

REPORT TO: Cabinet
Council

DATE: 3 March 2011

SUBJECT: The Prudential Code for Capital Finance in Local
Authorities – Prudential Indicators

WARDS AFFECTED: All

REPORT OF: Margaret Carney
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EXEMPT/CONFIDENTIAL: No

PURPOSE/SUMMARY:

To establish the Prudential Indicators for Sefton required under the Prudential Code for Capital Finance in Local Authorities.

REASON WHY DECISION REQUIRED:

To enable the Council to effectively manage its Capital Financing activities, and comply with the CIPFA Prudential Code for Capital Finance in Local Authorities.

RECOMMENDATION(S):

Cabinet is recommended to:

- a) Approve the Prudential Indicators detailed in the report, and summarised in Annex A, as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
- b) Approve the amendments of relevant Prudential Indicators in the event that any unsupported borrowing is approved as part of the 2011/2012 Revenue Budget;
- c) Delegate authority to the Head of Finance and Information Services to manage the Authorised Limit and Operational Boundary for external debt as detailed in Section 5 of the report; and
- d) Refer the report to Council for approval.

KEY DECISION: No, this report does not represent a key decision in itself but is critical in the delivery of the 2011/2012 Budget, which is a key decision for the Council.

FORWARD PLAN: No – see above.

IMPLEMENTATION DATE: With effect from 1 April 2011.

ALTERNATIVE OPTIONS:

There are no alternative options. Under The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 the Council must have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities.

IMPLICATIONS:

Budget/Policy Framework: The establishment and monitoring of Prudential Indicators will ensure that the financial implications of capital investment will be contained within approved revenue budgets.

Financial: See above.

<u>CAPITAL EXPENDITURE</u>	2010/ 2011 £	2011/ 2012 £	2012/ 2013 £	2013/ 2014 £
Gross Increase in Capital Expenditure	N/a	N/a	N/a	N/a
Funded by:				
Sefton Capital Resources	N/a	N/a	N/a	N/a
Specific Capital Resources	N/a	N/a	N/a	N/a
<u>REVENUE IMPLICATIONS</u>				
Gross Increase in Revenue Expenditure	N/a	N/a	N/a	N/a
Funded by:				
Sefton funded Resources	N/a	N/a	N/a	N/a
Funded from External Resources	N/a	N/a	N/a	N/a
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:

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
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. It details a number of measures/limits/parameters (Prudential Indicators) that are required to be set each financial year. The approval of these limits will ensure that the Council complies with the relevant legislation and is acting prudently and that its capital expenditure proposals are affordable. This report presents for approval the Prudential Indicators required to be set by the Council in 2011/2012 to comply with the Code.
- 1.2. The Council is required to approve Prudential Indicators for the following items:
- (i) Capital Expenditure (Section 2);
 - (ii) Financing Costs/Net Revenue Stream (Section 3);
 - (iii) Capital Financing Requirement (Section 4);
 - (iv) External Debt (Section 5-6);
 - (v) Impact on Council Tax (Section 7);
 - (vi) Treasury Management Indicators (Section 8).

These indicators are presented in the following paragraphs and summarised at Annex A.

2. Prudential Indicator – Capital Expenditure

- 2.1. This indicator details the overall total planned capital expenditure of the Council and therefore reflects the Council's Capital Programme. This is the subject of a separate report elsewhere on today's agenda.
- 2.2. The actual capital expenditure that was incurred in 2009/2010 and the estimates for the current and future years capital programme recommended for approval are:-

	<u>2009/2010</u> <u>Actual</u> <u>£m</u>	<u>2010/2011</u> <u>Estimate</u> <u>£m</u>	<u>2011/2012</u> <u>Estimate</u> <u>£m</u>	<u>2012/2013</u> <u>Estimate</u> <u>£m</u>	<u>2013/2014</u> <u>Estimate</u> <u>£m</u>
Children's Services	27.885	36.792	9.494	0.610	0.000
Housing – General Fund	18.460	15.443	8.052	0.000	0.000
Technical Services	7.731	6.507	1.747	3.000	0.300
Other Services	20.022	24.502	23.817	8.009	4.068
Total	74.098	83.244	43.110	11.619	4.368

- 2.3. At this time, the Council has only received provisional indications as to the capital resources it may be given in 2012/2013 and 2013/2014 and this is reflected in the current levels of planned expenditure. The reductions noted in 2011/12 reflect the ending of major schemes such as Litherland OSP, and the effect of the Comprehensive Spending Review.

