11. PRUDENTIAL CODE FOR CAPITAL FINANCE AND TREASURY MANAGEMENT POLICY (A1327/PN)

Purpose of the report

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

Key Issues

2. The Authority is able to determine how much it should borrow to finance its capital expenditure requirements, if capital expenditure cannot be covered by capital sales receipts or contributions from revenue budgets. The Prudential Code covers the limits and indicators considered necessary to ensure that debt incurred is affordable, prudent and sustainable: Members need to approve the proposed borrowing limit for 2013/14.

The Treasury Management Policy is designed to ensure that the Authority's investment, cash flow, banking and capital market transactions are carried out within the parameters approved by Members in this report.

The Minimum Revenue Provision policy sets out the policy which this Authority will follow to ensure that any debt incurred is repaid over appropriate intervals.

There are no substantial changes to the report from the previous year except that the Authorised Limit is proposed to be set at a higher ceiling to take account of higher levels of capital investment financed from borrowing. These increases are likely to be projects where capital expenditure is required in order to achieve either revenue savings or take advantage of opportunities to generate income in line with one of the three headline actions in the Moving Forward in Time of Change document previously approved by Members.

Members agreed in the Capital Strategy report in October 2011 that decisions on borrowing under £100,000 could be delegated to officers. Since then the delegated limit for approving capital projects in Standing Orders has been increased to £150,000. Members are therefore asked in Recommendation 3 if they would accept a corresponding increase in the delegation so that the two limits remain consistent with each other.

Recommendations

3. **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 paragraphs 26-27.**

2. That the Authority approves the Treasury Management Policy Statement in Appendix 1.

3. That borrowing powers are able to be used in support of capital expenditure for delegated projects under £150,000, in line with the principles and assumptions approved in the Capital Strategy, subject to the Authorised Limit and an annual analysis (within the prudential code report) from the Chief Finance Officer of any such decisions. All projects over £150,000 will still be reported to committee for approval as normal.

How does this contribute to our policies and legal obligations?

4. This report is produced in order to comply with the requirements of:-
   - The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services
   - The CIPFA Prudential Code for Capital Finance in Local Authorities
   - The Department of Communities and Local Government (DCLG) Guidance on Local Government Investments and Minimum Revenue Provision

Background

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; no local indicators are currently used. The indicators cover affordability, prudence, capital expenditure, debt levels and treasury management. The main benefit to the Authority is that there remains no restriction on capital investment, subject to Government reserve powers to restrict borrowing for national economic reasons.

Proposals

PRUDENTIAL CODE FOR CAPITAL FINANCE

6. This report is updated annually and contains revised estimates for the following three years together with actual figures when available.

7. <u>Overview</u>

Members approved the Authority's Capital Strategy in October 2011 and received an appraisal of the current status of planning for Capital in paragraphs 11 to 14 of the February budget report. There are no changes in approach since these two reports were approved. In addition the Budget Monitoring Group received a mid-year monitoring report in January.

The Authority has used its borrowing powers primarily to guarantee value for money savings by investing in cost to save measures. To date, borrowing from the Public Works Loan Board has been restricted to the Aldern House refurbishment project and the replacement of vehicles. Approved borrowing for the Losehill Hall business plan has now lapsed because of the sale of the Hall and the small amount invested before the decision to close was fully financed from the capital sales receipt. The approved borrowing for the Information and Communications Technology Strategy is capable of being financed predominantly from revenue funds, in line with the Capital Strategy approved by the Authority in October.

Amongst National Parks in England there has been surprisingly limited use of borrowing powers; other National Parks have tended to make use of capital receipts. In the short to medium term, the Peak District National Park Authority has approved the use of £463,000 of capital receipts to pursue environmental projects and some minor works (as approved in the Capital Strategy in October 2011) and has also approved a number of temporary property interventions in support of its primary purposes: this means that capital receipts will not be available for other purposes until these properties are re-sold. The predominant need for capital investment during this period is likely to arise from income generating proposals where assets need a degree of enhancement or refurbishment and, providing the revenue return from these projects is sufficient to meet any debt repayments, the authorised limit will need to be raised to allow for these to be approved when the business cases are brought forward for approval to either Members or, if under £150,000, (assuming Members agree Recommendation 3) Resource Management Team. This approach is consistent with the first working assumption outlined in the Capital Strategy report, "that the capital investment needs of services with trading or other financial objectives should be met from trading or business plan income or existing revenue budgets".

