

Appendices:
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NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	PRUDENTIAL INDICATORS FOR CAPITAL FINANCE 2013-14 to 2015-16
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	20 February 2013
Key Decision:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Resources
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 2013-14 and the following two years
- A commentary to support the individual prudential indicators (Appendix A)

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 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 The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal.
- 3.1.3 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 practiceAnd, that in taking decisions in relation to these factors, the local authority is accountable, by providing a clear and transparent framework.
- 3.1.4 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.
- 3.1.5 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.
- 3.1.6 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.
- 3.1.7 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.

3.1.8 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.

3.2 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

- Gross 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.

3.2.3 The proposed prudential indicators for 2013-14 to 2015-16 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 2012-13 outturn figures for these indicators will be reported to Cabinet and Council following the closure of the 2012-13 accounts.

Further information is provided at Appendix A, which comprises a commentary and risk analysis for each prudential indicator.

Affordability

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

Ratio of financing costs to net revenue stream			
	2013-14	2014-15	2015-16
	Estimate	Estimate	Estimate
	%	%	%
General Fund	6.02	7.68	6.45
HRA	33.49	33.41	32.88

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
2013-14	0.27
2014-15	2.57
2015-16	3.69

- 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
2013-14	0.06
2014-15	0.33
2015-16	0.72

Prudence

- d) Gross debt and the capital financing requirement (CFR)

Gross debt and the capital financing requirement	
	2013-14 £000
Gross external debt	216,129
2012-13 Closing CFR (forecast)	216,826
Increases to CFR:	
2013-14	5,118
2014-15	-
2015-16	-
Adjusted CFR	221,944
Gross external debt greater than adjusted CFR	No

Capital Expenditure

e) Estimate of capital expenditure

Capital Expenditure			
	2013-14	2014-15	2015-16
	Estimate £000	Estimate £000	Estimate £000
General Fund	5,747	7,316	1,475
HRA	24,375	42,100	22,161
Total	30,122	49,416	23,636

f) Estimates of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)			
	2013-14	2014-15	2015-16
	31 March 2014 Estimate £000	31 March 2015 Estimate £000	31 March 2016 Estimate £000
General Fund	35,141	35,055	34,930
HRA	186,803	186,803	186,803
Total	221,944	221,858	221,733

External Debt

g) Authorised limit for external debt

Authorised limit for external debt			
	2013-14	2014-15	2015-16
	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

The Council's S.151 Officer will have delegated authority to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to the Council at the next meeting following the change.

h) Operational boundary for external debt

Operational boundary for external debt			
	2013-14	2014-15	2015-16
	Boundary £000	Boundary £000	Boundary £000
Borrowing	235,000	235,000	235,000
Other long-term liabilities	5,000	5,000	5,000
Total	240,000	240,000	240,000

The Council's S.151 Officer will have delegated authority to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to the Council at the next meeting following the change.

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

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. The adoption is included in the Council's Constitution, approved by the Council on 14 March 2011, at paragraph 6.10 of the Financial Regulations.

3.1.1 There are also three 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 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 2013-14 to 2015-16 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 2013-14 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 2013-14 to 2015-16, which are all brought to this Cabinet for recommendation for approval by Council on 25 February 2013.
- 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 A 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 the Council's equalities impact assessment process prior to commencement.

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

The proposals support the Council's priority of making every £ go further.

4.7 Other Implications

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

5. Background Papers

None

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