3. Prudential Indicator – Financing Costs/Net Revenue Stream

- 3.1. This indicator measures the total capital financing costs of capital expenditure as a proportion of the total level of income from Government grants and local Council Taxpayers. From 2011/12 Net Revenue Stream no longer includes Area Based Grant, but includes Council Tax Freeze Grant.
- 3.2. Estimates of the ratio for the current and future years and the actual figures for 2009/2010 are:

Financing Costs/Net Revenue Stream					
	<u>2009/2010</u>	<u>2010/2011</u>	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>
General Fund	4.4%	5.2%	6.4%	6.9%	6.7%

- 3.3. The estimates of financing costs include current commitments and proposals contained in the capital programme. The movement in the figure reflects the reduction in investment income earned during 2010/11 and projected in future years, as a result of the reduction in the Bank of England base rate as a ongoing consequence of the events of the banking crisis in 2009.

4. Prudential Indicator – Capital Finance Requirement

- 4.1. The Capital Financing Requirement indicator reflects the Authority's underlying need to borrow for a capital purpose. This is based on historic capital financing decisions and a calculation of future years planned capital expenditure requirements. It should be noted that the Council's PFI scheme for Crosby Leisure Centre has now been included as part of the Capital Financing Requirement. This is due to the implementation of International Financial Reporting Standards and the anticipated need for the scheme to be brought back onto the balance sheet from 2009/10 (previously it had been accounted for "off balance sheet").

- 4.2. Estimates of the end of year Capital Financing Requirement for the current and future years are set out in the table below:

Capital Financing Requirement					
	<u>31/03/10</u>	<u>31/03/11</u>	<u>31/03/12</u>	<u>31/03/13</u>	<u>31/03/14</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>
General Fund	182.400	194.700	207.000	204.000	199.000

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

"In order to ensure that 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 capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".

- 4.4. The Authority will comply with this requirement in 2011/12, 2012/13 and 2013/14.

5. **Prudential Indicator – Borrowing Limits**

- 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. The Council manages its Treasury Management position in terms of its external borrowings and investments in accordance with its approved Treasury Management Strategy and Policy Statements. These documents are presented for approval elsewhere on today's agenda.

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 undertake. It reflects the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices. The figures are based on prudent estimates.

- 5.2.2. In respect of the Operational Boundary it is recommended that the Council approves the following limits for the next three financial years. These limits separately identify borrowing from other long-term liabilities.

Operational Boundary				
	<u>2010/2011</u>	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Borrowing (long-term)	140.000	159.000	163.000	164.000
Other long term liabilities	7.500	6.500	6.500	5.500
Total	147.500	165.500	169.500	169.500

5.2.3. The Council is asked to approve these limits and to delegate authority to the Head of Corporate Finance and Information Services to manage the movement between the separately agreed limits for borrowing and other long-term liabilities within the total limit for any individual year. Any such changes made will be reported to Members at the earliest opportunity.

5.3. The Authorised Limit

5.3.1. The Authorised Limit sets a limit on the amount of borrowing (both short and long-term) that the Council undertakes. It uses the Operational Boundary as its base but also includes additional headroom to allow, for example, for exceptional cash movements. Under the terms of section 3 (1) of the Local Government Act 2003, the Council is legally obliged to determine and review how much it can afford to borrow i.e. the authorised limit. The authorised limit determined for 2011/12 will be the statutory limit determined under section 3 (1).

5.3.2. The Council is asked to delegate authority to the Head of Corporate Finance and Information Services to effect movement between the separately agreed figures for borrowing and other long-term liabilities within the total authorised limit for any year. Any such changes will be reported to the Council at the earliest opportunity. The Authorised Limit for external debt is:

Authorised Limit				
	<u>2010/2011</u>	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Borrowing (short & long-term)	155.000	174.000	178.000	179.000
Other long term liabilities	7.500	6.500	6.500	5.500
Total	162.500	180.500	184.500	184.500

6. Prudential Indicator – Actual External Debt

6.1. The Prudential Code requires that in setting indicators for 2011/12, the Council reports its actual levels of external debt as at 31 March 2010. The Council's actual external debt at 31 March 2010 was £118.937 comprising £111.935m borrowing and £7.002m other long-term liabilities.

7. Prudential Indicator – Impact on Council Tax

- 7.1. Under the Prudential Code, Local Authorities are able to decide the level of borrowing required to meet the demands of the capital programme. The Authority is given revenue support for borrowing up to a limit determined by Central Government, and this will therefore have no effect on the Council Tax. However, any unsupported borrowing will have to be funded by Council Taxpayers. As such, these indicators are a key measure of affordability of unsupported borrowing undertaken to support capital investment decisions.
- 7.2. The indicators for the impact on Council Tax of unsupported borrowing are to reflect any ADDITIONAL/NEW unsupported borrowing approval.
- 7.3. Due to current budget constraints no new starts have been included within the 2011/12 capital programme.
- 7.4. In the event that any amendments are made to the New Starts Capital Programme considered on today's agenda, the actual indicator will be recalculated accordingly.