Members in October 2011 approved delegation to officers of the decision to borrow for capital projects under £100,000, subject to the Authorised Limit and an annual analysis of these decisions in this report. Delegated approvals are as follows:-

Committee / RMT Minute	**Date**	**Approval**	**Reason**	**Amount financed from internal funds**	**Amount Borrowed from PWLB**	**Annual charge to budget**	**Ending**
N/A Head of Service	16/05/2012	£9,192	Replacement vehicle Learning Team	£9,192	£0	£1,311	2019/20
RMT 70/12	31/07/2012	£20,000	Litter Service vehicle replacement (from lease to owned)	£TBC	£0	£3,013	2019/20
RMT 63/12	31/07/2012	£98,506	Borrowing for landlord elements of Farm refurbishment	£TBC	£0	£7,248	2037/38

8. **Actual and Estimate of Total Capital Expenditure to be incurred** – these figures represent best estimates. As the title suggests, the figures include total expenditure on capital items, including assets financed from revenue, capital grants or use of capital receipts, as well as borrowing. The estimates for future capital expenditure for the future tend to be aggregations of a number of capital projects already delegated to officers (e.g. refurbishment of tenanted properties, ICT expenditure etc) projects already approved by Members (e.g. the minor works projects of £213,000 and environmental improvements of £250,000), plus a limited projection of some potential expenditure which may be approved in future, though these latter items will be subject to future decision.

9.

	Actual 2011/12 £	**Estimate 2012/13 £**	**Estimate 2013/14 £**	**Estimate 2014/15 £**	**Estimate 2015/16 £**
Total Capital Expenditure	**108,858**	**1,193,000**	**1,155,000**	**968,000**	**543,000**
Financed from Grants	(8,230)	(0)	(0)	(0)	(0)
Financed from revenue	(100,628)	(363,000)	(113,000)	(143,000)	(143,000)
Financed from capital receipts	(0)	(713,000)	(224,000)	(425,000)	(0)
Net Total (financed from borrowing)	**0**	**117,000**	**818,000**	**400,000**	**400,0000**

Under current economic circumstances it is likely that a high proportion of the total to be financed from borrowing will be temporarily financed from cashflow as this is likely to be more cost effective in the short to medium term, as loan interest rates remain higher than interest received on cashflow surpluses.

10. **Actual and Estimate of Capital Financing Requirement (C.F.R) –** 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). The CFR will rise from 2013/14 onwards reflecting the potential for capital investment supporting income generating projects.

11.

	Actual 2011/12 £	Estimate 2012/13 £	Estimate 2013/14 £	Estimate 2014/15 £	Estimate 2015/16 £
C.F.R	901,100	810,380	1,528,660	1,828,940	2,144,935

Affordability

12. **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.

13.

	Actual 2011/12 £	Estimate 2012/13 £	Estimate 2013/14 £	Estimate 2014/15 £	Estimate 2015/16 £
Borrowing Costs	125,317	137,938	150,490	170,861	166,843
Net Revenue	7,852,720	7,406,630	6,960,536	6,514,442	6,057,000
Percentage	1.65%	1.86%	2.16%	2.62%	2.75%

14. The ratio increases over the period reflecting the possible increase in capital investments mentioned above, with the ratio not helped by the reductions in National Park Grant. The amounts are still considered to be affordable as the borrowing costs will be met largely from additional income sources and not National Park Grant.

Prudence

15. **Net Borrowing and the Capital Financing Requirement** – This indicates the net long term debt outstanding for the Authority, after accounting for the availability of any temporary invested sums, in the previous, current and next three financial years.

16.

