APPENDIX D

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 25 JANUARY 2011

Title:

PRUDENTIAL CODE FOR CAPITAL FINANCE

[Portfolio Holder for Finance: Cllr Mike Band]
[Wards Affected: N/A]

Summary and Purpose

The purpose of this report is to seek approval for the capital finance prudential indicators, as required by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Code. This report must be considered in conjunction with the budget setting report and the Investment Strategy report also on this agenda.

How this report relates to the Council's Corporate Priorities:

Effective treasury operation is a key element in the management of Waverley's financial resources. This supports the Value for Money Priority and ensures that sufficient cash is available to deliver services.

Equality and Diversity Implications:

There are no implications arising from this report.

Resource/Value for Money implications:

There are no direct resource implications associated with this report. However, the Prudential Code is referred to in Waverley's Financial Strategy as an opportunity for providing funding for the capital programme in the longer-term.

Legal Implications:

There are no legal implications arising from this report.

Prudential Indicators

1. To fulfill the requirements of the Code, the Council must produce and maintain the following set of specified 'Prudential Indicators'. In setting and revising these indicators, and more importantly in any decision on borrowing, the Council must take into account affordability, e.g. implications for Council Tax and housing rents and prudence and sustainability, e.g. implications for external borrowing. An explanation of the indicators is included at Annexe 1. Additional indicators are included in the Investment Strategy report.

2. The prudential indicators are there to support decision-making and are not designed to be comparative performance indicators with other councils. The indicators which require future forecasts are rolling scenarios, not fixed for the 3 year period. They can be reviewed at any time by the S151 Officer, subject to Council approval. The S151 Officer must monitor performance against each indicator during the year.

3. Delivering Waverley's Leisure Strategy will require the Council to borrow up to £7million. Where appropriate, the impact of this decision on the prudential indicators is shown in this report. The Council is also considering converting the current internal borrowing on the HRA of £3.5m into real long-term debt. If this occurs, the cash generated will reduce the borrowing requirement for leisure and therefore keep the overall borrowing level within the approved £7m level. The Council may also give further consideration to options for providing affordable housing in the Borough in future years and this may result in a request to consider borrowing for capital investment. However, a comprehensive business model will be required before this can be considered. Other financial options to be considered first would include sales of land and S106 contributions. The prudential indicators and the Medium Term Financial Strategy will be reviewed as this develops.

Indicator 1 - Estimates of capital expenditure

	2009-10 £000 Actual	**2010-11 £000 Estimate**	**2011-12 £000 Estimate**	**2012-13 £000 Estimate**	**2013-14 £000 Estimate**
General Fund	3,258	4,641	5,286	2,014	883
HRA	6,840	4,290	6,340	5,175	5,170
Total	**10,598**	**8,931**	**11,626**	**7,189**	**6,053**

Indicator 2 - Estimates of the ratio of financing costs to net revenue stream

	2009-10 £000 Actual	**2010-11 £000 Estimate**	**2011-12 £000 Estimate**	**2012-13 £000 Estimate**	**2013-14 £000 Estimate**
General Fund	-4.62%	-2.41%	-0.03%	1.34%	1.34%
HRA	0.64%	0.22%	0.22%	0.22%	0.22%

4. The estimates of financing costs include current commitments and the proposals in the budget report. At 31st March 2010, investments totaling £24million were held, some of which represent balances and reserves, with the balance being held for cash flow purposes. The projected reduction in the General Fund ratio reflects estimates of the overall draw on capital receipts to fund the capital programme, the impact of lower interest rates in investment returns and the borrowing cost for the leisure strategy. The additional income that will be generated from the leisure investment is not reflected in the above indicator, only the borrowing cost. The HRA figures are determined by Regulations.

Indicator 3 -Capital financing requirement

	2009-10 £000 Actual	2010-11 £000 Estimate	2011-12 £000 Estimate	2012-13 £000 Estimate	2013-14 £000 Estimate
General Fund	-4,423	-4,423	1,277	2,577	2,577
HRA	3,513	3,513	3,513	3,513	3,513
Total	**-910**	**-910**	**4,790**	**6,090**	**6,090**

5. This indicator is a measure of the underlying need to borrow for capital purpose, it is not the level of actual borrowing held or required. Waverley is currently debt-free and intends to finance most of its routine capital programme from existing resources in the medium term, so this indicator is showing a prudent position. Other than the potential need to borrow to deliver the leisure strategy, which is reflected in the figures above, it is the intention to review the programme as part of each year's General Fund budget setting process to match planned expenditure to the level of resources available.

Indicator 4 - Authorised limit for external debt

	2010-11 £000 Estimate	2011-12 £000 Estimate	2012-13 £000 Estimate	2013-14 £000 Estimate
General Fund	£5million	£11million	£12million	£12million
HRA	nil	nil	nil	nil
Total	£5million	£11million	£12million	£12million

6. Whilst cash flows are currently managed using the investment portfolio, it is possible that short-term borrowing may be necessary. As the indicators in this report show, other than potential borrowing for leisure improvements, a significant amount of borrowing for capital purposes is not currently expected to be necessary in the short term. However, it is sensible to have in place an authorised borrowing limit at a prudent level to enable treasury activity if necessary. Actual external debt at the 31st March 2010 was zero. In approving this limit, the Council is approving the limit as required under section 3(1) of the Local Government Act 2003.

