

Appendices



Item No.

NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	PRUDENTIAL INDICATORS FOR CAPITAL FINANCE 2007-08 – POSITION AS AT THE END OF NOVEMBER 2007
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	7 January 2008
Key Decision:	YES
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	NO
Directorate:	Governance and Improvement
Accountable Cabinet Member:	Malcolm Mildren
Ward(s)	Not Applicable

1. Purpose

1.1 The purpose of the report is to:

a) Inform Cabinet of:

- The latest monitoring position on the Council's prudential indicators for capital finance, as at 30 November 2007
- The future reporting arrangements for the setting and monitoring of the Council's prudential indicators

b) Request Cabinet to recommend to Council that they approve revised prudential indicators for 2007-08 for the:

- Capital Expenditure Estimates,
- Capital Financing Requirement (CFR), and

- Estimate of Ratio of Financing to Net Revenue Stream
- c) Request Cabinet to recommend to Council that they formally adopt the CIPFA Code of Practice for Treasury Management in Public Services.

2. Recommendations

2.1 That Cabinet note the prudential indicators monitoring information attached at Annex A.

2.2. That Council be recommended to approve the following revised prudential indicator for the estimates of capital expenditure in 2007-08.

	2007-08
Estimates of Capital Expenditure	Estimate as at 30 Nov 2007
	£000
Housing Revenue Account (HRA)	9,075
General Fund (Non HRA)	10,113
Total	19,188

2.3 That Council be recommended to approve the following revised prudential indicator for the Capital Financing Requirement (CFR) estimates

	2007-08
Estimates of Capital Financing Requirement	Estimate as at 30 Nov 2007
	£000
Housing Revenue Account (HRA)	(8,175)
General Fund (Non HRA)	21,848
Total	13,673

2.4 That Council be recommended to approve the following revised prudential indicator for the estimate of ratio of financing to net revenue stream

Ratio of Financing Costs to Net Revenue Stream	2007-08
	%
HRA	(0.53%)
Non HRA	0.75%

2.5 That Council be recommended to formally adopt the CIPFA Code of Practice for Treasury Management in Public Services.

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 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 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 for 2007-08

- 3.2.1 The Council's prudential indicators for capital finance for the years 2006-07 to 2008-09 were approved by Councillors at the Cabinet meeting of 3 July 2006.
- 3.2.2 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

3.2.3 The approved prudential indicators for capital finance for 2006-07 to 2008-09 are reproduced at Annex A, together with the latest monitoring information.

Monitoring Information to the end of November 2007

3.2.4 This is the first prudential indicator monitoring report for 2007-08. The monitoring information for each prudential indicator is set out at Annex A, together with the original indicator as set by Cabinet at their meeting of 3 July 2006.

3.2.5 The monitoring exercise has established that four of the Council's prudential indicators now require Council approval. These are:

- Estimate of capital expenditure – setting of revised indicator
- Estimate of Capital Financing Requirement (CFR) – setting of revised indicator
- Estimate of the ratio of financing to net revenue stream– setting of revised indicator
- Adoption of the CIPFA code of Practice for Treasury Management in the Public Services – to provide a formal record of compliance

Estimate of capital expenditure – setting of revised indicator

3.2.6 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.

3.2.7 The original and revised estimates for capital expenditure for 2007-08 are shown in the table below

	2007-08	2007-08
Estimates of Capital Expenditure	Estimate set by Cabinet 3 July 2006	Estimate as at 30 Nov 2007
	£000	£000
Housing Revenue Account (HRA)	7,000	9,075
General Fund (Non HRA)	5,200	10,113
Total	12,200	19,188

3.2.8 The estimates are consistent with the latest proposed capital programme for 2007-08 being put forward to Cabinet for approval on 7 January 2008.

3.2.9 Cabinet are asked to recommend to Council that they approve the revised prudential indicator for the estimates of capital expenditure in 2007-08.

Estimate of Capital Financing Requirement (CFR) – setting of revised indicator

3.2.10 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.

