

REPORT TO THE RESOURCES COMMITTEEDATE: 14TH JANUARY 2008**SUBJECT: TREASURERS REPORT ON THE PRUDENTIAL CODE AND PRUDENTIAL INDICATORS FOR 2008/09****SUMMARY:**

Mid and West Wales Fire and Rescue Authority's prudential indicators for 2008/09, based on the 2008/09 proposed Capital Programme and Revenue Budget, are presented for Members' approval.

OBJECTIVES		IMPLICATIONS	
Trusted & Respect		Operational Risk Management	
More than Emergencies		Community Risk Reduction	
Saving Lives, Protecting Communities		Training & Development	
Managing within Budget	Yes	Civil Contingencies	
Improving Efficiency		Finance & Procurement	Yes
Resources to Priorities		H.R.	
Alternative Resources		ICT	
Managing People		Corporate Services	
Integrated Management Planning		Transport	
Partnership Working		Health & Safety	
Effective & Empowered People		Premises	
Sustainability & the Environment		Welsh Language	
Governance	Yes	Legal	Yes

COMMENTS/OBSERVATIONS:**RECOMMENDATIONS:**

- 1) That the 2008/09 prudential indicators be approved for recommendation to the Full Fire Authority.
- 2) That delegated authority is sought from the Full Fire Authority to the Director of Finance and Procurement changing 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 10th December 2007.

The Prudential code for Capital finance in Local Authorities (CIPFA)
Local Government Act 2003

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MID AND WEST WALES FIRE AND RESCUE AUTHORITY

RESOURCES COMMITTEE – 14TH JANUARY 2008

REPORT OF THE TREASURER ON THE PRUDENTIAL CODE AND PRUDENTIAL INDICATORS FOR 2008/2009

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.

Prudential indicators for the 2008/09 budget setting process

The prudential indicators for Mid and West Wales Fire and Rescue Authority are set out on the following pages (3-6).

Report of the Treasurer to the Resources Committee

Prudential indicators for the 2008/09 budget setting process

Capital expenditure and borrowing

(1) Estimates of capital expenditure and actual capital expenditure

The actual capital expenditure that was incurred in 2006/07 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

Capital Expenditure				
2006/07 Actual £'000	2007/08 Estimate £'000	2008/09 Estimate £'000	2009/10 Estimate £'000	2010/11 Estimate £'000
Capital Expenditure - Total				
1,786	1,113	5,685	5,030	810
Capital Expenditure - Financed by Loan				
1,682	912	5,614	4,959	739

It should be noted that the estimate for 2010/11 only includes projects started in 2009/10 or earlier. Both this estimate and the 2009/10 estimate are subject to alteration.

The proposed capital programme for 2008/09 and 2009/10 as presented to the Authority at its meeting on 10th December 2007 totalled £3,305k and £3,210k respectively. This is significantly lower than the figures noted above. This is due to the potential funding arrangements of the joint facility at Llandrindod Wells. The capital programme included the net capital cost of the Fire and Rescue elements of the project. However, one of the possible methods of funding the project is for the Authority to incur the capital expenditure for the whole scheme, recovering the cost of the capital expenditure in respect of the non Fire and Rescue elements from the other parties as an income stream. The calculations of the Prudential Indicators incorporates this possible method of funding to ensure that Capital Financing Requirement and Authorised Limit for borrowing are sufficiently high to allow this option. The difference in the figures shown in the Capital Programme and the Capital Expenditure shown above is the estimated cost of the non Fire and Rescue elements of the Llandrindod Wells project.

(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				
2006/07 Actual	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate
0.71%	1.26%	1.55%	2.20%	2.69%

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 and because the balance in the elective pension fund is falling, generating less investment income.

(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 2007 are:

Capital financing requirement				
31/03/07 Actual £'000	31/03/08 Estimate £'000	31/03/09 Estimate £'000	31/03/10 Estimate £'000	31/03/11 Estimate £'000
7,259	8,843	14,105	18,502	18,503

(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 2006/07, 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 2008/09 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 2009/10 and 2010/2011. These limits separately identify borrowing from other long term liabilities such as finance leases.

Authorised limit for external debt				
	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Borrowing	9,900	15,900	20,400	20,400
Other long term liabilities	100	100	100	100
Total	10,000	16,000	20,500	20,500

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 Finance 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 2007/08 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

(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 Finance 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				
	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Borrowing	8,900	14,400	18,900	18,900
Other long term liabilities	100	100	100	100
Total	9,000	14,500	19,000	19,000

(7) Actual external debt

The Authority's actual external debt (borrowing) at 31st March 2007 was £7.739 million.

(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		
2008/09 £'000	2009/10 £'000	2010/11 £'000
164	227	65

The incremental impact reflects an income stream in respect of expenditure at Llandrindod Wells.

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 2008/09 of 150%, and for 2009/10 and 2010/11 of 140% 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 2008/09, 2009/10 and 2010/11 of 10% 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	99%	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.