

# Executive Committee

No Direct Ward Relevance

16 September 2009

## PRUDENTIAL INDICATORS – ACTUALS 2008/09

(Report of the Head of Financial, Revenues and Benefits Services)

### 1. Summary of Proposals

The report sets out the actual prudential indicators for 2008/09.

### 2. Recommendations

**The Committee is asked to RESOLVE that**

**subject to any comments, the report be noted.**

### 3. Financial, Legal, Policy, Risk and Sustainability Implications

#### Financial

3.1 The financial implications are contained throughout the report.

#### Legal

3.2 The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the new system of capital finance embodied in Part 1 of the Local Government Act 2003. Local Authorities are no longer subject to Government controlled borrowing approvals and are free to determine their own level of capital investment controlled by self-regulation.

3.3 The setting and revising of prudential indicators should be undertaken by the body that sets the budget, namely, full Council.

#### Policy

3.4 The Council's policy regarding borrowing and investments is contained in its Treasury Management Policy Statement.

#### Risk

3.5 Without adequate arrangement for monitoring and reporting on the matters contained in this report, the Council would not be complying with the Prudential Code.

### Sustainability / Environmental

- 3.6 There are no sustainability, environmental or Climate Change implications.

### Report

#### **4. Background**

- 4.1 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Local Authorities are affordable, prudent and sustainable. Also that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 4.2 To demonstrate that Local Authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Code does not include indicative limits or ratios, these are for the Local Authority to set for itself subject to the controls under [clause 4] of the Local Government Act 2003.

#### **5. Key Issues**

- 5.1 The actual indicators for the previous financial year should be reported within six months of the end of the financial year.
- 5.2 The actual figures used in this report are subject to audit by the Council's external auditors.

### Capital Expenditure

- 5.3 The actual expenditure for 2008/09 and the estimates of capital expenditure for 2008/09 were reported to the Executive Committee on 10 June 2009.
- 5.4 The actual expenditure for 2008/09, the approved Programme for 2009/10 and the plans for future years are:

Capital Expenditure					
	2008/09 Actual £'000	2008/09 Estimate £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
HRA	7,315.6	7,599.3	9,996.4	7,173.0	5,770.4
General Fund	3,145.7	4,346.3	5,344.1	1,605.0	1,505.0
Total	10,461.3	11,945.6	15,340.5	8,778.0	7,275.4

Ratio of Financing Costs to Net Revenue Stream

- 5.5 The financing costs include the amount of interest payable and receivable in respect of borrowing and investments. The Net Revenue Stream for the HRA is the amount to be met from housing subsidy and rents and for the General Fund it is the “amount to be met from government grants and local taxation”. The estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2008/09 are:

Ratio of financing costs to net revenue stream					
	2008/09 Actual	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
HRA	1.12%	1.05%	1.11%	1.00%	0.98%
General Fund	(4.67%)	(2.35%)	(1.08%)	(0.07%)	0.11%

- 5.6. Net Revenue Stream for the HRA 2008/09

	£
Dwelling Rents	18,723,262
Non-dwelling rents	551,586
Charges for services and facilities	179,608
Less	
Negative subsidy	5,834,619
Net Revenue Stream	13,619,837

- 5.7 Net Revenue Stream for GF 2008/09

	£
Revenue Support Grant	781,308
Non-Domestic Rates (redistributed amount)	5,612,519
Council Tax	5,283,963
Collection Fund	(20,700)
Net Revenue Stream	11,657,090

- 5.8 Where the figures in the above table at 5.5 are shown as negatives it is because the interest received from temporary and long-term investments exceeds the cost of temporary borrowing.

Capital Financing Requirement (CFR)

- 5.9 The capital financing requirement is a measure of the extent to which the Council needs to borrow to support capital expenditure. It does not necessarily relate to the actual amount of borrowing at any one point in time. The Council has an integrated treasury management strategy where there is no distinction between revenue and capital cash flows, and the day to day position of external

borrowing and investments constantly changes. The figures for calculating the CFR are taken from the Council's balance sheet.

