



NORTHAMPTON  
BOROUGH COUNCIL

## COUNCIL

### 21<sup>st</sup> July 2008

Agenda Status: Public

Directorate: Governance and Improvement

Report Title	PRUDENTIAL INDICATORS FOR CAPITAL FINANCE 2008-09 to 2010-11
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#### 1. Summary

- 1.1 The CIPFA Prudential Code for Capital Finance in Local Authorities requires the Council to set a range of prudential indicators each year for the next financial year and the two following financial years. This must be done formally as part of the budget setting process each year. The Prudential Indicators for 2008-09 were approved by Cabinet on 20<sup>th</sup> February 2008 and by Council on 28<sup>th</sup> February 2008
- 1.2 The Chief Financial Officer is required to report to Council to seek approval to revise any of the Prudential Indicators, or if there is a breach of any of the Prudential Indicators.
- 1.3 The Council has recently entered into investments over 364 days totalling £6m, exceeding the approved prudential indicator limit for 2008-09 of £5m. This has been done with the approval of the Section 151 Officer in order to take advantage of current market conditions, and without compromising the appropriate liquidity levels of cash flow resources.
- 1.4 On 26<sup>th</sup> June 2008 Cabinet agreed to recommend to Council that they:
- Note a deviation from the prudential indicator for 2008-09 for the upper limit for principal sums invested for more than 364 days
  - Approve a revision to the prudential indicator for 2008-09 to 2010-11 for the upper limit for principal sums invested for more than 364 days

## 2. Recommendations

### 2.1 That Council:

- a) Note a deviation from the prudential indicator for 2008-09 for the upper limit for principal sums invested for more than 364 days
- b) Agree the following revised prudential indicators for the upper limit for principal sums invested for more than 364 days.

Upper limit on investments for periods longer than 364 days	
	Upper Limit £000
2008-09	6,000
2009-10	6,000
2010-11	6,000

### 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 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.
- 3.1.3 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.
- 3.1.4 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.
- 3.1.5 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

3.1.6 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

3.1.7 The Council's prudential indicators for 2008-09 were approved by Cabinet on 20th February 2008 and by Council on 28th February 2008

**Upper limit on principal sums invested for periods of more than 364 days**

3.1.8 The Chief Financial Officer is required to report to Council to seek approval to revise any of the prudential indicators, or to notify any breaches of the prudential indicators.

3.1.9 As a result of the economic slow down and market conditions, investment rates for periods over 364 days have been extremely favourable in recent weeks. The Council's treasury advisers, Sector, have advised that local authorities should undertake some 2-year investments in order to fix some returns at the present high rates. The market is very volatile and the current high rates are unlikely to be sustained. A proactive approach has been taken by officers to respond swiftly to these recommendations in order to maximise returns and to protect the interests of the Council against the effect of potential future rate reductions.

3.1.10 The Council has recently entered into investments over 364 days totalling £6m, exceeding the approved prudential indicator limit for 2008-09 of £5m. This has been done with the approval of the Section 151 Officer and without compromising the appropriate liquidity levels of cash flow resources. The details are set out in the following table

<b>Investments over 364 days</b>		
<b>Date Invested</b>	<b>Period</b>	<b>Amount invested £000</b>
04/06/08	2 years	2,000
13/06/08	2 years	2,000
16/06/08	2 years	2,000
	<b>Total</b>	<b>6,000</b>

3.1.11 The Chief Financial Officer recommends that the prudential indicators for the upper limit for principal sums invested for periods of more than 364 days is revised from £5m to £6m for 2008-09 and the following two financial years as follows:

<b>Upper limit on investments for periods longer than 364 days</b>		
		<b>Upper Limit £000</b>
2008-09		6,000
2009-10		6,000
2010-11		6,000

3.1.12 Council are asked to agree the revision to the prudential indicator for the upper limit for principal sums invested for more than 364 days.

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

### **4.1 Resources and Risk**

- 4.1.1 The prudential indicators provide a framework in 2008-09 in which the Council conducts its treasury activities, consistent with good treasury risk management. They are monitored throughout the year and reported to Cabinet and Council on a regular basis.
- 4.1.2 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 agreed prudential indicators and the proposed revision take account of the existing structure of borrowing and all reasonable restructuring activity that might occur.
- 4.1.3 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.

### **4.2 Legal**

- 4.2.1 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.

### **4.3 Other Implications**

#### **4.3.1 Policy**

The prudential indicators for 2008-09 to 2010-11 set the policy for the coming year, and plans for future years.

#### **4.3.2 Equality**

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

#### **4.3.3 Consultees (Internal and External)**

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.

#### 4.3.4 How the Proposals deliver Priority Outcomes

Adherence to the Prudential Code is a statutory requirement and also represents best practice. It also contributes to improving the CPA Use of Resources score. This supports Council's Priority No 3: We will be a well-managed organisation that puts our customers at the heart of what we do

4.3.5 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 & Council Reports

- Prudential Indicators for 2008-09 – Report to Cabinet 20 February 2008 and to Council 28 February 2008
- Capital Programme 2007-08 – Outturn Position – Report to Cabinet 26 June 2008

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