NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

PRUDENTIAL CODE FOR CAPITAL FINANCE 2008/09

Joint report of the Treasurer and Chief Fire Officer

Agenda Item No:

Date: **22 February 2008**

Purpose of Report:

To inform Members of the Authority's obligations under the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, and to seek the approval of Members to the proposed capital plans, prudential limits, and monitoring processes set out in the report

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1. BACKGROUND

1.1 The Local Government Act 2003 set out a framework for the financing of capital investments in local authorities, which came into operation from April 2004. The Act changed the way in which capital expenditure is controlled within local government and the Authority has been operating under the prudential regime since April 2004.

1.2 The principles under which local authorities now operate offer much more freedom in the way that capital expenditure is financed such that local authorities may choose the level of capital expenditure (and thus financing) which best suits their needs and investment priorities.

1.3 In order to assist authorities in determining the most appropriate levels of spending and indebtedness, CIPFA has developed a “Prudential Code” which requires a number of limits and indicators to be set. The objective of these indicators is to ensure that capital expenditure plans are affordable; that external borrowing and long term liabilities are within prudent and sustainable levels and that treasury management is carried out in accordance with good professional practice.

1.4 This report sets out the proposed prudential limits for the Authority for the 2008/09 financial year along with the implications of the proposed Capital Programme, which will be presented with the budget report.

2. REPORT

CAPITAL EXPENDITURE AND BORROWING

2.1 Estimates of Capital Expenditure Future Years and Actual Capital Expenditure 2006/07:

2006/07 Actual £000’s	2007/08 Estimate £000’s	2008/09 Estimate £000’s	2009/10 Estimate £000’s	2010/11 Estimate £000’s
Capital Expenditure Total				
4,077	5,292	6,436	4,867	5,365
Capital Expenditure – Financed by Borrowing / Finance Lease				
3,251	4,642	6,117	4,574	5,137
Capital Expenditure – Financed by Revenue				
826	650	319	293	228

The estimates for 2008/09 to 2010/11 will be submitted to the Authority for approval on 22 February 2008. Various financing methods have been assumed for the future years but in reality, decisions relating to financing methods will be taken as part of options analyses which will consider the best long term options for the Authority. These options need to be assessed at the time of financing.

2.2 Estimates of Capital Financing Requirement Future Years and Actual Capital Financing Requirement 2006/07:

2006/07 Actual £000's	2007/08 Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Capital Financing Requirement				
6,837	10,324	15,203	21,057	25,210

The capital financing requirement is the sum of money required from external sources to fund capital expenditure. It will therefore be the aggregate of all capital expenditure, less any revenue contributions or capital receipts. It is also important to note that the actual requirements for capital financing will depend to some extent upon the timing of the cash flows of the capital expenditure itself.

2.3 Estimates of Ratio of Financing Costs to Net Revenue Stream Future Years and Actual 2006/07:

2006/07 Actual £000's	2007/08 Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Ratio of Financing Costs to Net Revenue Stream				
1.9%	3.0%	3.7%	4.9%	5.7%

2.4 Estimates of Incremental Impact on Council Tax (Band D) Future Years:

2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Incremental Impact on Council Tax		
£1.19	£1.87	£1.44

2.5 Operational Boundary and Authorised Limit for External Borrowing:

The operational boundary is the Authority's estimate of its total outstanding debt, gross of investments and other long-term liabilities. This is to reflect the most likely scenario and not the worst case. It is possible for the operational limit to be temporarily breached to take account of unusual movements in cash flow but this should not be a regular occurrence. A variation from the operational boundary is permissible, but must be reported to the Fire Authority.

2.6 The authorised limit is essentially the same as the operational boundary, but allows headroom over and above it to take account of unusual movements in cash flow and therefore should be the maximum amount of external debt that the Authority is exposed to at any given time. Any proposed variation from the authorised limit must be authorised by the Authority

2.7 Cash flow forecasts have been prepared for 2007/08 to 2009/10 and indicate that there will be no difficulty in maintaining a positive current account balance on a month by month basis, and therefore there is no proposal to seek an increase in the Authority's approved overdraft limit of £200,000. However, previous experience shows that these estimates can sometimes be wrong temporarily due to delays in income receipts, and it has proved necessary in the past to negotiate temporary increases in this figure of up to £500,000. It is therefore proposed that this figure of £500,000 should be included within both the operational boundary and the authorised limit.

2.8 It is expected that the Authority will be paying for the construction of the new fire station at Hassocks Lane before the Dunkirk fire station site is sold. The timing of cash flows will require some additional short term borrowing in the interim period. The additional borrowing ceiling required has therefore been included in both the operational boundary and the authorised limit.

	2008/09 £000's	2009/10 £000's	2010/11 £000's
Prudential Limits			
Operational Boundary	22,473	21,647	26,784
Authorised Limit	24,720	23,812	29,462

2.9 Actual External Debt:

The Authority's external borrowing as at 31 March 2007 was £5.814m

TREASURY MANAGEMENT

2.10 The Service carries out its own treasury management in accordance with the CIPFA Code of Practice for Treasury Management. Whilst the sums involved are relatively small it is nevertheless important to ensure that the Authority's best interests are protected.

2.11 The Authority has an approved list of institutions that it is prepared to lend to, and these constitute those with only the highest credit ratings. This policy is to continue.

