REPORT TO:	Cabinet
DATE:	8th July 2010
SUBJECT:	The Prudential Code for Capital Finance in Local Authorities – Prudential Indicators Outturn 2009/10
WARDS AFFECTED:	All
REPORT OF:	John Farrell Interim Head of Corporate Finance and Information Services 0151 934 4096
CONTACT OFFICER:	Jeff Kenah 0151 934 4104
EXEMPT/ CONFIDENTIAL:	No

PURPOSE/SUMMARY:

To inform members of the outturn position for Prudential Indicators for 2009/10.

REASON WHY DECISION REQUIRED:

To comply with the CIPFA Prudential Code for Capital Finance in Local Authorities.

RECOMMENDATION(S):

Cabinet is asked to note the contents of this report.

KEY DECISION:	No.
FORWARD PLAN:	No.
IMPLEMENTATION DATE:	Following the expiry of the “call-in” period for the minutes of this meeting.

ALTERNATIVE OPTIONS:

There are no alternative options. The Council under The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 is required to have regards to the CIPFA Prudential Code for Capital Finance in Local Authorities.

IMPLICATIONS:

Budget/Policy Framework: Compliance with Prudential Indicators and the reporting of outturn will enable the financial implications of capital investment to be contained within approved revenue budgets.

Financial: There are no additional Financial implications as a result of the report.

CAPITAL EXPENDITURE	**2009/ 2010 £**	**2010/ 2011 £**	**2011/ 2012 £**	**2012/ 2013 £**
Gross Increase in Capital Expenditure	---	---	---	---
Funded by:				
Sefton Capital Resources	---	---	---	---
Specific Capital Resources	---	---	---	---
REVENUE IMPLICATIONS				
Gross Increase in Revenue Expenditure	--	---	---	---
Funded by:				
Sefton funded Resources	---	---	---	---
Funded from External Resources	---	---	---	---
Does the External Funding have an expiry date? Y/N		When?		
How will the service be funded post expiry?				

Legal: To comply with The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

Risk Assessment: Operation within the Prudential Indicators will minimise the risk of any additional revenue budget pressures resulting from capital financing decisions.

Asset Management: None.

CONSULTATION UNDERTAKEN/VIEWS

None.

CORPORATE OBJECTIVE MONITORING:

Corporate Objective		Positive Impact	Neutral Impact	Negative Impact
1	Creating a Learning Community		√	
2	Creating Safe Communities		√	
3	Jobs and Prosperity		√	
4	Improving Health and Well-Being		√	
5	Environmental Sustainability		√	
6	Creating Inclusive Communities		√	
7	Improving the Quality of Council Services and Strengthening local Democracy	√		
8	Children and Young People		√	

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

The CIPFA Prudential Code for Capital Finance in Local Authorities.

BACKGROUND:

1. **Introduction**

1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. The Prudential Code details a number of measures/limits/parameters (Prudential Indicators) that, to comply with legislation, must be set in respect of each financial year to ensure that the Council is acting prudently and that its capital expenditure proposals are affordable. Original Prudential Indicators for 2009/10 were approved in February 2009 and revised during the year as part of the budget process.

1.2. A requirement of the Prudential Code is the reporting to Cabinet of the outturn position of Prudential Indicators following the end of financial year. In accordance with this requirement, this report outlines the 2009/10 outturn for the following Prudential Indicators:-

(i) Capital Expenditure (Section 2);
(ii) Financing Costs/Net Revenue Stream (Section 3);
(iii) Capital Financing Requirement (Section 4);
(iv) Borrowing Limits (Section 5);
(v) Treasury Management Indicators (Section 6).

2. **Prudential Indicator – Capital Expenditure**

2.1. The original and revised estimates for 2009/10 capital expenditure are presented below, together with the actual capital expenditure calculated on an accruals basis for the financial year.

Capital Expenditure 2009/10			
	Original Estimate £'000	Revised Estimate £'000	Actual £'000
Children's Services	21,197	31,433	27,885
Housing General Fund	18,928	17,904	18,460
Technical Services	7,831	8,621	8,733
Other Services	21,673	23,879	18,944
Total	69,629	81,837	74,022

2.2. Variations between original estimates, revised estimates and actual capital expenditure in 2009/10 have arisen as a result of planned changes of the capital programme and related re-phasing of expenditure on capital projects. A report elsewhere on today's agenda details actual capital expenditure in 2009/10 together with explanations for variations from revised estimates.

2.3. Actual capital expenditure in the year is within budget and it has therefore been possible to finance the capital programme from within available approved resources. No additional unbudgeted financial implications due to additional borrowings have arisen as a result of the overall capital expenditure incurred in 2009/10.

3. Prudential Indicator – Financing Costs/Net Revenue Stream

3.1. This indicator measures the financing costs of capital expenditure as a proportion of the net resource expenditure of the General Fund. The original and revised estimates together with the actual outturn for 2009/10 are presented below. The lower ratio is due to the lower borrowing costs incurred in the year, due to the lower capital spend as well as the decision to internally borrow i.e. reduce cash balances that earn a low rate of interest rather than borrow at a high rate of interest.

Financing Costs/Net Revenue Stream			
	2009/2010 Original Estimate	2009/2010 Revised Estimate	2009/2010 Actual
General Fund	5.3%	5.3%	4.9%

4. Prudential Indicator – Capital Financing Requirement

4.1. The Capital Financing Requirement indicator reflects the Authority's underlying need to borrow for capital purposes. This is based on historic capital financing decisions and the borrowing requirement arising from the financing of actual capital expenditure incurred in 2009/10. The original and revised estimates of the Capital Financing Requirement as at 31/03/10 together with the actual Capital Financing Requirement as at that date are shown below:

Capital Financing Requirement			
	31/03/10 Original Estimate £'000	31/03/10 Revised Estimate £'000	31/03/10 Actual £'000
General Fund	190,000	189,300	190,160

4.2. The level of actual Total Capital Financing Requirement as at 31 March 2010 when compared to the original estimate is in line with expectation.

