



## **CABINET REPORT**

<b>Report Title</b>	<b>PRUDENTIAL INDICATORS FOR CAPITAL FINANCE 2010-11 to 2012-13</b>
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**AGENDA STATUS: PUBLIC**

<b>Cabinet Meeting Date:</b>	24 February 2010
<b>Key Decision:</b>	YES
<b>Listed on Forward Plan:</b>	YES
<b>Within Policy:</b>	YES
<b>Policy Document:</b>	YES
<b>Directorate:</b>	Finance & Support
<b>Accountable Cabinet Member:</b>	David Perkins
<b>Ward(s)</b>	Not Applicable

### **1. Purpose**

- 1.1 The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) requires that prudential indicators, other than actuals that are taken from information in the local authority's Statement of Accounts, are set for the forthcoming and following years through the processes established for the setting and revising of the budget for the local authority – that is, by the full Council.
- 1.2 This report sets out:
  - The background to the prudential indicators
  - Proposed prudential indicators for 2010-11 and the following two years
  - The Executive Summary from the Prudential Code (Fully Revised Second Edition 2009) (Annex A)
  - A commentary to support the individual prudential indicators (Annex B)

## **2. Recommendations**

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- 2.1 That Cabinet recommend to Council that they approve the prudential indicators required under the CIPFA Prudential Code for Capital Finance in Local Authorities (Fully revised second edition 2009) as set out at paragraph 3.2.3 below.
- 2.2 That Cabinet recommend to Council that they approve 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 set out at paragraphs 3.2.3 (g) and (h) below.

## **3. Issues and Choices**

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### **3.1 Report Background**

- 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 A fully revised second edition of the Prudential Code was published in 2009.
- 3.1.3 In the revised document it is made clear that the framework established by the Prudential Code should support, local strategic planning, local asset management planning and proper option appraisal.
- 3.1.4 The objectives of the Prudential Code are to provide a framework for local authority capital finance that will ensure for individual local authorities that:
- Capital expenditure plans are affordable
  - All external borrowing and other long-term liabilities are within prudent and sustainable levels
  - Treasury management decisions are taken in accordance with professional good practice
- And, that in taking decisions in relation to these factors, the local authority is accountable, by providing a clear and transparent framework.
- 3.1.5 In exceptional circumstances the objective of the Prudential Code is to provide a framework that will demonstrate that there is a danger of not ensuring the above, so that the authority can take timely remedial action.
- 3.1.6 The framework in the Prudential Code includes a set of prudential indicators, designed to support and record local decision-making. These should be taken together, integrated into a coherent entity, rather than individually.
- 3.1.7 The Prudential Code requires that prudential indicators, other than actuals that are taken from information in the local authority's Statement of Accounts, are set for the forthcoming and following years through the processes established for the setting and revising of the budget for the local authority –

that is, by the full council. Any revisions required to the prudential indicators must follow the same approval process.

3.1.8 The Chief Finance Officer is required to establish procedures to monitor both performance against all forward-looking prudential indicators and the requirement to adopt and adhere to the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. He or she is also expected to establish a measurement and reporting process that highlights significant deviations from expectations.

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

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

Matters of affordability and prudence are primary roles for the Prudential Code.

3.1.10 The executive summary from the Prudential Code (Fully Revised Second Edition 2009) is attached for information at Annex A.

## **3.2 Issues**

### Prudential Indicators

3.2.1 In total there are now thirteen prudential indicators, covering between them the areas of affordability, prudence, capital expenditure, external debt, and treasury management, as set out below.

Those shown in italics relate to actuals for the previous year to be taken from information in the local authority's Statement of Accounts.

#### Affordability

- Estimate of the ratio of financing to net revenue stream
- *Actual ratio of financing to net revenue stream*
- Estimate of the incremental impact of capital investment decisions on the council tax
- Estimate of the incremental impact of capital investment decisions on the housing rents

### Prudence

- Net borrowing and the capital financing requirement

### Capital Expenditure

- Estimates of capital expenditure
- *Actual capital expenditure*
- Estimates of capital financing requirement
- *Actual capital financing requirement*

### External Debt

- Authorised limit for external debt
- Operational boundary for external debt
- *Actual external debt*

### Treasury Management

- Adoption of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes

3.2.2 In respect of the indicators for affordability and those for capital expenditure, separate figures are required to be reported for the General Fund and HRA.

3.2.3 The proposed prudential indicators for 2010-11 to 2012-13 are set out below. These exclude those indicators that are actuals for the previous year taken from information in the local authority's Statement of Accounts (as shown in italics in the paragraph above). The 2009-10 outturn figures for these indicators will be reported to Cabinet and Council following the closure of the 2009-10 accounts.

The proposed prudential indicators below are also shown in the attached Annex B with a commentary that explains each of the indicators in more detail.