	2007-08	2007-08
Estimates of Capital Financing Requirement	Estimate set by Cabinet 3 July 2006	Estimate as at 30 Nov 2007
	£000	£000
Housing Revenue Account (HRA)	(10,712)	(8,175)
General Fund (Non HRA)	26,070	21,848
Total	15,358	13,673

3.2.11 The reduction in the estimates of CFR are as a result of technical adjustments relating to previous years, and the impacts of actual borrowing in 2006-07 and forecast borrowing in 2007-08. The estimates are consistent with the 2006-07 Statement of Accounts and with the borrowing requirements of the latest proposed capital programme for 2007-08 being put forward to Cabinet for approval on 7 January 2008.

3.2.12 Cabinet are asked to recommend to Council that they approve the revised prudential indicator for the estimates of Capital Financing Requirement 2007-08.

Estimate of Ratio of Financing to Net Revenue Stream – setting of revised indicator

3.2.13 These indicators express the net costs of financing as a percentage of the funding receivable from the Government and Council Tax payers.

3.2.14 This indicator is calculated as the estimated debt interest costs for the year divided by the net budget requirement for the General Fund and total HRA income for the HRA. The objective is to enable year on year trends to be identified.

3.2.15 The actual indicator for 2007-08, determined at the point of time of setting the Council's budget is as follows:

Ratio of Financing Costs to Net Revenue Stream	2007-08
	%
HRA	(0.53%)
Non HRA	0.75%

3.2.16 Cabinet are asked to recommend to Council that they approve the revised prudential indicator for the estimate of ratio of financing to net revenue stream.

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

3.2.17 The Council adopted the CIPFA Code of Practice for Treasury Management in Public Services following its publication in 2001. This is evident from a review of Cabinet and Council reports pertaining to Treasury Management in the intervening years. However the actual date of adoption is not apparent from the Committee records.

3.2.18 Cabinet are therefore to be asked to recommend to Council that they formally adopt the CIPFA Code of Practice for Treasury Management in Public Services, so that this can be recorded as a Council decision.

Future Arrangements

- 3.2.1 A report will be brought to Cabinet in February 2008 asking them to recommend to Council the prudential indicators for capital finance for 2008-09 to 2010-11. These will be set alongside, and with reference to, the Council's capital programme and revenue budget for 2008-09 and future years, and the Treasury Strategy for 2008-09 to 2010-11.
- 3.2.2 Thereafter prudential indicator monitoring reports will be brought to Cabinet on a four monthly reporting cycle – i.e. reporting the position as at the end of July, the end of November and at outturn. When circumstances require it, Cabinet will be asked to recommend revised prudential indicators to full Council for approval.

3.3 Choices (Options)

- 3.3.1 Cabinet are asked to recommend to Council that they approve revised prudential indicators for 2007-08 for the
- Capital Expenditure Estimates
 - Capital Financing Requirement (CFR)
 - Estimate of Ratio of Financing to Net Revenue Stream
- 3.3.2 Cabinet are asked to recommend to Council that they formally adopt the CIPFA Code of Practice for Treasury Management in Public Services

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The prudential indicators for 2007-08 were set at the Cabinet meeting of 3 July 2006.

4.2 Resources and Risk

- 4.2.1 This is a financial report and financial issues are dealt with in the main body of the report and at Annex A.
- 4.2.2 Any significant risks that have been identified by officers are considered at individual indicator level in Annex A.

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 is 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 equality issues have been identified as a result of this report.

4.5 Consultees (Internal and External)

4.5.1 The setting and monitoring of the prudential indicators is a statutory requirement, and for the most part the monitoring information provided in this report consists of the reporting of actual activity. In this instance consultation is not a feasible activity.

4.5.2 However the capital investment plans that drive much of the capital finance activity monitored and reported in the prudential indicators are subject to consultation. 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 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 CPA Use of Resources score. This supports the Council's priorities of:

- Continuing to improve our weakest services, and
- Continuing to strengthen our financial management.

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

- Local Government Act 2003
- Statutory Instrument 2003 No 3146 – Local Authorities (Capital Finance and accounting) (England) Regulations 2003
- The Prudential Code for Capital Finance in Local Authorities (CIPFA)

- Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2001) (The Code of Practice for Treasury Management) (CIPFA)
- Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Second Edition 2006) (2006) (CIPFA)
- Guidance on Local Authority Investments

5.2 Cabinet Reports

- 3 July 2006 - Capital Programme
- 3 December 2007 – Capital Programme 2007-08 – Position as at end of October 2007
- 7 January 2008 – Capital Programme 2007-08 – Position as at end of November 2007

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