4.3. The Capital Financing Requirement now includes the Crosby Leisure Centre PFI scheme which has now been included on the balance sheet in line with new accounting guidelines (as contained within Statement of Recommended Accounting Practice – Code of Practice on Local Authority Accounting in the United Kingdom 2009). The revised Capital Financing Requirement at 31/10/2010 included an estimate for the value of the PFI scheme of £6.0m as supplied by SECTOR, our Treasury Management Consultants. A formal valuation of the scheme was undertaken by Capita Symonds at 31/03/2010 which valued the asset at £7.116m, which has caused the variation of the actual CFR at 31/03/2010 to the revised estimate.

4.4. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key factor of prudence:

> *"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".*

4.5. In the report to Cabinet in February 2009, it was stated that the Authority would comply with this requirement in 2009/10. During the financial year, net external borrowing did not exceed the total of the Capital Financing Requirement.

5. **<u>Prudential Indicator – Borrowing Limits</u>**

5.1. External borrowing undertaken by the Council arises as a consequence of all the financial transactions of the authority, both capital and revenue, and not simply those arising from capital spending. During 2009/10, the Council managed its Treasury position in terms of its external borrowings and investments in accordance with its approved Treasury Management

Strategy and established an Operational Boundary and Authorised Limit to manage the level of external debt. These items are described below.

5.2. **The Operational Boundary**

5.2.1. The Operational Boundary sets a limit on the total amount of long term borrowing that the Council can enter into. It reflects the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices.

5.2.2. The original and revised estimates set for the Operational Boundary for 2009/10 are detailed below:

Operational Boundary			
	Original Estimate £'000	Revised Estimate £'000	Actual £'000
External borrowing	173,000	166,000	117,600
Other long term liabilities	7,500	7,500	7,002
Total	180,500	173,500	124,602

5.2.3 The lower than anticipated borrowing is due to not borrowing for the capital programme as forecast, as noted in above in 3.1. Added to this £14.635m of loans were repaid in the year.

5.3. **The Authorised Limit**

5.3.1. The Authorised Limit sets a limit on the amount of external borrowing (both short and long term) that the Council enters into. It uses the Operational Boundary as its base but also includes additional headroom to allow, for example, for exceptional cash movements.

5.3.2. The original and revised estimate for the Authorised Limit for 2009/10 approved by the Council are detailed below.

Authorised Limit			
	Original Estimate £'000	Revised Estimate £'000	Actual £'000
External borrowing	188,000	181,000	117,600
Other long term liabilities	7,500	7,500	7,002
Total	195,500	188,500	124,602

5.4. **Actual External Debt**

5.4.1. The Council's actual external debt at 31 March 2010 was £124.602m, comprising £117.600m external borrowing and £7.002m other long term liabilities (Mersey Residuary Body Debt). The external borrowing above includes £5,665m in respect of the Crosby Leisure Centre PFI scheme (as noted in 4.3 above). The equivalent figure for 31 March 2009 is £134.009m, consisting of £126.570 external borrowing and £7.439m other long term liabilities (Mersey Residuary Body Debt). Actual external debt at 31 March 2010 is within the revised Prudential Indicators set for both the Operational Boundary and Authorised Limit.

5.4.2. The level of the Council's actual external debt has also been monitored throughout the financial year and for information this has remained within both of the Prudential Indicators set.

6. **Prudential Indicator – Treasury Management**

6.1. The results of the Council's Treasury Management activities in 2009/10 are detailed in the Annual Treasury Management Report included elsewhere on today's agenda. The report incorporates the following Prudential Indicators that were approved for the 2009/10 financial year:

6.1.1. **Interest Rate Exposure**

i) An upper limit of debt outstanding less investments held at fixed interest rates of 160% of the value total debt outstanding less total investments.

ACTUALS AT 31/03/10 120.1% FIXED INTEREST RATE

ii) An upper limit of debt outstanding less investments held at variable interest rates of 15% of the value of total debt outstanding less total investments.

ACTUALS AT 31/03/10 -20.1% VARIABLE INTEREST RATE

Hence all of the above are within the limit set.

6.1.2. **Debt Maturity Profile**

This is a profile measuring the amount of borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate.

Fixed Rate Debt Maturity	Upper Limit %	Lower Limit %	Actual 31/03/2010 %
Under 12 months	35	0	0.00

12 months and within 24 months	40	0	0.15
24 months and within 5 years	40	0	9.63
5 years and within 10 years	40	0	0.72
10 years and above	90	25	89.5

6.1.3 The 10 year and above band is nearing it's ceiling due to the low level of borrowing in recent years, allied with the repayment of debt as it fell due in 2009/10.

6.1.4. **Non Specified Investments**

An upper limit on the value of non-specified investments of 80% of total investments was set for 2009/10. Non specified investments are defined as over 1 year but less than 5 years.

ACTUALS AT 31/03/10 0.00% OF TOTAL INVESTMENTS

6.2.1. The indicators have been monitored throughout the year and for information the actual figures at 31 March 2010 are shown. No breaches of the indicators have occurred.

7. Recommendations

7.1. Cabinet is asked to note the contents of this report.