
Report to: Cabinet Council **Date of Meeting:** 16 February 2012
1 March 2012

Subject: The Prudential Code for Capital Finance in Local Authorities - Prudential Indicators 2012/13

Report of: Head of Corporate Finance & ICT

Wards Affected: All

Is this a Key Decision? No **Is it included in the Forward Plan?** No

Exempt/Confidential No

Purpose/Summary

To establish the Prudential Indicators for Sefton required under the 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 2012/2013 Revenue Budget;
- c) Delegate authority to the Head of Corporate Finance & ICT 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.

Council is requested to approve the above recommendations

How does the decision contribute to the Council's Corporate Objectives?

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

Reasons for the Recommendation:

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

What will it cost and how will it be financed?

(A) Revenue Costs

There are no financial implications as a result of this report.

(B) Capital Costs

None.

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	Statutory Duty	
Human Resources	None	
Equality		
1. No Equality Implication		<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated		<input type="checkbox"/>
3. Equality Implication identified and risk remains		<input type="checkbox"/>

Impact on Service Delivery:

None.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD1342) and The Head of Corporate Legal Services (LD699/12) have been consulted and any comments have been incorporated in the report.

Are there any other options available for consideration?

None.

Implementation Date for the Decision

With effect from 1 April 2012.

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Background Papers:

Prudential Indicators Report 2011/12.

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 2012/2013 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 5-7);
 - (v) Impact on Council Tax (Section 8);
 - (vi) Treasury Management Indicators (Section 9).

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 2010/2011 and the estimates for the current and future years capital programme recommended for approval are:-

	<u>2010/2011</u> <u>Actual</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>	<u>2014/2015</u> <u>Estimate</u> <u>£m</u>
Childrens Services	32.251	14.184	4.755	0.233	0
Housing – General Fund	3.763	3.091	0.419	0	0
Technical Services	6.515	6.672	2.587	9.040	10.288
Other Services	32.631	22.949	26.773	6.997	1.085
Total	75.160	46.896	34.533	16.270	11.373

- 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.

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.
- 3.2. Estimates of the ratio for the current and future years and the actual figures for 2010/2011 are:

Financing Costs/Net Revenue Stream					
	<u>2010/2011</u>	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>
General Fund	4.9%	5.6%	6.1%	6.2%	6.2%

- 3.3. The estimates of financing costs include current commitments and proposals contained in the capital programme. The 2010/2011 percentage is lower than future projections as it reflects the decision to internally borrow for funds for the capital programme, rather than borrow externally, which has reduced the cost of borrowing, and also the reduced projected returns on investment income from 2012/2013.

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, as have a number of assets that have reclassified as finance lease assets. This is due to the implementation of International Financial Reporting Standards.
- 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>31/03/11</u>	<u>31/03/12</u>	<u>31/03/13</u>	<u>31/03/14</u>	<u>31/03/15</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	210.033	220.300	227.000	220.000	216.000

- 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 2012/13, 2013/14 and 2014/15.

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>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Borrowing (long-term)	173.000	185.000	185.000	186.000
Other long term liabilities (transferred debt MRB)	6.500	6.500	5.500	5.500
Total	179.500	191.500	190.500	191.500

5.2.3. The Council is asked to approve these limits and to delegate authority to the Head of Corporate Finance and ICT 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 2012/13 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 ICT 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 are:

Authorised Limit				
	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Borrowing (short & long-term)	188.000	200.000	200.000	201.000
Other long term liabilities	6.500	6.500	5.500	5.500
Total	194.500	206.500	205.500	206.500

6. Prudential Indicator – Actual External Debt

6.1. The Prudential Code requires that in setting indicators for 2012/13, the Council reports its actual levels of external debt as at 31 March 2011. The Council's actual external debt at 31 March 2011 was £159.528 comprising £131.354m borrowing, £21.610m in respect of finance lease liabilities, and £6.564m other long-term liabilities.

