting meeting of 26 February 2009.
- 3.1.9 Council also approved, on that date, the delegation of authority to the Section 151 Officer to make adjustments between the "borrowing" and "other long term liabilities" categories within the overall total of the indicators for the operational boundary and the authorised limit for external debt, as shown in Annex A paragraphs (g) and (h). This allows movements between borrowing and other long-term liabilities, should the Section 151 Officer deem that the use of finance leases for capital expenditure constitutes good and prudent financial management. In line with Guidance Notes to the Prudential Code issued by CIPFA
- 3.1.10 The approved prudential indicators are set out for information at Annex A. This replicates Annex A of the Prudential Indicators for Capital Finance 2009-10 to 2011-12 report to Cabinet 19 February 2009 and to Council 26 February 2009.

3.2 Issues

Prudential Indicators Monitoring to 30 September 2009

- 3.2.1 There are thirteen prudential indicators, covering between them the areas of capital expenditure, affordability, prudence, external debt, and treasury management, as follows:

Capital expenditure

- a) Estimate of capital expenditure
- b) Estimate of Capital Financing Requirement (CFR)

Affordability

- c) Estimate of the ratio of financing to net revenue stream
- d) Estimate of the incremental impact of capital investment decisions on the Council Tax

- e) Estimate of the incremental impact of capital investment decisions on average weekly housing rents

Prudence

- f) Net borrowing to Capital Financing Requirement

External Debt

- g) Authorised limit for external debt
- h) Operational boundary for external debt

Treasury Management

- i) Upper limit for fixed interest rate exposure
- j) Upper limit for variable interest rate exposure
- k) Principal sums invested for more periods of more than 364 days
- l) Upper and lower limits on the maturity structure of borrowing
- m) Adoption of the CIPFA code of Practice for Treasury Management in the Public Services

3.2.2 The monitoring information as at 30 September 2009 on each of the prudential indicators for 2009-10 is set out at Annex B.

3.2.3 Two of the prudential indicators require revision, as set out in the following paragraphs

Estimate of capital expenditure 2009-10

3.2.4 This prudential indicator requires reasonable estimates of the total of capital expenditure to be incurred. It is in the nature of capital expenditure to have variations to the capital programme as the year proceeds, for example as new grant or other third party funding becomes available, or to accommodate slippage from the previous year. This is acknowledged in the Prudential Code.

3.2.5 Revised estimates for capital expenditure for 2009-10 are shown in the table below:

	2009-10
Estimates of Capital Expenditure 2009-10	Estimate as at 30 September 2009
	£000
General Fund (Non HRA)	11,494
Housing Revenue Account (HRA)	14,736
Total	26,230

- 3.2.6 The estimates are consistent with the latest proposed capital programme for 2009-10 submitted to this Cabinet (Agenda Item 12C).
- 3.2.7 Forecasts for capital expenditure for future years are currently being worked up as part of the 2010-11 capital programme budget build. These will take into account any changes agreed during the course of 2009-10 that impact on 2010-11 and future years. For prudential indicator monitoring purposes the original approved forecasts remain in force until the 2010-11 capital programme is agreed.

Estimate of Capital Financing Requirement (CFR) 2009-10

- 3.2.8 In day-to-day cash management no distinction can be made between revenue cash and capital cash. External borrowing may arise as consequence of all the financial transactions of the authority, and not simply those arising from capital spending. However the Capital Financing Requirement reflects the local authority's need to borrow for a capital purpose.
- 3.2.9 Revised estimates for the Capital Financing Requirement for 2009-10 are shown in the table below:

Capital Financing Requirement (Closing CFR)		
		2009-10
		31 March 2010 Estimate £000
General Fund (Non HRA)		26,205
Housing Revenue Account (HRA)		(6,675)
Total		19,530

- 3.2.10 The revisions to the estimates of CFR are as a result of the impacts of actual capital programme financing in 2008-09 and forecast borrowing to fund capital expenditure in 2009-10. . The figures are consistent with the 2008-09 Statement of Accounts and with the borrowing requirements of the latest agreed capital programme for 2009-10.
- 3.2.11 The General Fund CFR forecast for 2009-10 has increased by around £886k from the estimate approved at February 2009. This is as a result of additional capital expenditure schemes funded by borrowing that have been approved by Cabinet during the year. These include improvement works at Grosvenor Centre car park; the bus station ANPR system; the CLG capitalisation directive; and improvement works at Ecton Lane travellers site.

