

## **Statement of Prudential Indicators**

### **Introduction**

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the new system of capital finance embodied in Part 1 of the Local Government Act 2003. Since 1 April 2004, Local Authorities are no longer subject to government controlled borrowing approvals and are free to determine their own level of capital investment controlled by self-regulation.

The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the FRA should operate to ensure the objectives of the Prudential Code are met.

### **Prudential Indicators**

The Prudential Indicators for which the Fire and Rescue Authority is required to set limits are as follows:

#### **1. Net Borrowing and the Capital Financing Requirement**

This Prudential Indicator provides an overarching requirement that all the indicators operate within and is described in the Prudential Code as follows:

**“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local 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 Treasurer reports that the Fire and Rescue Authority had no difficulty meeting this requirement since 2002/03, nor are any difficulties envisaged for the current or future years. This view takes into account all plans and commitments included in the 2011-12 Budget.

## **2. Capital Expenditure**

The actual amount of capital expenditure that was incurred since 2008/09, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2011/12 Budget are as follows:

	<b>2009/10 Actual £000</b>	<b>2010/11 Estimate £000</b>	<b>2011/12 Estimate £000</b>	<b>2012/13 Estimate £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>
Capital Expenditure	2,967	2,600	8,938	3,865	5,085	4,715
Operationally Leased Assets	268	204	303	93	412	406
	3,235	2,804	9,241	3,958	5,497	5,121

The apparent increase in 2011/12 relates to significant slippage of previous years' allocated monies in respect of major building works. Appropriate funding for the financing costs has always been included in relevant budgets.

## **3. Ratio of Financing Costs to Net Revenue Stream**

Financing Costs include the amount of interest payable in respect of borrowing or other long term liabilities and the amount the Fire and Rescue Authority is required to set aside to repay debt, less interest and investments income.

The actual Net Revenue Stream is the 'amount to be met from government grants and local taxation' taken from the annual Statement of Accounts, and the estimated figure is the Fire and Rescue Authority's budget net of any transfers to or from the balances.

The prediction of the Net Revenue Stream in this Prudential Indicator for future years assumes increases in the Fire and Rescue Authority's funding from government and the local taxpayer consistent with expectations in the Medium Term Financial Strategy. This is indicative only and in no way meant to influence the actual future years' funding or in particular the funding from Precepts.

The indicator only requires that the costs associated with capital expenditure are measured in this way. However the Fire and Rescue Authority has used, and may continue to use, Operational Leasing as a cost effective method of acquiring vehicles. In the spirit of the Prudential Code these costs are included for comparative purposes.

The rise in this ratio is partially due to the fact that capital expenditure prior to the formation of the FRA is not charged to the Fire and Rescue Authority. In other words, the Fire and Rescue Authority inherited all its assets without any cost. Thus, as investment is made in vehicles, for example, the increased costs are in the Fire and Rescue Authority accounts but the savings are elsewhere.

The estimates of the ratio of financing costs to net revenue stream are as follows:

	<b>2009/10 Actual £000</b>	<b>2010/11 Estimate £000</b>	<b>2011/12 Estimate £000</b>	<b>2012/13 Estimate £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>
Financing Costs	1,861	2,205	2,406	2,635	2,885	2,885
Net Revenue Stream	30,451	31,394	31,195	31,339	30,687	30,075
Ratio	6.11%	7.02%	7.71%	8.41%	9.40%	9.59%

#### **4. Capital Financing Requirement**

The capital financing requirement is a measure of the extent to which the Fire and Rescue Authority needs to borrow to support capital expenditure. It does not necessarily relate to the actual amount of borrowing at any one point in time. The Fire and Rescue Authority arranges its treasury management activity via a Service Level Agreement (SLA) with Worcestershire County Council (WCC) which has an integrated treasury management strategy where there is no distinction between revenue and capital cash flows and the day to day position of external borrowing and investments can change constantly.

The capital financing requirement concerns only those transactions arising from capital spending, whereas the amount of external borrowing is a consequence of all revenue and capital cash transactions combined together following recommended treasury management practice.

The estimates of the end of year capital financing requirement are as follows:

	<b>2009/10 Actual £000</b>	<b>2010/11 Estimate £000</b>	<b>2011/12 Estimate £000</b>	<b>2012/13 Estimate £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>
Capital Financing Requirement at 31st March	14,761	15,581	23,406	25,971	29,895	33,240

## 5. **Authorised Limit**

The Authorised Limit represents an upper limit of borrowing that could be afforded in the short term but may not be sustainable. This limit includes a risk assessment of exceptional events taking into account the demands of revenue and capital cash flows. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary.