7. Gross and Net Debt

7.1. This is a new prudential indicator, and is used to ensure that the authority does not borrow in advance of need.

Authorised Limit				
	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Gross debt	179.500	191.500	196.500	191.500
Investments	54.000	54.000	54.000	54.000
Net Debt	125.500	137.500	136.500	137.500

8. Prudential Indicator – Impact on Council Tax

- 8.1. 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.
- 8.2. The indicators for the impact on Council Tax of unsupported borrowing are to reflect any ADDITIONAL/NEW unsupported borrowing approval.
- 8.3. Due to current budget constraints no new starts have been included within the 2012/13 capital programme.
- 8.4. 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.

9. Prudential Indicator – Treasury Management

- 9.1. 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.

9.2 Interest Rate Exposure

- i) An upper limit on its fixed interest rate exposures for 2011/2012 – 2013/2014 of 340% of its net outstanding principal sums;
- ii) An upper limit on its variable interest rate exposures for 2011/2012 – 2013/2014 of -20% 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.

9.3 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%
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9.4 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.

10. Monitoring Prudential Indicators

- 10.1. Having established the Prudential Indicators the Head of Corporate Finance and ICT 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.

**ANNEX
A**

Summary of Prudential Indicators.

Capital Expenditure - 2010/2011 to 2014/2015 (Para 2)					
	2010/2011 £m Actual	2011/2012 £m Estimate	2012/2013 £m Estimate	2013/2014 £m Estimate	2014/2015 £m Estimate
Education	32.251	14.184	4.755	0.233	0.000
Housing – General Fund	3.763	3.091	0.419	0.000	0.000
Technical Services	6.515	6.672	2.587	9.040	10.288
Other Services	32.631	22.949	26.773	6.997	1.085
Total non-HRA	75.160	46.896	34.533	16.270	11.373
TOTAL	75.160	46.896	34.533	16.270	11.373

Financing Costs/Net Revenue Stream (Para 3)					
	2010/2011 Actual	2011/2012 Estimate	2012/2013 Estimate	2013/2014 Estimate	2014/2015 Estimate
	4.9%	5.6%	6.1%	6.2%	6.2%

Capital Financing Requirement (Para 4)					
	31/03/2011 £m Actual	31/03/2012 £m Estimate	31/03/2013 £m Estimate	31/03/2014 £m Estimate	31/03/2015 £m Estimate
Non HRA	210.033	220.300	227.000	220.000	216.000

Operational Boundary (Para 5)				
	2011/2012 £m	2012/2013 £m	2013/2014 £m	2014/2015 £m
Borrowing	173.000	185.000	185.000	186.000
Other long term liabilities	6.500	6.500	5.500	5.500
Total	179.500	191.500	190.500	191.500

Authorised Limit (Para 5)

	2011/2012 £m	2012/2013 £m	2013/2014 £m	2014/2015 £m
Borrowing	188.000	200.000	200.000	201.000
Other long term liabilities	6.500	6.500	5.500	5.500
Total	194.500	206.500	205.500	206.500

Gross and Net Debt (Para 7)				
	2011/2012 £m	2012/2013 £m	2013/2014 £m	2014/2015 £m
Gross Debt	179.500	191.500	190.500	191.500
Investments	-54.000	-54.000	-54.000	-54.000
Net Debt	125.500	137.500	136.500	137.500

Unsupported Borrowing (Para 8)			
	2012/2013 £m	2013/2014 £m	2014/2015 £m
General Fund	0.000	0.000	0.000

Impact on the Band D Council Tax (Para 8)			
	2012/2013 £	2013/2014 £	2014/2015 £
	0.00	0.00	0.00

Limit on Interest Rate Exposure (Para 9)		
	Upper Limit	Lower Limit
Fixed Borrowing/ Investment	340%	120%
Variable Borrowing/ Investment	-20%	-240%

Fixed Rate Debt Maturity (Para 9)

	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 9)

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