3.2.12 Forecasts for the CFR for future years are dependent upon the borrowing requirements of capital expenditure in 2010-11 and future years that are being worked up as part of the 2010-11 capital programme budget build. They will also take into account any borrowing impacts from changes agreed during the course of 2009-10 that impact on 2010-11 and future years. For prudential indicator monitoring purposes the original approved forecasts remain in force until the 2010-11 capital programme is agreed.

Investment Counterparty Limits

3.2.13 The approved Treasury Strategy for 2009-10 gives discretion to the Chief Financial Officer to lift or increase the restrictions on the counterparty list and/or to adjust the associated lending limits on values and periods during the financial year should it become necessary to enable the effective management of risk in relation to investments.

3.2.14 External market conditions have evolved during the course of the year and are now such that the Chief Financial Officer is satisfied that the existing very tight controls on the maximum period for investments can be extended from 3 months to 12 months with counterparties on the Council's counterparty list to achieve an increase in investment return. A cap on the amount that can be placed on this way will reduce risk and ensure that the appropriate liquidity of investments is maintained.

3.2.15 Cabinet are therefore asked to note the following change to the Council's investment counterparty limits, approved by the Chief Finance Officer on 2 November 2009.

- That the maximum period for investments with counterparties on the existing counterparty list be extended from 3 months to 12 months, provided that this is within the Sector recommended time limit for the counterparty, and that a maximum of £10m is invested in this way. The £10m maximum is in addition to £6m already placed in 2-year investments in 2008-09 and due back in June 2010.

3.3 Choices (Options)

3.3.1 Cabinet are asked to recommend to Council that they approve the revised prudential indicators set out at paragraphs 3.2.4 to 3.2.12 above.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The approved prudential indicators for 2009-10 to 2011-12, together with any recommended revisions agreed by Council, constitute the Council's policy for 2009-10 and its plans for future years.

4.2 Resources and Risk

- 4.2.1 The prudential indicators provide the framework in which the Council conducts its treasury and capital financing activities, consistent with good treasury risk management. They are monitored throughout the year and reported to Cabinet on a regular basis.
- 4.2.2 The Code indicates that “in all cases, the process of setting prudential indicators for treasury management should be accompanied by a clear and integrated forward treasury management strategy, and a recognition of the pre-existing structure of the authority’s borrowing and investment portfolios.” The indicators take account of the existing structure of borrowing and all reasonable restructuring activity that might occur.
- 4.2.3 Officers have considered whether there are any significant risks that could potentially prevent the Council from achieving its plans at the desired levels of affordability and prudence. These are considered at Annex A at individual indicator level.
- 4.2.4 The changes to the counterparty limits set out at paragraph 3.2.13 to 3.2.15 have been made in the context of the Council’s Treasury Management Practices (TMPs). TMP1 Treasury Risk Management states at Section 5 Credit and Counterparty Risk Management:
- “The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved Instruments, methods and techniques* listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.”

4.3 Legal

- 4.3.1 Under the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 the Council must set prudential limits and indicators as part of the overall budget setting process. The CIPFA Prudential Code for Capital Finance in Local Authorities, which regarded as mandatory guidance associated with the statute, requires the authority’s Chief Finance officer to establish procedures for monitoring the Council’s performance against prudential indicators for the forthcoming and following two financial years, to report significant deviations from expectations, and to take any proposed revisions to Council for approval.

4.4 Equality

- 4.4.1 No equalities issues have been identified as a result of this report.

4.5 Consultees (Internal and External)

4.5.1 The capital investment plans that drive much of the capital finance activity that underpins the prudential indicators are subject to consultation, as follows:

- The capital project appraisals and project variations for the schemes in the capital programme are put together by project managers, in consultation with officers and members
- Consultation with stakeholders is undertaken as appropriate on individual capital schemes.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Adherence to the Prudential Code is a statutory requirement and also represents best practice. It also contributes to improving the Council's CAA Use of Resources score. This supports the Council's priorities to be a well-managed organisation that puts customers at the heart of what we do.

4.7 Other Implications

4.7.1 There are no other specific implications arising from this report.

5. Background Papers

5.1 Legislative and Regulatory Framework

- CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes 2001
- Local Government Act 2003
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- ODPM Guidance on Local Government Investments 2004
- CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Second Edition 2006)
- The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008
- CIPFA Prudential Code for Capital Finance in Local Authorities 2003
- CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007

5.2 Cabinet and Council Reports

- Prudential Indicators for Capital Finance 2009-10 to 2011-12 - Report to Cabinet 19 February 2009 and to Council 26 February 2009
- Treasury Strategy 2009-10 to 2011-12 – Report to Cabinet 19 February 2009 and to Council 26 February 2009
- Capital Programme 2009-10 – Position as at end of September 2009 - Report to Cabinet 25 November 2009

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