

Forest Heath District Council

(This report is not a key decision. This report has been subject to appropriate notice of publication under the Council's Access to Information Rules)

Report of the Cabinet Member for Resources, Governance and Performance

CABINET

31 JULY 2012

CAB12/021

UPDATE OF THE COUNCIL'S PRUDENTIAL INDICATORS (Forward Plan Reference JUL12(B)/08)

Summary and reasons for recommendation(s)

The purpose of this report is to seek Cabinet's recommendation to Council for the approval to amend the Prudential Indicators for the period 2012/13 to 2015/16 in line with the requirements of the Local Government Act 2003.

Recommendation(s)

It is recommended that Council approve the amendments to the Prudential Indicators detailed in this report, for the period 2012/2013 to 2015/2016 in line with the requirements of the Government Act 2003.

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How will the recommendations help us meet our strategic priorities?

1. The key objectives are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
2. Strategic priorities are considered as part of the setting of the Council capital programme and prudential indicators.
3. In addition the prudential indicators support the Council's values of Efficiency, Value for Money, Accountability and Professionalism.

Wards affected

4. Potentially all wards, as items in the capital programme affect many wards.

Key issues

5. The Prudential Code was developed by the Chartered Institute of Public Finance and Accounting (CIPFA) to assist local authorities in taking their decisions regarding capital expenditure.
6. The Prudential Code sets out a clear governance procedure for the setting and revising of prudential indicators. This is done by the same body that takes the decisions for the local authority's budget - Full Council. The Chief Finance Officer (the Head of Finance, ICT, Internal Audit and Procurement) is responsible for ensuring that all matters required to be taken into account are reported to Full Council for consideration, and for establishing procedures to monitor performance.
7. In setting the indicators due regard was paid to the following matters:
 - affordability, e.g. implications for Council Tax
 - prudence and sustainability, e.g. implications for external borrowing
 - value for money, e.g. option appraisal
 - stewardship of assets, e.g. asset management planning
 - service objectives, e.g. strategic planning for the authority
 - practicality, e.g. achievability of forward plan
8. Set out below starting from paragraph 9 are the Prudential Indicators that require amending following the carry forward of capital budgets from 2011/12 to 2012/13, as set out in the Council report COU12/579, and approved alterations to the 5 year capital programme.

Amendments to the Council's Prudential Indicators

Management of Capital Expenditure Prudential Indicators

Estimates of Capital Expenditure

9. ***The local authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. These prudential indicators shall be referred to as:***

Estimate of total capital expenditure to be incurred in years 1, 2 and 3.

10. In addition to the approved capital programme the estimates of capital expenditure include any capital expenditure that is estimated, might (depending on option appraisals) or will be dealt with as other long term liabilities.
11. This indicator requires amendment due to the carry forward of capital budgets from 2011/12 to 2012/13, as set out in the Council report COU12/579, and approved alterations to the 5 year capital programme.

Indicator 1	2012/13 £000 Approved	2012/13 £000 Revised	2013/14 £000 Indicative	2014/15 £000 Indicative	2015/16 £000 Indicative
Expenditure	2,787	6,104	1,105	515	718

Estimates of ratio of financing costs to net revenue stream

12. ***The local authority will estimate for the forthcoming financial year and following two financial years the ratio of financing costs to net revenue stream.***
13. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs
14. This indicator requires amendment due to the carry forward of capital budgets from 2011/12 to 2012/13, as set out in the Council report COU12/579, and approved alterations to the 5 year capital programme.

<u>Ratio of Financing Costs to Net Revenue Stream</u>					
Indicator 2	2012/13 £000 Approved	2012/13 £000 Revised	2013/14 £000 Indicative	2014/15 £000 Indicative	2015/16 £000 Indicative
Ratio %	(10%)	(11%)	(11%)	(11%)	(10%)

NB: In circumstances where interest costs on borrowing are greatly exceeded by interest and investment income the ratio of financing costs to the net revenue stream will be negative. This reflects the fact that the authority is making a contribution to the income and expenditure account via its investment income stream.

