

Appendices



Item No.

**NORTHAMPTON**  
BOROUGH COUNCIL

## CABINET REPORT

<b>Report Title</b>	<b>PRUDENTIAL INDICATORS FOR CAPITAL FINANCE 2009-10 to 2011-12</b>
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**AGENDA STATUS: PUBLIC**

<b>Cabinet Meeting Date:</b>	19 February 2009
<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>	Malcolm Mildren
<b>Ward(s)</b>	Not Applicable

### 1. Purpose

- 1.1 The CIPFA Prudential Code for Capital Finance in Local Authorities requires the Council to set a range of prudential indicators for 2009-10 and the two following years. This must be done formally as part of the budget setting process each year.
- 1.2 This report sets out:
- The background to the prudential indicators
  - Updated prudential indicators for 2008-09 where applicable
  - Proposed prudential indicators for 2009-10 and the following two years
  - A commentary to support the individual prudential indicators (Annex A)

## **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 as set out at paragraph 3.2.2 below.
- 2.2 That in line with Guidance Notes to the Prudential Code issued by CIPFA, 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, as shown at paragraph 3.2.2 (g) and (h) below. This will allow 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.

## **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 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 all local authorities to set prudential indicators for capital finance for the forthcoming and the two following financial years. The prudential indicators must then be monitored, and revised, as appropriate, during the year.
- 3.1.5 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.
- 3.1.6 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.

3.1.7 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

## **3.2 Issues**

### Prudential Indicators

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 proposed prudential indicators for 2009-10 to 2011-12 are set out below. They are also shown in the attached Annex with a commentary that explains each of the indicators in more detail.

a) Estimate of capital expenditure

Capital Expenditure				
	2008-09	2009-10	2010-12	2012-13
	Latest Estimate £000	Estimate £000	Estimate £000	Estimate £000
General Fund	10,840	3,834	970	104
HRA	10,105	12,429	13,777	13,670
<b>Total</b>	<b>20,945</b>	<b>16,263</b>	<b>14,747</b>	<b>13,774</b>

b) Estimate of Capital Financing Requirement (CFR)

Capital Financing Requirement (Closing CFR)				
	2008-09	2009-10	2010-11	2011-12
	31 March 2009 Estimate £000	31 March 2010 Estimate £000	31 March 2011 Estimate £000	31 March 2012 Estimate £000
General Fund	25,386	25,319	24,183	23,064
HRA	(7,229)	(6,675)	(5,605)	(535)
<b>Total</b>	<b>18,157</b>	<b>18,644</b>	<b>18,578</b>	<b>22,529</b>

c) Estimate of the ratio of financing costs to net revenue stream

Ratio of financing costs to net revenue stream			
	2009-10	2010-11	2011-12
	Estimate	Estimate	Estimate
	%	%	%
General Fund	4.90%	6.68%	5.45%
HRA	17.26%	17.25%	17.27%

d) 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
2009-10	0.14
2010-11	4.42
2011-12	4.38

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

Estimates of incremental impact of new capital investment decisions on the Council Housing Rents	
	HRA
	£ p
2009-10	0
2010-11	0
2011-12	0

- f) Net borrowing to Capital Financing Requirement

Net external debt less than CFR	
	2009-10 £000
Borrowing	31,077
Less investments	66,000
<b>Net external debt</b>	<b>0</b>
2008-09 Closing CFR (Forecast)	18,157
Changes to CFR:	
2009-10	487
2010-11	(66)
2011-12	3,951
<b>Adjusted CFR</b>	<b>22,529</b>
Net external debt less than adjusted CFR	Yes

g) Authorised limit for external debt

Authorised limit for external debt				
	2008-09	2009-10	2010-11	2011-12
	Limit £000	Limit £000	Limit £000	Limit £000
Borrowing	41,000	41,000	41,000	41,000
Other long-term liabilities	2,000	2,000	2,000	2,000
<b>TOTAL</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>

h) Operational boundary for external debt

Operational boundary for external debt				
	2008-09	2009-10	2010-11	2011-12
	Boundary £000	Boundary £000	Boundary £000	Boundary £000
Borrowing	36,000	36,000	36,000	36,000
Other long-term liabilities	2,000	2,000	2,000	2,000
<b>TOTAL</b>	<b>38,000</b>	<b>38,000</b>	<b>38,000</b>	<b>38,000</b>

i) Upper limit for fixed interest rate exposure

Upper limits on fixed interest rate exposures	
	Upper Limit £000
2008-09	0
2009-10	0
2010-11	0
2011-12	0

j) Upper limit for variable interest rate exposure

Upper limits on variable interest rate exposures	
	Upper Limit £000
2008-09	38,000
2009-10	38,000
2010-11	38,000
2011-12	38,000

k) Principal sums invested for more periods of more than 364 days

Upper limit on investments for periods longer than 364 days	
	Upper Limit £000
2008-09	6,000
2009-10	10,000
2010-11	10,000
2011-12	10,000

l) Upper and lower limits on the maturity structure of borrowing

Maturity structure of borrowing		
	Lower Limit %	Upper Limit %
Under 12 months	0%	25%
1-2 years	0%	25%
2-5 years	0%	50%
5-10 years	0%	100%
Over 10 years	0%	100%



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

The Council adopted the CIPFA Code of Practice for Treasury Management in the Public Services following its publication in 2001. This was formally minuted as a decision at the meeting of 21 January 2008.

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

- 3.3.1** Cabinet are asked to recommend to Council that they approve the prudential indicators set out at paragraph 3.2.2 above.

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

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### **4.1 Policy**

- 4.1.1 The setting of the prudential indicators for 2009-10 to 2011-12 sets the policy for the coming year, and plans for future years.

### **4.2 Resources and Risk**

- 4.2.1 The prudential indicators will provide a framework in 2009-10 in which the Council conducts its treasury activities, consistent with good treasury risk management. They will be 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 proposed here have been proposed taking account of the existing structure of borrowing and all reasonable restructuring activity that might occur. They are consistent with the Council’s capital programme and treasury management strategy for 2009-10 to 2010-11, which are both brought to this Cabinet to recommend for approval by Council on 26 February.
- 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 contributes positively to Comprehensive Area Assessment (CAA) Use of Resources requirements. This supports the Council's priority to be a well-managed organisation that puts customers at the centre 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

## 5.2 Cabinet/Council Reports

- Prudential Indicators for Capital Finance 2007-08 - Position as at 30 November 2007 - Report to Council 21 January 2008 (Contains formal adoption of the CIPFA Code of Practice for Treasury Management)
- Prudential Indicators for Capital Finance 2008-09 - Position as at 30 November 2008 - Report to Council 4 February 2008
- Capital Programme 2008-09 – Position as at the end of December 2008 – Report to Cabinet 4 February 2009
- Capital Programme 2009-10 to 2011-12 - Report to Cabinet 19 February 2009
- Treasury Strategy 2009-10 to 2011-12- Report to Cabinet 19 February 2009
- Revenue Budget 2009-11 - Report to Cabinet 19 February 2009

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