5.10 Calculation of Capital Financing Requirement from the Council's Balance Sheet

<b>Extracts from Balance Sheet</b>	<b>2008/09 £'000</b>
Fixed Assets	327,492
Less	
Capital Adjustment Account	267,240
Revaluation Reserve	42,095
Government Grant Deferred Account	749
<b>Capital Financing Requirement</b>	<b>18,902</b>

5.11 Current level of borrowing to fund capital expenditure

<b>Borrowing to fund capital expenditure</b>	<b>2008/09 £'000</b>
2004/05	160
2006/07	5,712
2007/08	2,384
2008/09	5,829
Total borrowing	14,085
Adjustment `A` (opening CFR 2004/05)	4,817
<b>Capital Financing Requirement</b>	<b>18,902</b>

5.12 Actual CFR 2008/09 and forecast CFRs for the current and the following two years

<b>Capital Financing Requirement</b>					
	<b>2008/09 Actual £'000</b>	<b>2008/09 Estimate £'000</b>	<b>2009/10 Estimate £'000</b>	<b>2010/11 Estimate £'000</b>	<b>2011/12 Estimate £'000</b>
HRA	7,476	7,877	13,392	16,471	18,954
General Fund	11,426	13,073	15,544	17,639	18,458
<b>Total</b>	<b>18,902</b>	<b>20,950</b>	<b>28,936</b>	<b>34,110</b>	<b>37,412</b>

The increases in the CFR are due to the estimated borrowing to be undertaken in year, to fund the capital programme. These figures have been adjusted to take into account the estimated underspend on the capital programme at the each year end.

- 5.13 CIPFA's Prudential Code for Capital Finance includes the following key indicator of prudence:
- 5.14 "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 Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financial Requirement for the current and next two years."
- 5.15 As at the 31st of March 2009, the Council's borrowing exceeded its investments by £9.899 million, as follows:

	31 <sup>st</sup> March 2009 £'000
Investments	(16,600)
Cash in hand and at bank	(34)
Long term borrowing	5,000
Short term borrowing	21,150
Bank overdraft	383
Total (net borrowing)	9,899

### 5.16 Capital Programme - Funding

The following table details the funding of the 2008/09 actual capital programme and the proposed funding sources for the current capital programme and the following two years.

	2008/09 Actual £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Major Repairs Allowance	3,719.9	3,700.0	3,700.0	3,700.0
Capital Receipts	988.6	14.0	0.0	0.0
Borrowing – HRA	3,361.4	6,296.4	3,473.0	2,070.4
Borrowing – GF	1,446.8	4,444.1	1,345.0	1,245.0
Section 106	469.4	277.5	0.0	0.0
Specified Grants	475.2	485.7	260.0	260.0
Other		122.8		
Total	10,461.3	15,340.5	8,778.0	7,275.4

### External Debt

- 5.17 Under section 3 (1) of the Local Government Act 2003 the Council is required to determine an Authorised Limit for external debt: "A local authority shall determine and keep under review how much money it

can afford to borrow". On the 23rd of February 2009 the Council set the Authorised Limit for 2008/09 at £30.0 million.

- 5.18 The Council's actual external debt at 31st of March 2009 was £26.533 million (£5 million long term borrowing, £21.150 million short-term borrowing and £0.383 million bank overdraft).

**6. Other Implications**

Asset Management - None.

Community Safety - None.

Human Resources - None.

Social Exclusion - None

**7. Lessons Learnt**

Nationally there are number of lessons have been learnt regarding the Treasury Management function within Local Authorities.

**8. Background Papers**

Working papers within Financial Services.

**9. Consultation**

This report has been prepared in consultation with relevant Borough Council Officers.

**10. Author of Report**

The author of this report is Teresa Kristunas (Head of Financial, Revenues and Benefits Services), who can be contacted on extension 3295 (e-mail:teresa.kristunas@redditchbc.gov.uk ) for more information.

**11. Appendices**

None.