These limits are higher than set in previous years to reflect the decisions taken by the Fire and Rescue Authority to switch from leasing to more cost effective borrowing for the acquisition of operational vehicles.

**The Fire and Rescue Authority should note that the Authorised Limit represents the limit specified in section 3 (1) of the Local Government Act 2003 (Duty to determine affordable borrowing limit).**

The following Authorised Limits for external debt, excluding temporary investments are recommended:

Authorized Limit	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
External Borrowing	29,000	31,000	35,000	38,000

## 6. **Operational Boundary**

The Operational Boundary represents an estimate of the most likely, prudent, but not worst case scenario and provides a parameter against which day to day treasury management activity can be monitored.

The Treasurer reports that procedures are in place to monitor the Operational Boundary on a daily basis, via the SLA with WCC and that sufficient authorisation is in place to take whatever action is necessary to ensure that, in line with the Treasury Management Strategy, the cash flows of the Fire and Rescue Authority are managed prudently.

Occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together.

Both the Authorised Limit and the Operational Boundary include an element relating to debt restructuring where, for the short term only, external borrowing may be made in advance of the repayment of loans. In this circumstance External Borrowing is increased temporarily until the replaced loans are repaid. The converse can also apply where loans are repaid in advance of borrowings.

The following limits (shown overleaf) for each year's Operational Boundary, excluding temporary investments are recommended:

<b>Operational Boundary</b>	<b>2011/12 £000</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>
External Borrowing	26,000	28,000	32,000	36,000

## **7. Actual External Debt**

The Fire and Rescue Authority's actual external debt as at 31 March 2010 was £14.963 million; comprising £14.963 million External Borrowing and £0 (zero) Other Long Term Liabilities.

## **8. The Incremental Impact of Capital Investment Decisions on the Council Tax**

This indicator identifies specifically the additional cost to the taxpayer of the **new** capital investment proposed in the 2011/12 – 2014/15 Capital Programme. As the indicator deals only with new investment the impact of the previously approved programme was included in the equivalent report provided to the FRA in Feb 2010.

The incremental impact identifies transactions that will occur **over and above** what has already been provided for in the 2010/11 revenue budget and assumes the funding available in 2010/11 will be carried forward in the future years' base budgets.

The incremental impact has been calculated using forward estimates of funding consistent with expectations in the Medium Term Financial Strategy.

The impact on the revenue budget, and therefore the Council Tax, is felt by a combination of the following: debt costs of the new borrowing, the amount set aside from revenue to repay the principal element of external borrowing (Minimum Revenue Provision) and the revenue impact of a capital project

It should be noted that borrowing itself does not fund capital expenditure since the loans have to be repaid eventually. The actual funding comes from the Minimum Revenue Provision which is statutorily charged to revenue each year.

The estimate of the incremental impact of the capital investment detailed in the 2011/12 Budget on the Council Tax is as follows:

	2011/12	2012/13	2013/14	2014/15	2015/16
Incremental Impact on Band D Council Tax	£ -	£ -	£ -	£ 0.19	£ 0.83

## **PRUDENTIAL INDICATORS FOR TREASURY MANAGEMENT**

### **9. Treasury Management Code of Practice**

The Fire and Rescue Authority has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA): Code of Practice for Treasury Management in the Public Services.

The Treasury Management function is carried out on behalf of the Authority by Worcestershire County Council, who have also adopted the Treasury Management Code of Practice.

### **10. Fixed Interest Rate Exposures**

It is recommended that the Fire and Rescue Authority sets an upper limit on its fixed interest rate exposures as follows.

#### **Upper limits for net principal sums outstanding at fixed rates**

	2011/12	2012/13	2013/14	2014/15
<b>Fixed Interest Rate Exposure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Upper Limit	29,000	31,000	35,000	38,000

This represents the position that all of the Fire and Rescue Authority's authorised external borrowing may be at a fixed rate at any one time.

## **11. Variable Interest Rate Exposures**

It is recommended that the Fire and Rescue Authority sets an upper limit on its variable interest rate exposures as follows.

### **Upper limits for net principal sums outstanding at variable rates**

<b>Variable Interest Rate Exposure</b>	<b>2011/12 £000</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>
Upper Limit	7,000	8,000	9,000	9,000

This is the maximum external borrowing judged prudent by the Treasurer that the Fire and Rescue Authority should expose to variable rates.

## **12. Maturity Structure of Borrowing**

It is recommended that the upper and lower limits for the maturity structure of borrowings are 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.**

<b>Period of Maturity</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	50	0
5 years and within 10 years	75	0
10 years and above	95	25

## **13. Investments for longer than 364 days**

It is recommended that the upper limits of total principal sums invested for periods longer than 364 days are £5 million for each year.