**AGENDA ITEM No. 8**

PEAK DISTRICT NATIONAL PARK AUTHORITY

NATIONAL PARK AUTHORITY MEETING

8 FEBRUARY 2008

CORPORATE RESOURCES

PART A

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

CHIEF FINANCE OFFICER

**Proposals**

1. The purpose of this report is to approve the borrowing limits and prudential indicators set out below, together with the Treasury Management Policy Statement contained in the Annex to this report.

**2. RECOMMENDATION:**

> **1. That the Authority adopts the Prudential Indicators and borrowing limits as described in the report, together with the policy on Minimum Revenue Provision in paragraph 19.**
>
> **2. That the Authority approves the Treasury Management Policy Statement in Annex 1**

**Policy/Legal Background**

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

4. 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.

5. 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. 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**

6. 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.

7. **Actual and Estimate of Total Capital Expenditure to be incurred** – these figures represent best estimates based on the current stage of work on the Capital Strategy.

| | Actual 2006/07 £ | Estimate 2007/08 £ | Estimate 2008/09 £ | Estimate 2009/10 £ | Estimate 2010/11 £ |
|---|---|---|---|---|---|
| Total Capital Expenditure | 1,477,861 | 150,000 | 850,000 | 300,000 | 1,379,000 |

8. **Actual and Estimate of Capital Financing Requirement –** The underlying need to borrow for capital purposes, after all other sources of capital financing available in each year are taken into account (i.e. after direct support of capital expenditure from revenue, capital grants or use of capital receipts).

| | Actual 2006/07 £ | Estimate 2007/08 £ | Estimate 2008/09 £ | Estimate 2009/10 £ | Estimate 2010/11 £ |
|---|---|---|---|---|---|
| CFR | 876,600 | 867,520 | 1,544,040 | 1,650,560 | 2,526,280 |

**Affordability**

9. **The ratio of financing costs to overall net revenue stream** – These indicators identify the proportion of financing costs measured against overall net revenue. Financing costs are the annual principal and interest payments on the estimated debt outstanding. Overall net revenue is the core National Park Grant.

| | Actual 2006/07 £ | Estimate 2007/08 £ | Estimate 2008/09 £ | Estimate 2009/10 £ | Estimate 2010/11 £ |
|---|---|---|---|---|---|
| Borrowing Costs | 20,927 | 75,293 | 223,169 | 262,745 | 390,401 |
| Net Revenue | 7,523,177 | 7,723,294 | 8,064,281 | 8,291,549 | 8,525,067 |
| Percentage | 0.28% | 0.97% | 2.77% | 3.17% | 4.58% |

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 2006/07 £ | Estimate 2007/08 £ | Estimate 2008/09 £ | Estimate 2009/10 £ | Estimate 2010/11 £ |
|---|---|---|---|---|---|
| Capital Financing Requirement | 876,600 | 867,520 | 1,544,040 | 1,650,560 | 2,526,280 |
| Temporary investments | (2,563,896) | (2,600,000) | (2,500,000) | (2,000,000) | (2,000,000) |
| Net External Borrowing | (1,687,296) | (1,732,480) | (955,960) | (349,440) | 526,280 |

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

11. **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised if necessary by members. The calculation 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.

| | **2008/09 £m** | **2009/10 £m** | **2010/11 £m** |
|---|---|---|---|
| Borrowing | 1.7 | 1.9 | 2.6 |
| Other Long Term Liabilities | NIL | NIL | NIL |
| **Total** | **1.7** | **1.9** | **2.6** |

12. **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.

| | **2008/09 £m** | **2009/10 £m** | **2010/11 £m** |
|---|---|---|---|
| Borrowing | 1.3 | 1.4 | 2.0 |
| Other Long Term Liabilities | NIL | NIL | NIL |
| **Total** | **1.3** | **1.4** | **2.0** |

13. **Actual External Debt –** This is actual borrowing plus actual other long-term liabilities at a certain point in time.

| | **Actual 2005/06 £** | **Actual 2006/07 £** | **Estimate 2007/08 £** |
|---|---|---|---|
| External Debt | Nil | 689,536 | 675,000 |

14. The Chief Finance Officer will monitor the application of these prudential indicators, as required by the Code, and will bring forward to the Authority any significant deviation. The CFO is required to bring a report specifically to the Authority if the Authorised Limit is likely to be breached, for the Authority to determine whether the limit should be raised, or whether alternative procedures to keep within the existing limit are appropriate.

**TREASURY MANAGEMENT**

15. **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.

16. **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 2008/09, 2009/10 and 2010/11 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 2008/09, 2009/10 and 2010/11 of 100% of its net outstanding principal sums.

(iii) **Maturity Structure of Borrowing – Upper and Lower Limits for Maturity Structure –** The Authority is likely to have most new debt at a maximum of 25 years, although in circumstances when the life of an asset is less 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.

**MINIMUM REVENUE PROVISION**

17. Draft Department of Community and Local Government Regulations have been issued which will seek to make changes to the way Local Authorities account for the statutory Minimum Revenue Provision (MRP). The MRP is the amount Local Authorities are required to set aside each year from their revenue account, in order to ensure that provision is made annually for the repayment of outstanding loan principal as well as interest charges. The previous Regulation required a minimum of 4% of the Capital Financing Requirement at the start of the year to be set aside – which ensured repayment of the principal over a minimum of 25 years. In practice, this understated the amount required to be set aside where assets had shorter lives. In future Local Authorities will be allowed to set a provision which the Authority considers to be prudent, in line with new statutory guidance, and the full Authority will be required to approve a Minimum Revenue Provision Policy Statement. The broad aim of this is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits.

18. The Peak District National Park Authority has only started borrowing in the 2006/07 year and in anticipation of this guidance and movements towards depreciation accounting a Voluntary Revenue Provision was agreed in the 2006/07 outturn, in order to ensure that borrowing was repaid over periods which more accurately reflected their asset lives.

19. Therefore, consistent with its current practice, the Peak District National Park Authority will adopt the proposed Asset Life Method and will therefore ensure that the Minimum Revenue Provision is the provision which best matches the repayment of debt to the underlying asset which is being supported by that borrowing.

**CONCLUSION**

20. As well as borrowing, the Authority retains the ability to finance its capital expenditure from a combination of use of capital receipts, capital grants from external bodies, and direct revenue contributions. Until the Capital Strategy is finalised, it is proposed that borrowing will be restricted to projects which are able to finance debt repayments from within existing resources, mainly spend-to-save projects or from prudent estimates of external income arising from the investment.

21. 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 case process, and is generally done using discounting techniques, principally net present value, where there is a mix of capital and revenue income and expenditure over time.

**Human Rights aspects including Equal Opportunities, Health & Safety**

22. There are no implications arising from this report

**List of Background Papers (not previously published)**

23. Local Government Act 2003, Prudential Code, CIPFA Code of Practice on Treasury Management, DCLG guidance.

**Report Author**

24. Philip Naylor

**Publication Date**

25. 31 January 2008