

REPORT TO THE FIRE AUTHORITY**DATE:** 2 February 2009**REFERENCE:****SUBJECT: TREASURERS REPORT ON THE PRUDENTIAL CODE AND PRUDENTIAL INDICATORS FOR 2009/10.****SUMMARY:**

Mid and West Wales Fire and Rescue Authority's prudential indicators for 2009/10, based on the 2009/10 proposed Capital Programme and Revenue Budget, are presented for Members' approval.

OBJECTIVES		IMPLICATIONS	
More than an Emergency Service		Operational Risk Management	
Trusted & Respected by our customers		Community Risk Reduction	
Saving Lives, Protecting Communities		Learning & Development	
Managing within Budget	Yes	Service Control	
Allocate Resources to Priorities		Civil Contingencies & Resilience	
Efficiency savings		Finance & Procurement	Yes
Alternative funding & resources		H.R.	
Managing People		ICT	
Risk Reduction Planning		CCMS	
Partnership Working		Transport	
Effective & Empowered People		Health & Safety	
		Premises	
		Sustainability & Environment	
		Welsh Language	
		Legal	Yes
		Governance	Yes
		Equality & Diversity	
		Representative Body Consultation	
COMMENTS/OBSERVATIONS ON THE ABOVE OBJECTIVES/IMPLICATIONS:			

RECOMMENDATIONS: That the following be approved:

- 1) That the 2009/10 Prudential Indicators be approved
- 2) That delegated authority is given to the Director of Resources and Procurement to change the balance between borrowing and other long term liabilities within the Authorised Limit for external debt and within the Operational Boundary while keeping within the overall limits.

BACKGROUND PAPERS USED IN PREPARATION OF THIS REPORT:

The proposed Revenue Budget and Capital Programme submitted to the Authority on 1st December 2008.

The Prudential Code for Capital finance in Local Authorities (CIPFA)

Local Government Act 2003

International Financial Reporting Standards and International Accounting Standards

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MID AND WEST WALES FIRE AND RESCUE AUTHORITY

REPORT OF THE TREASURER ON THE PRUDENTIAL CODE AND PRUDENTIAL INDICATORS FOR 2009/2010

The Prudential Code

The objective of the Prudential Code is to provide a framework for local authority capital finance that will ensure for individual local authorities that:

- capital expenditure plans are affordable
- all external borrowing and other long term liabilities are within prudent and sustainable levels
- treasury management decisions are taken in accordance with professional good practice

and that in taking decisions in relation to capital expenditure and treasury management the authority is accountable, by providing a clear and transparent framework.

Prudential indicators

The Prudential Code sets out prudential indicators that must be used, and factors that must be taken into account to demonstrate that authorities are fulfilling the aims of the Code. The prudential indicators are not designed to be comparative performance indicators and the Code does not include suggested indicative limits or ratios. They are designed to support and record local decision making in a manner that is publicly accountable.

The prudential indicators for the forthcoming and following years must be set before the beginning of the year through the processes established for the setting of the budget. They may be revised at any time, following due process, and must be reviewed, and revised if appropriate, for the current year when the prudential indicators are set for the following year.

In setting or revising their prudential indicators, authorities are required to have regard to the following matters:

- affordability
- prudence and sustainability
- value for money
- stewardship of assets
- service objectives
- practicality.

Impact of International Financial Reporting Standards on the Prudential Indicators

Currently the Authority's accounts and budgets are prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice' (the SORP). Preparing accounts under the SORP ensure that the accounts are compliant UK Financial Reporting Standards and UK GAAP, such compliance is required by legislation. As from 1st April 2010 we are required to no longer follow UK GAAP but to follow International Financial Reporting Standards (IFRS) instead. CIPFA are currently preparing a new of Practice to follow. However, it is already known that the treatment of leases will change under the new standards and these changes will be retrospective. The main change is that the test to decide whether a lease is an operating lease or a finance lease will become more stringent.

The majority of vehicles are funded by lease, in the past break clauses have been added to these leases so that they become classified as operating leases. This means that the vehicles are not shown on the balance sheet and the lease payments are treated as rental payments though the Income and Expenditure account. Under IFRS, whether break clauses are added or not, these leases will become finance leases, this means the vehicles will be shown on the balance sheet and the lease is accounted for in the same way as a loan.

In preparation for the changes, as from 1 April 2009 break clauses will not be added to new lease contracts meaning that they will be classified as finance leases. This has no significant impact on the overall costs of the leases but because of the accounting treatment, does significantly increase the Prudential Indicators relating to capital expenditure and finance costs. Where the Prudential Indicators have increased because of the changes in lease classification, for illustrative purposes only, figures are also shown for a scenario where all leases were operating leases.

Prudential indicators for the 2009/10 budget setting process

The prudential indicators for Mid and West Wales Fire and Rescue Authority are set out on the following pages (4-7).

Report of the Treasurer to the Resources Committee

Prudential indicators for the 2009/10 budget setting process

Capital expenditure and borrowing

(1) Estimates of capital expenditure and actual capital expenditure

The actual capital expenditure that was incurred in 2007/08 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

Capital Expenditure				
2007/08 Actual £'000	2008/09 Estimate £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
<i>Capital Expenditure – Total</i>				
1,493	935	4,694	3,980	4,015
<i>Capital Expenditure - Financed by Loan</i>				
965	935	3,275	1,950	2,140
<i>Capital Expenditure - Financed by Finance Lease</i>				
0	0	1,419	2,030	1,875

It should be noted that the estimate for 2011/12 only includes projects started in 2010/11 or earlier. Both this estimate and the 2010/11 estimate are subject to alteration.

