

Appendices
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CABINET REPORT

Report Title	PRUDENTIAL INDICATORS FOR CAPITAL FINANCE 2012-13 to 2014-15
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	22 February 2012
Key Decision:	NO
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Finance & Support
Accountable Cabinet Member:	Alan Bottwood
Ward(s)	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 2012-13 and the following two years
- The executive summary from the Prudential Code (2011 Edition) (Appendix A)
- A commentary to support the individual prudential indicators (Appendix B)

2. Recommendations

- 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 (2011 edition) 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

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 new edition of the Prudential Code was published in 2011. This includes revisions to incorporate the impacts of HRA reform under the Localism Act 2011.
- 3.1.3 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 – e.g. 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 (2011 edition) is attached for information at Appendix A.

3.2 Issues

Prudential Indicators

- 3.2.1 In total there are fourteen 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 debt 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*
- HRA Limit on Indebtedness

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.

3.2.1 The Localism Act incorporates statutory changes to housing finance, with a move from the present housing subsidy system to the self-financing of the HRA. The reforms have a significant impact on the Council's treasury management position and prudential indicators, primarily in terms of the authority's CFR and external borrowing, which will rise by around £193m and £184m respectively before the end of the 2011-12 financial year. The prudential indicators in this report have been set with regard to the impacts of these changes.

3.2.3 The proposed prudential indicators for 2012-13 to 2014-15 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 2011-12 outturn figures for these indicators will be reported to Cabinet and Council following the closure of the 2011-12 accounts.

The proposed prudential indicators below are also shown again in the attached Appendix 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			
	2012-13	2013-14	2014-15
	Estimate	Estimate	Estimate
	%	%	%
General Fund	6.98	6.98	6.40
HRA	28.51	27.42	26.92

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
2012-13	0.21
2013-14	0.77
2014-15	0.95

- 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
2012-13	5.08
2013-14	0.20
2014-15	19.88

Prudence

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

Net external debt less than CFR	
	2012-13 £000
Borrowing	215,809
Less investments	81,970
Net external debt	133,839
2011-12 Closing CFR (Forecast)	221,726
Changes to CFR:	
2012-13	(7,658)
2013-14	(10,974)
2014-15	528
Adjusted CFR	203,622
Net external debt less than adjusted CFR	Yes

Capital Expenditure

e) Estimate of capital expenditure

Capital Expenditure			
	2012-13	2013-14	2014-15
	Estimate £000	Estimate £000	Estimate £000
General Fund	12,753	2,975	1,475
HRA	17,830	24,460	52,145
Total	30,583	27,435	53,260

f) Estimates of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)			
	2012-13	2013-14	2014-15
	31 March 2012 Estimate £000	31 March 2013 Estimate £000	31 March 2014 Estimate £000
General Fund	31,686	31,554	31,499
HRA	182,382	171,540	172,122
	214,068	203,094	203,621

External Debt

g) Authorised limit for external debt

Authorised limit for external debt			
	2012-13	2013-14	2014-15
	Limit £000	Limit £000	Limit £000
Borrowing	245,000	245,000	245,000
Other long-term liabilities	5,000	5,000	5,000
TOTAL	250,000	250,000	250,000

h) Operational boundary for external debt

Operational boundary for external debt			
	2012-13	2013-14	2014-15
	Boundary £000	Boundary £000	Boundary £000
Borrowing	240,000	240,000	240,000
Other long-term liabilities	5,000	5,000	5,000
TOTAL	245,000	245,000	245,000

i) HRA Limit on Indebtedness

The HRA limit on indebtedness is £208.401m. This is the HRA debt cap imposed by the Department for Communities and local Government at the implementation of HRA self-financing.

Treasury Management

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

This Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Code). The latest adoption of the Code was formalised at the Council meeting of 25 February 2010, and is included in the Council's Financial Regulations

3.2.4 There are also four treasury management indicators required by the Prudential Code but not treated as prudential indicators. These are included in the Council's Treasury Management Strategy Report elsewhere on this agenda:

- Upper limit on the proportion of net debt compared to gross debt
- Upper limits on fixed interest and variable interest rate exposures
- Upper and lower limits to the maturity structure of borrowing
- Upper limits to the total of principal sums invested for periods longer than 364 days

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)

4.1 Policy

4.1.1 The setting of the prudential indicators for 2012-13 to 2014-15 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.

4.2.2 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.

4.2.3 The prudential indicators will provide a framework in 2012-13 in which the Council conducts its capital financing activities, consistent with good risk management, and alongside its treasury strategy. Officers will monitor the indicators throughout the year. Monitoring information will be reported to Cabinet and Council in the treasury management mid year report, and the outturn figures in the treasury management outturn report. In addition any significant changes to overall affordability and/or any breaches of authorised limits will be reported on an exception basis.

4.2.4 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 2012-13 to 2014-15, which are all brought to this Cabinet for recommendation for approval by Council on 29 February 2011.

- 4.2.5 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 Appendix B at individual indicator level.

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 Capital expenditure schemes, the costs of which impact on some of the prudential indicators in this report, are all subject to equalities impact assessments. Further details are contained in the Capital Programme 2012-13 to 2014-15 report to this Cabinet meeting.

4.4.2 In respect of the other prudential indicators in this report, no equalities issues have been identified.

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 The proposals support the Council's priority of providing quality services.

4.7 Other Implications

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

5. Background Papers

Current Statute, Regulation and Guidance

Local Government Act 2003

Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

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 – 2011 Edition

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes - 2011 Edition

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities – 2011 Edition

CLG Guidance on Minimum Revenue Provision (11 March 2010)

CLG Guidance on Local Authority Investments (11 March 2010)

Localism Act 2011

Cabinet/Council Reports

Treasury Strategy 2010-11 to 2012-13 - Report to Council 25 February 2010 (Contains formal adoption of the CIPFA Code of Practice for Treasury Management)

Capital Programme 2012-13 to 2014-15 - Report to Cabinet 22 February 2012

Council Wide General Fund Revenue Budget 2012-13 to 2014-15 - Report to Cabinet 22 February 2012.

Housing Revenue Account (HRA) Budget, Rent Setting 2012-13 and Budget Projections 2013-14 and 2014-15 - Report to Cabinet 22 February 2012.

Treasury Management Strategy 2012-13 to 2014-15 - Report to Cabinet 22 February 2012

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