	Actual 2011/12 £	Estimate 2012/13 £	Estimate 2013/14 £	Estimate 2014/15 £	Estimate 2015/16 £
Capital Financing Requirement	901,100	810,380	1,528,660	1,828,940	2,144,935
Temporary investments	(5,329,815)	(4,000,000)	(3,000,000)	(2,500,000)	(2,500,000)
Net External Borrowing	(4,428,715)	(3,189,620)	(1,471,340)	(671,060)	(355,065)

17. The excess of investments over capital borrowing mainly reflect the quarterly claims of National Park Grant drawn down in advance of expenditure, to meet working capital needs. The level of borrowing is considered to be prudent.

18. **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 recommended that the limit is set at the following levels to reflect the Capital Financing Requirement, plus a margin to allow

some flexibility within the estimated levels of capital expenditure. The limit is a £600,000 increase from the current 2012/13 limit.

19.

	2013/14 £m	2014/15 £m	2015/16 £m
Borrowing	1.8	2.0	2.2
Other Long Term Liabilities	NIL	NIL	NIL
Total	**1.8**	**2.0**	**2.2**

20. **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.

21.

	2013/14 £m	2014/15 £m	2015/16 £m
Borrowing	1.6	1.8	2.0
Other Long Term Liabilities	NIL	NIL	NIL
Total	**1.6**	**1.8**	**2.0**

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

	Actual 2010/11 £	Actual 2011/12 £	Estimate 2012/13 £
External Debt	934,919	844,860	801,000

23. 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

24. **Adoption of the Treasury Management Code** – The first Prudential Code indicator for Treasury Management is the adoption of the Chartered Institute of Public Finance and Accountancy's (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 Appendix 1, and is largely unchanged. 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.

25. **Fixed and Variable Rate Exposures, Maturity Structures, Longer Term Investments**

(i) **Interest Rate Exposures - Fixed Rate** – The Authority should set an upper limit on its fixed interest rate exposures for 2013/14, 2014/15 and 2015/16 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 2013/14, 2014/15 and 2015/16 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

26. The Minimum Revenue Provision 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. Local Authorities are now allowed to set a provision which the Authority considers to be prudent, in line with new statutory guidance, and the full Authority is 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 the period over which the capital expenditure provides benefits.

27. The Peak District National Park Authority has adopted the Asset Life Method, which ensures that the Revenue Provision is calculated based on the estimated useful life of the underlying asset. This method should help to ensure that budgetary provision for debt repayments is linked to the life of assets purchased, ensuring that funds are available for replacement of assets when the end of their useful life is reached.

CONCLUSION

28. 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.

29. For any extension of borrowing the Prudential Code requires that explicit regard must be taken of option appraisal, asset management planning, and strategic planning. 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 medium and long term.

30. There are no major changes proposed in the approach to Treasury Management and it is the Chief Finance Officer's view that the current approach, in terms of its borrowing and investing practices, minimises risk to the Authority. The potential increases in borrowing (subject to future approval of business cases) are likely to be restricted, consistent with the working assumptions contained within the approved capital strategy, to proposals which enhance or refurbish existing assets in order to realise new or larger revenue income from them. As such, the burden of the debt repayment falls on the new revenue streams and the proposals will only be accepted if there is more than sufficient cover from the revenue income to cover interest and principal repayments. A further test will be the ability to recover the capital investment cost from the asset re-sale value should the project not meet its revenue targets. The combination of these tests, at approval stage, should safeguard the Authority from any risks in the small increases in borrowing set out in this report.

Are there any corporate implications members should be concerned about?

31. **Financial:** Financial issues are covered by way of the nature of the report

32. **Risk Management:** The Prudential Code indicators help to manage risks inherent in capital expenditure. The proposed Treasury Management Policy manages and minimises the risks inherent in the Authority's borrowing and investing activities.

33. **Sustainability:** The indicators include consideration of the sustainability of capital borrowing.

Background papers

Treasury Management in the Public Services – CIPFA 2011.
The Prudential Code for Capital Finance in Local Authorities – CIPFA 2011

Appendices

1.Treasury Management Policy and Practice Statement

Report Author, Job Title and Publication Date

Philip Naylor, Chief Finance Officer, 7 March 2013