Indicator 5 - Operational boundary for external debt

	2010-11 £000 Estimate	2011-12 £000 Estimate	2012-13 £000 Estimate	2013-14 £000 Estimate
General Fund	£3million	£9million	£10million	£10million
HRA	nil	nil	nil	nil
Total	£3million	£9million	£10million	£10million

7. As the authorised limit for external debt is currently intended to cover mainly cash flow movements and only a limited amount of capital expenditure, it is not necessary to set the operational boundary at a lower level. If a greater degree of borrowing for capital purposes is required in the future, both indicators will be reviewed.

Indicator 6 - Incremental impact of current capital investment decisions on the council tax

	2011-12 £000 Estimate	2012-13 £000 Estimate	2013-14 £000 Estimate
For Band D Council Tax	£0.60	£1.50	£0.90
For average weekly housing rents	Nil	Nil	Nil

8. It is assumed at this stage that the borrowing of up to £7million to finance leisure improvements and the new Godalming leisure centre will fall as follows:

2011/12	£5.7million
2012/13	£1.3million

The full repayment cost of this borrowing is partly offset by savings in the management fees that the Council pays to run its leisure facilities due to increased income and reduced running costs. It is the net cost that is used to calculate the above indicators. The precise timing of the remaining capital expenditure and revenue savings will be known as the contract develops during 2011/12, particularly around the Godalming leisure scheme. **It is important for Members to note that this calculation is purely an indicator based on a mathematical calculation of the estimated impact of the borrowing decision on Waverley's council taxpayer. In reality, it is not the intention to increase council tax to pay for the borrowing costs of the leisure capital spend. The net cost, after offsetting increases in income from the facilities, will be met from savings in other budgets.**

Risks

9. In terms of the capital programme, there is a risk of increased capital costs or capital receipts falling short of estimate. The Financial Regulations and regular budget monitoring should reduce the risk of unknown variations and enable early action to be taken if necessary. A separate risk assessment process in place for the leisure capital investment programme.

Conclusion

10. The forward-looking prudential indicators shown above are best estimates taking into account the Financial Strategy, current budget projections and the current level of reserves, balances and capital receipts.

11. There are other major decisions for the Council in the next few years that may have a significant impact on capital financing decisions, such as the East Street development and further appraisal of options for affordable housing in the borough. As these details become available, the indicators will be reviewed and, if necessary, reconsidered by Members.

Recommendation

It is recommended that the Executive approve the above Prudential Indicators.

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ANNEXE 1

EXPLANATION OF PRUDENTIAL INDICATORS

Indicator 1 - Estimates of capital expenditure

These estimates are as included in the capital programme report and, in the case of the previous year's actuals, as shown in the Statement of Accounts. The risks section of this report is relevant when considering this indicator.

Indicator 2 - Estimates of the ratio of financing costs to net revenue stream

The net revenue stream is the net amount to be met from Government grant and local taxpayers or, in the case of the HRA, the net amount to be met from housing subsidy and rent income.

Financing costs are the net of any interest on borrowing, interest earned on investments and any amounts made as revenue provision to repay debt.

Indicator 3 -Capital financing requirement

The capital financing requirement measures the underlying need to borrow for a capital purpose. The requirement increases as capital expenditure is incurred or planned, and reduces when financing from capital receipts, grants or revenue is applied.

The code requires councils to ensure that, to demonstrate prudence, in the medium term net borrowing must not exceed the total of capital financing requirement in the preceding year plus the estimates of any additional requirement for the current and next two financial years. Net borrowing is defined in the code as total external borrowing less investments less/plus cash held/overdrawn.

For debt-free councils, the capital financing requirement is likely to be zero or negative. If capital programmes are fully funded from sources other than borrowing, the capital financing requirement will not increase significantly over time.

Indicator 4 - Authorised limit for external debt

In accordance with best professional practice, Waverley does not associate its treasury management activities with particular items or types of expenditure. At any point in time, the Council has a number of cash flows both positive and negative and it manages its treasury position in accordance with its approved treasury management strategy. The authorised external debt limit replaces the old statutory borrowing limit that Waverley has been required to set in the past, despite being debt-free.

Indicator 5 - Operational boundary for external debt

The operational boundary for external debt is the most likely, prudent but not worst-case scenario, without the additional headroom allowed for in the authorised limit to allow for unusual cash movements.

Indicator 6 - Incremental impact of capital investment decisions

This shows the impact of the capital investment decisions on the Council Tax and rent levels. It allows the totality of the Council's plans to be considered at budget setting time. Whilst this is an indicator that Members must consider when taking decisions on borrowing, it doesn't necessarily follow that council tax has actually been increased by the amount shown in the indicator. In reality, due to the pressures on Waverley's budget, any net cost of borrowing will have to be offset by savings in other budgets, therefore the impact on the council taxpayer in cash terms would be zero. This is the intention with the net borrowing costs of the leisure improvement capital works currently being considered by Members.