

Appendices



NORTHAMPTON
BOROUGH COUNCIL

Item No.

CABINET REPORT

Report Title	PRUDENTIAL INDICATORS FOR CAPITAL FINANCE 2008-09 to 2010-11 – MONITORING TO 31 AUGUST 2008
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	5 November 2008
Key Decision:	YES
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Governance and Improvement
Accountable Cabinet Member:	Malcolm Mildren
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 latest approved prudential indicators for 2008-09 to 2010-11, with a commentary to support the individual prudential indicators (Annex A)
 - Monitoring information on the approved prudential indicators for 2008-09 as at 31st August 2009 (Annex B)

- A recommendation for Cabinet to recommend Council to approve revisions to a number of the prudential indicators for 2008-09

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 2008-09, as set below.
- a) Estimate of capital expenditure

	2008-09
Estimates of Capital Expenditure	Estimate as at 31 August 2008
	£000
General Fund (Non HRA)	10,214
Housing Revenue Account (HRA)	17,455
Total	27,699

- b) Estimate of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)				
	2007-08	2008-09	2009-10	2010-11
	31 March 2008 Actual £000	31 March 2009 Estimate £000	31 March 2010 Estimate £000	31 March 2011 Estimate £000
Non-HRA	21,150	25,695	25,075	24,480
HRA	(7,675)	(6,675)	(4,676)	(2,150)
Total	13,475	19,020	20,399	22,330

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

2008-09 to 2010-11 Approved Prudential Indicators

- 3.1.8 Council approved the Council's prudential indicators for 2008-09 to 2010-11 at their budget-setting meeting of 28 February 2008.
- 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 A revision to the original prudential indicator for 2008-09 to 2010-11 for the upper limit for principal sums invested for more than 364 days was approved by Council on 21 July 2008
- 3.1.11 The latest approved prudential indicators are set out for information at Annex A.

3.2 Issues

2008-09 Prudential Indicators Monitoring Information as at 31 August 2008

- 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 31st August 2008 on each of the prudential indicators for 2008-09 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

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 2008-09 are shown in the table below:

	2008-09
Estimates of Capital Expenditure	Estimate as at 31 August 2008
	£000
General Fund (Non HRA)	10,214
Housing Revenue Account (HRA)	17,455
Total	27,699

3.2.6 The estimates are consistent with the latest proposed capital programme for 2008-09 approved by Cabinet on 15 October 2008.

Estimate of Capital Financing Requirement (CFR)

- 3.2.7 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.
- 3.2.8 Revised estimates for the Capital Financing Requirement for 2008-09 and future years are shown in the table below:

Capital Financing Requirement (Closing CFR)				
	2007-08	2008-09	2009-10	2010-11
	31 March 2008 Actual £000	31 March 2009 Estimate £000	31 March 2010 Estimate £000	31 March 2011 Estimate £000
Non-HRA	21,150	25,695	25,075	24,480
HRA	(7,675)	(6,675)	(4,676)	(2,150)
Total	13,475	19,020	20,399	22,330

- 3.2.9 The revisions to the estimates of CFR are as a result of the impacts of actual capital programme financing in 2007-08 and forecast borrowing to fund capital expenditure in 2008-09 and future years. The figures are consistent with the 2007-08 Statement of Accounts and with the borrowing requirements of the latest agreed capital programme for 2008-09. The forecasts for future years are subject to decisions on next year's budgets and are included for information only.

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 3.2.9 above.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The approved prudential indicators for 2008-09 to 2010-11, together with any recommended revisions agreed by Council, constitute the Council's policy for 2008-09 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.

4.3 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 Reports

- Prudential Indicators for Capital Finance 2008-09 to 2010-11 - Report to Cabinet 20 February 2008 and to Council 28 February 2008
- Capital Programme 2007-08 - Outturn Position – Report to Cabinet 26 June 2008
- Prudential Indicators for Capital Finance 2008-09 to 2010-11- Report to Council 21 July 2008
- Capital Programme 2008-09 – Position as at end of August 2008 – Report to Cabinet 15 October 2008

Bev Dixon, Finance Manager – Capital & Treasury, ext 7401