AGENDA ITEM No. 11

PEAK DISTRICT NATIONAL PARK AUTHORITY

NATIONAL PARK AUTHORITY MEETING

9 FEBRUARY 2007

CHIEF FINANCE OFFICER

PART A

1. PRUDENTIAL CODE FOR CAPITAL FINANCE & TREASURY MANAGEMENT STRATEGY (A.1327/PH)

Proposals

1 To consider the implementation of the Prudential Code and related recommendations.

2 To amend the Treasury Management Policy Statement as contained in the Annex to this report.

3 To approve the borrowing limits and requirements as stated under the terms of the Treasury Management Policy Statement.

4 RECOMMENDATIONS:

1. **That the Authority adopts the Prudential Indicators as described in the report.**
2. **That the Authority re-affirms its adoption of CIPFA's Code of Practice on Treasury Management.**
3. **That the Authority approves the recommendations relating to Borrowing Limits and requirements for the financial year as laid out in the Treasury Management Policy Statement (Annex1).**

Policy/Legal Background

5 The Government introduced the Prudential Code in 2004-05 and this will be the fourth year of its operation.

6 The main benefit to the Authority is that there is now no restriction on capital investment, subject to Government reserve powers to restrict borrowing for national economic reasons.

7 To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Authority to agree and monitor a number of prudential indicators. These indicators are mandatory, but can be supplemented with local indicators if this aids interpretation and many will cover three years forward. There are no local indicators but these may be developed in future years. The indicators cover affordability, prudence, capital expenditure, debt levels and treasury management.

Key Issues

PRUDENTIAL CODE FOR CAPITAL FINANCE

8 The figures contained within this report are not fixed. The report itself will be updated annually and will contain revised estimates for the following three years together with actual figures when available. The figures in this report represent the best estimate currently available in the absence of a detailed Capital Strategy at this stage.

Affordability

9 **Actual and Estimates of the ratio of financing costs to net revenue stream** – These indicators identify the trend in the cost of capital against the net revenue stream. Financing costs are the principal and interest payment on the estimated debt outstanding. The Net Revenue Stream is the core National Park Grant and Access monies.

	Actual 2005/06 £	**Estimate 2006/07 £**	**Estimate 2007/08 £**	**Estimate 2008/09 £**	**Estimate 2009/10 £**
Financing Costs	0	17,425	152,293	183,869	204,751
Net Revenue Stream	7,342,550	7,523,177	7,723,294	7,723,294	7,723,294
Percentage	0.00%	0.23%	1.97%	2.38%	2.65%

The amounts are considered affordable in the medium term.

Prudence

10 **Net Borrowing and the Capital Financing Requirement** – This indicates the net long term debt outstanding for the Authority, net of any temporary investments that have been made, in the previous, current and next three financial years.

	Actual 2005/06 £	**Estimate 2006/07 £**	**Estimate 2007/08 £**	**Estimate 2008/09 £**	**Estimate 2009/10 £**
Net External Borrowing	(5,305,945)	(2,503,000)	(2,264,480)	(2,199,960)	(1,995,600)

The excess of investments over capital borrowing reflects the traditionally beneficial level of cashflow the Authority enjoys in grant payments from DEFRA.

Capital Expenditure and External Debt

11 **Actual and Estimates of Capital Expenditure**

	Actual 2005/06 £	**Estimate 2006/07 £**	**Estimate 2007/08 £**	**Estimate 2008/09 £**	**Estimate 2009/10 £**
Total Capital Expenditure	1,185,000	768,000	371,000	369,000	525,000

These figures represent best estimates in the absence of detailed Capital Strategy figures.

12 **Actual and Estimate of Capital Financing Requirement –** The underlying need to borrow for capital purposes.