2.12 In terms of borrowing, it has been considered prudent to use Public Works Loans Board (PWLB) fixed interest loans. This is because the PWLB generally offers rates which cannot be obtained anywhere else in the marketplace. However, recent changes in market conditions have resulted in other types of fixed interest loan instruments showing interest rates lower than those from the PWLB. Unlike lending, borrowing is a low risk activity so future borrowing arrangements will be entered into on the basis of what is most advantageous for the Authority at the time. Any proposals to borrow from alternative sources will be discussed and agreed with the Treasurer.

2.13 Interest Rate Risk Exposure:

Borrowing in the past has been at fixed interest rates, although it would not be prudent to rule out variable rates absolutely. It is therefore considered that up to 30% of borrowing might come from variable rate sources if these are considered financially advantageous at the time of financing. For policy changes beyond this however, it is suggested that Authority approval should be sought. It is currently expected that borrowing rates may fall at the end of 2007/08 but then remain steady throughout 2008/09 and beyond but that investment rates may fall. It should be noted that unusual money market conditions are prevailing and that these assumptions may well change.

2.14 The total value of lending is not expected to exceed £4,000,000 at its peak during 2008/09, however it is difficult to assess what the likely investment profile might be. At this stage it is unlikely that the Authority will engage in investment for any period longer than 12 months. Current investments are all short term and at rates fixed for short periods.

2.15 It is proposed therefore that the Authority sets the following limits for interest rate exposures for 2008/09, 2009/10 and 2010/11:

	2007/08 £000's	2008/09 £000's	2009/10 £000's
Interest Rate Exposures			
Upper limit for fixed rate exposures	100%	100%	100%
Upper limit for variable rate exposures	30%	30%	30%

2.16 Loan Maturity:

The code of practice and CIPFA guidelines state that there should be no direct linkage between the assets financed and the term of loans taken out. It is proposed that the current upper and lower limits continue to apply.

Loan Maturity		
	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months to 5 years	20%	0%
5 years to 10 years	75%	0%
Over 10 years	100%	25%

2.17 Prudential Limit for Principal Sums Invested for Periods Longer than 364 Days:

There are no proposals for the Authority to invest for periods longer than 364 days.

MONITORING OF PRUDENTIAL INDICATORS

2.18 Performance against the indicators for 2008/09 will be reported quarterly to Finance and Resources Committee.

3. FINANCIAL IMPLICATIONS

The financial implications of this report are set out in full within the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no specific personnel implications which arise directly from this report.

5. EQUALITY IMPACT ASSESSMENT

The initial equality impact assessment is attached at Appendix A. No impacts were identified.

6. CRIME AND DISORDER IMPLICATIONS

There are no specific crime and disorder implications which arise directly from this report.

7. RISK MANAGEMENT IMPLICATIONS

The risk exposures in this report relate primarily to two areas:

- The risk of over exposure of the Authority to interest rate fluctuations;
- The risk that the Authority has an unmanageable or unaffordable level of borrowing.

This paper serves to set out those risks and ensure that they are managed.

8. RECOMMENDATIONS

That Members approve the Prudential Limits for 2008/09 as follows:

Authorised Limit	£24,720,000
Operational Boundary	£22,473,000
Upper limit for variable rate interest exposures	30%
Upper limit for fixed rate interest exposures	100%
Loan Maturity:	Limits:
Under 12 months	Upper 20% Lower 0%
12 months to 5 years	Upper 20% Lower 0%
5 years to 10 years	Upper 75% Lower 0%
Over 10 years	Upper 100% Lower 25%

9. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Frank Swann	Peter Hurford
CHIEF FIRE OFFICER	**TREASURER TO THE FIRE & RESCUE AUTHORITY**

Appendix A

INITIAL EQUALITY IMPACT ASSESSMENT

Section **Finance**	***Manager*** **Principal Accountant**	Date of Assessment **30/01/2008**	New or Existing **Existing**
Name of Report to be assessed		**Prudential Code for Capital Finance 2008/09**	
1. Briefly describe the aims, objectives and purpose of the report.		The Prudential Code for Capital Accounting is a framework for the financing of capital investments in local authority bodies. It requires the annual setting of limits and indicators designed to ensure affordability, prudence, sustainability and good professional practice.	
2. Who is intended to benefit from this report and what are the outcomes?		The Prudential Code is a means by which Members can be assured that the risks inherent in borrowing and lending are mitigated to acceptable levels, thereby protecting the liquidity of the Authority's cash resources.	
3. Who are the main stakeholders in relation to the report?		Members of the Authority; Treasurer to the Authority; Strategic Management Team; Finance Department staff; Sector treasury advisers.	
4. Who implements and who is responsible for the report?		The Treasurer is responsible for the Prudential Code. The Head of Finance, Resources & ICT and Finance Department staff implement the Code.	

5. Please identify the differential impact in the terms of the six strands below. Please tick yes if you have identified any differential impacts. Please state evidence of negative or positive impacts below.				
STRAND	**Y**	**N**	*NEGATIVE IMPACT*	**POSITIVE IMPACT**
Race		**N**		
Gender		**N**		
Disability		**N**		
Religion or Belief		**N**		
Sexuality		**N**		
Age		**N**		

	Y	N		Y	N
6. Can this adverse impact be justified on the grounds of promoting equality of opportunity for one group?			7. Should the policy/service proceed to a full impact assessment?		**N**

I am satisfied that this policy has been successfully impact assessed. I understand the impact assessment of this policy is a statutory obligation and that, as owners of this policy, we take responsibility for the completion and quality of this process.

Signed (completing person)…Neil Timms, Head of Finance, Resources & ICT……………………. Date …30/01/2008...