If all leases had been operating leases this Indicator would have been

2007/08 Actual £'000	2008/09 Estimate £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
<i>Capital Expenditure – Total</i>				
1,493	935	3,275	1,950	2,140
<i>Capital Expenditure - Financed by Loan</i>				
965	935	3,275	1,950	2,140

(2) Estimates of the ratio of financing costs to net revenue stream and actual ratio of financing costs to net revenue stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2006/07 are:

Ratio of financing costs to net revenue stream				
2007/08 Actual	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
1.11%	1.51%	2.21%	3.68%	5.47%

The estimates of financing costs include current commitments and the proposals for the revised Capital Programme. This ratio compares the interest paid on loans less interest received from investments against the net revenue stream. The net revenue stream is the contributions from the constituent Unitary Authorities plus any known direct revenue grants. The ratio is increasing because of the increased capital programme, the re classification of leases and because the balances that can be used to generate investment income is falling.

If all leases had been operating leases this Indicator would have been

2007/08 Actual	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
1.11%	1.51%	1.99%	2.74%	3.81%

(3) Estimates of capital financing requirement and actual capital financing requirement

Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31st March 2008 are:

Capital financing requirement				
31/03/08 Actual £'000	31/03/09 Estimate £'000	31/03/10 Estimate £'000	31/03/11 Estimate £'000	31/03/12 Estimate £'000
9,261	9,805	14,008	17,047	19,543

If all leases had been operating leases this Indicator would have been

31/03/08 Actual £'000	31/03/09 Estimate £'000	31/03/10 Estimate £'000	31/03/11 Estimate £'000	31/03/12 Estimate £'000
9,261	9,805	12,470	13,696	14,703

(4) Net borrowing and the capital financing requirement

In order to ensure that over the medium term net borrowing will only be for a capital purpose, the 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.

The Authority had no difficulty meeting this requirement in 2007/08, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans and the proposals for the revised Capital Programme.

(5) Authorised limit for external debt

In respect of its external debt, it is recommended that the Authority approves the authorised limits for its total external debt gross of investments for 2009/10 as shown in the table below. The table also indicates the level of authorised external debt that would be required to meet the proposed capital expenditure plans for 2010/11 and 2011/2012. These limits separately identify borrowing from other long term liabilities such as finance leases.

Authorised limit for external debt				
	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Borrowing	10,900	14,500	15,700	17,100
Other long term liabilities	100	1,600	3,900	5,400
Total	11,000	16,100	19,600	22,500

These authorised limits are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. To allow decisions to be made quickly on how to finance capital expenditure in order to secure lower capital charges, it is recommended that the Director of Resources and Procurement is given delegated authority by the Authority to change the balance between borrowing and other long term liabilities (the main example being finance leases) without exceeding the total authorised limit.

The Authority is asked to note that the authorised limit determined for 2009/10 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

If all leases had been operating leases this Indicator would have been

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
<i>Borrowing</i>	10,900	14,500	15,700	17,100
<i>Other long term liabilities</i>	100	100	100	100
Total	11,000	14,600	15,800	17,200

(6) Operational boundary

The Authority is also asked to approve the operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom included within the authorised limit and equates to the projected maximum of external debt. As with the Authorised Limit, it is recommended that the Director of Resources and Procurement is given delegated authority by the Authority to change the balance between borrowing and other long term liabilities without exceeding the total authorised limit.

Operational boundary				
	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
<i>Borrowing</i>	9,900	13,100	14,600	16,000
<i>Other long term liabilities</i>	100	1,500	3,500	5,000
Total	10,000	14,600	18,100	21,000

If all leases had been operating leases this Indicator would have been

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
<i>Borrowing</i>	9,900	13,100	14,600	16,000
<i>Other long term liabilities</i>	100	100	100	100
Total	10,000	13,200	14,700	16,100

(7) Actual external debt

The Authority's actual external debt (borrowing) at 31st March 2008 was £8.337 million. There were no significant Finance leases.

(8) Estimates of the incremental impact of capital investment decisions on revenue budget requirement

The estimate of the incremental impact on financing costs of the proposed capital investment decisions, as compared with the proposed Capital Programme are:

Incremental impact of capital investment decisions on revenue budget requirement		
2009/10 £'000	2010/11 £'000	2011/12 £'000
175	115	126

Treasury Management

(9) Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services

Mid and West Wales Fire and Rescue Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

(10) Upper limits on fixed interest rate exposures

It is recommended that the Authority sets an upper limit on its fixed interest rate exposures for 2009/10 of 130%, and for 2010/11 and 2011/12 of 125% of its net outstanding principal sums.

(11) Upper limits on variable interest rate exposures

It is recommended that the Authority sets an upper limit on its variable interest rate exposures for 2009/10, 2010/11 and 2011/12 of 5% of its net outstanding principal sums.

(12) Upper and lower limits for the maturity structure of borrowing

It is recommended that the Authority sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate		
	Upper limit	Lower limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	90%	25%

(13) Prudential limits for the principal sums invested for periods longer than 364 days.

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