8. Prudential Indicator – Treasury Management

- 8.1. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The annual Policy and Strategy Documents establish the following limits/controls for interest rate exposure, debt maturity profiles and an upper limit for investments made by the Council for more than 364 days.

8.1.1. Interest Rate Exposure

- i) An upper limit on its fixed interest rate exposures for 2011/2012 – 2013/2014 of 250% of its net outstanding principal sums;
- ii) An upper limit on its variable interest rate exposures for 2011/2012 – 2013/2014 of -50% of its net outstanding principal sums.

This indicator calculates exposure of either fixed or variable rate borrowings, less fixed or variable rate investments, expressed as a percentage of both fixed and variable rate borrowings net of fixed and variable rate investments.

This prudential indicator has been revised this year due to a number of breaches noted in 2010/11. This revision is because in order to protect the security and liquidity of the Council's funds more cash deposits are being placed overnight rather than long term.

8.1.2. Debt Maturity Profile

A debt maturity profile is detailed in the following table i.e. the amount of borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Debt Maturity Profile	<u>Upper limit</u>	<u>Lower limit</u>
Under 12 months	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	90%	25%

8.1.3. Investments Over 1 Year

An upper limit on the value of non-specified investments over 1 year, but less than 5 years with Banks/Building Societies (as approved in the annual Policy and Strategy Documents) of 40% of Total Investments. This limit will be kept under review to take advantage of any opportunities in the current money market. Members will be advised of any change.

9. Monitoring Prudential Indicators

- 9.1. Having established the Prudential Indicators the Head of Corporate Finance and Information Services will monitor them during the year and report on actual performance as part of the Council's Annual Accounts. In the event of any variations during a financial year, reports will be presented to Cabinet highlighting the variation, the reason and the corrective action to be taken.

10. Recommendations

- 10.1. Cabinet is recommended to:

- a) Approve the Prudential Indicators detailed in the report, and summarised in Annex A to be used as the basis for compliance with The Prudential Code for Capital Finance in Local Authorities;
- b) Approve the amendments of relevant Prudential Indicators in the event that any unsupported borrowing is approved as part of the 2011/2012 Revenue Budget;
- c) Delegate authority to the Head of Corporate Finance & Information Services to manage the Authorised Limit and Operational Boundary for external debt as detailed in Section 5 of the report; and
- d) Refer the report to Council for approval.

Summary of Prudential Indicators.**ANNEX A**

Capital Expenditure - 2009/2010 to 2013/2014 (Para 2)					
	2009/10 £'000 Actual	2010/11 £'000 Estimate	2011/12 £'000 Estimate	2012/13 £'000 Estimate	2013/14 £'000 Estimate
Education	27.885	36.792	9.494	0.610	0.000
Housing – General Fund	18.460	15.443	8.052	0.000	0.000
Technical Services	7.731	6.507	1.747	3.000	0.300
Other Services	20.022	24.502	23.817	8.009	4.068
TOTAL	74.098	83.244	43.110	11.619	4.368

Financing Costs/Net Revenue Stream (Para 3)					
	2009/10 Actual	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
	4.4%	5.2%	6.4%	6.9%	6.7%

Capital Financing Requirement (Para 4)					
	31/03/10 £'000 Actual	31/03/11 £'000 Estimate	31/03/12 £'000 Estimate	31/03/13 £'000 Estimate	31/03/14 £'000 Estimate
	182.400	194.700	207.000	204.000	199.000

Operational Boundary (Para 5)				
	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Borrowing	140.000	159.000	163.000	164.000
Other long term liabilities	7.500	6.500	6.500	5.500
Total	147.500	165.500	169.500	169.500

Authorised Limit (Para 5)				
	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Borrowing	155.000	174.000	178.000	179.000
Other long term liabilities	7.500	6.500	6.500	5.500
Total	162.500	180.500	184.500	184.500

Unsupported Borrowing (Para 7)				
	2010/1 £m	2011/12 £m	2012/13 £m	2013/14 £m
General Fund	0.000	0.000	0.000	0.000

Impact on the Band D Council Tax (Para 7 – New starts)				
	2010/11 £	2011/12 £	2012/13 £	2013/14 £m
	0.000	0.000	0.000	0.000

Limit on Interest Rate Exposure (Para 8)		
	Upper Limit	Lower Limit
Fixed Borrowing/ Investment	250%	150%
Variable Borrowing/ Investment	-50%	-150%

Fixed Rate Debt Maturity (Para 8)		
	Upper Limit	Lower Limit
Under 12 months	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	90%	25%

Investments over 1 Year (Para 8)	
Non-Specified Investments over 1 year but less than 5 years with approved Banks/Building Societies) 40% of Total Investments