	Actual 2005/06 £	Estimate 2006/07 £	Estimate 2007/08 £	Estimate 2008/09 £	Estimate 2009/10 £
CFR	Nil	697,000	935,520	1,000,040	1,204,400

13 **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised if necessary by members. It is an arbitrary calculation and will be different in approach and outcome for all authorities. In the absence of any firm guidance it is recommended that the limit is set at the following levels to reflect the likely increase in debt arising from the Capital Financing Requirement, plus a margin to allow some flexibility within the estimated levels of capital expenditure.

	2007/08 £m	2008/09 £m	2009/10 £m
Borrowing	1.1	1.2	1.4
Other Long Term Liabilities	NIL	NIL	NIL
Total	**1.1**	**1.2**	**1.4**

14 **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year.

	2007/08 £m	2008/09 £m	2009/10 £m
Borrowing	1.0	1.1	1.3
Other Long Term Liabilities	NIL	NIL	NIL
Total	**1.0**	**1.1**	**1.3**

15 **Actual External Debt** – This is actual borrowing plus actual other long-term liabilities at a certain point in time. This expected to be around £697,000 at the end of 2006-07.

16 It is envisaged that monitoring should take place on an annual basis to the Services Committee as part of the outturn report, and should include the indicators relevant to the current year together with performance against them. Next March the Authority will consider setting limits and targets for the following three years and report on the current year.

TREASURY MANAGEMENT

17 **Adoption of the Treasury Management Code** – The indicator is the adoption of the CIPFA Code on Treasury Management which this report recommends. The Prudential Code also specifies a number of prudential indicators in respect of Treasury Management operations. The authority's Treasury Management Strategy is attached at Annex 1. It was first approved in 1998 and has been updated to reflect changes required by the introduction of the Prudential Code and the Local Government Act 2003.

18 **Fixed and Variable Rate Exposures, Maturity Structures, Longer Term Investments** – The introduction of the Prudential Code sees the replacement of the Section 45 limits imposed by the Local Government and Housing Act 1989 with 4 new prudential indicators.

(i) **Interest Rate Exposures Fixed Rate** – The Authority should set an upper limit on its fixed interest rate exposures for 2007/08, 2008/09 and 2009/10 of 100% of its net outstanding principal sums.

(ii) **Interest Rate Exposures – Variable Rates** – The Authority should set an upper limit on its variable rate interest rate exposures for 2007/08, 2008/09 and 2009/10 of 100% of its net outstanding principal sums.

(iii) **Maturity Structure of Borrowing – Upper and Lower Limits for Maturity Structure –** Due to the low level of debt outstanding, in the short term the Authority is likely to have most new debt of 10 years and above duration, although in circumstances when the life of an asset is less than 25 years, the period may be shorter.

(iv) **Total Principal Sum Invested for Period Longer than 364 Days**
There are no plans for the Authority to invest sums for periods longer than 364 days.

19 The main limiting factor on the Authority's ability to undertake capital expenditure is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs. Currently, capital expenditure is financed by special grants from DEFRA or the ODPM; one off items from revenue; and from the Capital Receipts Reserve. The new system allows consideration of 'spend to save' schemes whereby additional debt charges arising from capital expenditure are matched or exceeded by other revenue savings. Some capital projects may be financed from revenue or the Capital Receipts Reserves until the Capital Strategy is finalised.

20 The impact of capital expenditure and associated borrowing is spread over a number of years and therefore it is important to consider the effect of any proposals in both the forthcoming and future financial years. This will be achieved through the formal business appraisal process which is under development.

Human Rights aspects including Equal Opportunities, Health & Safety

21 In preparing this report the relevance of the following factors have been considered: Equality of opportunity, prevention of crime and disorder, environmental, health and property, personnel, legal and human rights considerations

List of Background Papers (not previously published)

22 Local Government Act 2003, Prudential Code, CIPFA Code of Practice on Treasury Management, Guidance issued by ODPM.

Report Author

23 Peter Handford for Chief Financial Officer

Publication Date

24 1 February 2007