## Affordability

### a) Estimate of the ratio of financing costs to net revenue stream

Ratio of financing costs to net revenue stream				
		2010-11	2011-12	2012-13
		Estimate	Estimate	Estimate
		%	%	%
General Fund		6.51	4.74	3.93
HRA		18.38	18.02	18.64

### b) Estimate of the incremental impact of capital investment decisions on the council tax

Estimates of incremental impact of new capital investment decisions on the Council Tax	
	General Fund
	£ p
2010-11	3.35
2011-12	6.68
2012-13	8.08

### c) Estimate of the incremental impact of capital investment decisions on the housing rents

Estimates of incremental impact of new capital investment decisions on weekly housing rents	
	HRA
	£ p
2010-11	1.57
2011-12	0.63
2012-13	0.00

## Prudence

### d) Net borrowing and the capital financing requirement (CFR)

Net external debt less than CFR	
	2010-11 £000
Borrowing	31,726
Less investments	57,400
Net external debt	0
2009-10 Closing CFR (Forecast)	19,481
Changes to CFR:	
2010-11	5,403
2011-12	4,951
2012-13	9,209
Adjusted CFR	39,044
Net external debt less than adjusted CFR	Yes

## Capital Expenditure

### e) Estimate of capital expenditure

Capital Expenditure				
		2010-11	2011-12	2012-13
		Estimate £000	Estimate £000	Estimate £000
General Fund		9,579	5,472	5,445
HRA		15,911	16,720	16,754
<b>Total</b>		25,490	22,192	22,199

f) Estimates of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)			
	2010-11	2011-12	2012-13
	31 March 2011 Estimate £000	31 March 2012 Estimate £000	31 March 2013 Estimate £000
General Fund	31,059	31,964	32,814
HRA	(6,175)	(2,129)	6,230
<b>Total</b>	<b>24,884</b>	<b>29,735</b>	<b>39,044</b>

External Debt

g) Authorised limit for external debt

Authorised limit for external debt			
	2010-11	2011-12	2012-13
	Limit £000	Limit £000	Limit £000
Borrowing	48,000	48,000	53,000
Other long-term liabilities	2,000	2,000	2,000
<b>TOTAL</b>	<b>50,000</b>	<b>50,000</b>	<b>55,000</b>

h) Operational boundary for external debt

Operational boundary for external debt			
	2010-11	2011-12	2012-13
	Boundary £000	Boundary £000	Boundary £000
Borrowing	43,000	43,000	48,000
Other long-term liabilities	2,000	2,000	2,000
<b>TOTAL</b>	<b>45,000</b>	<b>45,000</b>	<b>50,000</b>

## Treasury Management

- i) Adoption of the CIPFA code of Practice for Treasury Management in the Public Services

The Treasury Management Strategy 2010-11 to 2012-13 report on this agenda asks Cabinet to recommend to Council that they adopt the fully revised second edition of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2009), as set out at Annex A of that report, replacing paragraph 5.9 of the existing Financial Regulations.

### **3.3 Choices (Options)**

- 3.3.1** Cabinet are asked to recommend to Council that they approve the prudential indicators set out at paragraph 3.2.3 above.

## **4. Implications (including financial implications)**

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### **4.1 Policy**

- 4.1.1 The setting of the prudential indicators for 2010-11 to 2012-13 is undertaken in the context of the Council's Medium Term Financial Strategy, Capital Strategy and Treasury Strategy, and sets the Council's prudential indicators for the coming year, and subsequent two years.

### **4.2 Resources and Risk**

- 4.2.1 The Prudential Code requires that risk analysis and risk management strategies should be taken into account in respect of all capital financing, treasury management and related activities. Treasury management has the same definition as in the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes: The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 4.2.2 The prudential indicators will provide a framework in 2010-11 in which the Council conducts its capital financing activities, consistent with good risk management, and alongside its treasury strategy. They will be monitored throughout the year and reported to Cabinet on a regular basis.
- 4.2.3 The proposed prudential indicators have taken account of the existing structure of borrowing and all reasonable restructuring activity that might occur. They are consistent with the Council's capital programme, Capital Strategy, and Treasury Management Strategy for 2010-11 to 2012-13, which are all brought to this Cabinet for recommendation for approval by Council on 25 February 2010.



- 4.2.4 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 B at individual indicator level.
- 4.2.5 In addition to there is a risk that proposed changes to the arrangements for housing finance and the HRA subsidy mechanism could have a significant impact on the Council's capital financing and borrowing position at some point in the coming three-year period. The details, impacts and timing of such changes are not yet known, and a separate report will be brought to Cabinet (and Council if applicable) at a later date.

#### **4.3 Legal**

- 4.3.1 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) and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.
- 4.3.2 This includes the requirement that prudential indicators, other than actuals that are taken from information in the local authority's Statement of Accounts, are required to be set and where they are revised, revised through the processes established for the setting and revising of the budget for the local authority.

#### **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 contributes positively to Comprehensive Area Assessment (CAA) Use of Resources requirements. This supports the Council's priority to be "an efficient well-managed organisation that puts our 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**

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### **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
- CIPFA Prudential Code for Capital Finance in Local Authorities 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)
- CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007
- The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008
- CIPFA Prudential Code for Capital Finance in Local Authorities. Fully Revised Second Edition 2009
- CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition) 2009
- CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Third Edition) 2009
- CLG Changes to the Capital Finance System – Consultation (November 2009)

### **5.2 Cabinet/Council Reports**

- Financial Regulations - Report to Council 19 November 2007 (Contains formal adoption of the CIPFA Code of Practice for Treasury Management)
- Capital Programme 2010-11 to 2012-13 - Report to Cabinet 24 February 2010
- Treasury Strategy 2010-11 to 2012-13 - Report to Cabinet 24 February 2010
- General Fund Revenue Budget 2010-13 - Report to Cabinet 24 February 2010

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