Estimates of Incremental impact on capital investment decisions on the Council Tax

15. *This calculation shall be undertaken for the forthcoming and following two financial years or longer timeframe if required to capture the full year effect of capital investment decisions. This prudential indicator is referred to as:*

‘Estimates of the incremental impact of the new capital investment decisions on the Council Tax’

16. This shows the impact of the capital investment decisions on the Council Tax and allows for the existing and proposed capital plans. This indicator requires amendment due to the carry forward of capital budgets from 2011/12 to 2012/13, as set out in the Council report COU12/579, and approved alterations to the 5 year capital programme.

Incremental Impact of Capital Investment Decisions					
Indicator 3	2012/13 Approved	2012/13 Revised	2013/14 Indicative	2014/15 Indicative	2015/16 Indicative
<u>Increase in Band D Council Tax</u>	£0.32	£1.98	£0.48	£0.00	£0.00

Interest Rate Exposure

17. *The local authority will set, for the forthcoming year and the following two years, upper limits to its exposures to the effects of changes in interest rates. These prudential indicators will relate to both fixed interest rates and variable interest rates and will be referred to respectively as the upper limits on fixed and variable interest rate exposures.*

Upper limits on fixed and variable rate exposures

18. These two indicators, allow the Council to manage the extent to which it is exposed to changes in interest rates. Such decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy. In circumstances where interest costs on borrowing are greatly exceeded by interest and investment income the upper limit for fixed and variable interest rate exposure will be negative.

Upper limit for Fixed and Variable Rate Exposure					
	2012/13 £000 Approved	2012/13 £000 Revised	2013/14 £000 Indicative	2014/15 £000 Indicative	2015/16 £000 Indicative
Indicator 7					
<u>Upper Limit for Fixed Interest Rate Exposure</u>	(687)	(754)	(754)	(789)	(774)
<u>%</u>	100%	100%	100%	100%	100%
Indicator 8					

Upper Limit for Variable Interest Rate Exposure	(344)	(377)	(377)	(395)	(387)
%	50%	50%	50%	50%	50%

19. The upper limits on interest rate exposures can be expressed either as absolute amounts or as percentages.
20. This indicator requires amendment due to the carry forward of capital budgets from 2011/12 to 2012/13, as set out in the Council report COU12/579, and approved alterations to the 5 year capital programme.

Other options considered

21. Not applicable.

Community impact (Diversity and Equality, Sustainability, Other)

22. Community impact is considered when items are added to or removed from the Council's Capital Programme.

What consultation has been undertaken and what were the outcomes?

23. Consultation is considered, where appropriate, when items are added to the Council's Capital Programme.

Financial and resource implications

24. The Code requires the following matters to be taken into account when setting or revising prudential indicators:
 - a. Option appraisal for all projects, i.e. value for money.
 - b. Asset management planning, i.e. stewardship of asset.
 - c. Strategic planning for the authority, i.e. service objectives.
 - d. Achievability of the forward plan, i.e. its practicality.
 - e. Implications for external borrowing, i.e. prudence.
 - f. Implications for Council Tax i.e. affordability.
25. Items (a) – (c) are largely considered in the current arrangements as part of the asset management planning/corporate capital strategy processes. Items (d) and (f) in financial terms have been commented upon by the Head of Finance in presenting the budget, and item (e) is inherent to the prudential indicator setting process.

Risk management implications

26. The Prudential Indicators are set to safeguard the Council and ensure that its capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.

Legal/Policy implications

27. The Section 151 Officer is responsible for ensuring that all the matters required to be taken into account when setting or revising the indicators are reported to the appropriate decision making body.
28. The Prudential Code is a mandatory requirement for the Council, under Part 1 of the Local Government Act 2003. The Council is required to set certain Prudential Indicators and limits as detailed within the Code before the beginning of each financial year.

Documents attached

29. None

Background papers

30. None