Council Agenda Item 8i

Strategic Management Team Lead Officer	Nick Gray, Strategic Director
Author	Graham Whiting, Senior Accountant (Treasury)
Telephone	01306 879148
Email	graham.whiting@molevalley.gov.uk
Date	12th March 2013 (Audit) 23rd July 2013 (Council)

Subject	Treasury Management Strategy 2012/13 to 2014/15 – Amendment to the Prudential Code

RECOMMENDATIONS

The Audit Committee is asked to consider the amendment to the Prudential Code detailed in this report at paragraph 1.7 and recommend it to Council.

1. BACKGROUND

1.1 At Audit Committee on 29th November 2012 the Treasury Management Strategy Report 2013/14 to 2015/16 was recommended to Council. Council agreed the recommendations at its meeting on 19th February 2013.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has recently been out to consultation on changing one of the prudential indicators and has reached a conclusion on this matter.

1.3 The Prudential Indicator which compares net debt to the capital financing requirement (CFR) is a key indicator of prudence. Its purpose is to 'ensure that over the medium term, net debt will only be for a capital purpose'.

1.4 The Prudential Code for Capital Finance in Local Authorities was updated in 2011. As part of that update the indicator was changed from comparing net borrowing to comparing net debt. The reason behind this was a technical one. Following the move to International Financial Reporting Standards (IFRS) this meant that many authorities now had private finance initiative (PFI) schemes and finance leases on their balance sheets which were also included in the CFR. By comparing this to net borrowing, which did not include the liabilities in relation to such schemes, this meant that the comparison was not on a like for like basis. Mole Valley has no involvement in PFI schemes.

1.5 Given that the purpose of the indicator is to 'ensure that over the medium term, net debt will only be for a capital purpose', it was questioned whether the indicator as it currently stands was the most effective measure of this. The issue was whether by comparing the net position, i.e. net of investments, this could potentially mask a position where an authority had borrowed for another purpose and then subsequently invested the surplus funds.

1.6 In January 2012 CIPFA issued a consultation document in relation to proposed changes to the indicator to compare the gross debt position rather than the net debt position. The consultation closed on 29th February 2012 and responses were supportive of the proposed change. At their meeting in March

2012 the Treasury and Capital Management Panel approved the principle. The changes subsequently went through CIPFA's internal approval process with authorities being officially notified in late November 2012.

1.7 The revised indicator is as follows:

Prudential Indicator – Gross borrowing and long-term liabilities and the capital financing requirement (CFR)

In order to ensure that borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not, except in the short-term, exceed the total CFR.

	2011/12 Actual £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
External Debt					
Debt at 1st April	0	0	0	0	0
Expected change in debt	0	0	0	0	0
Other long-term liabilities (OLTL)	3.765	3.808	3.508	3.258	3.008
Expected change in OLTL	0.043	(0.300)	(0.250)	(0.250)	(0.250)
Actual gross debt at 31st March	**3.808**	**3.508**	**3.258**	**3.008**	**2.758**
The Capital Financing Requirement	**3.762**	**3.512**	**3.262**	**3.012**	**2.762**
Under / (over) borrowing	**(0.046)**	**0.004**	**0.004**	**0.004**	**0.004**

1.8 Had the net debt definition been used then the Authority's investments, of approximately £20m would be included in the table above, resulting in a large under borrowing position. This change now only shows gross borrowing for capital purposes and is not masked by investments.

2. CORPORATE IMPLICATIONS

2.1 Legal Implications

It is a statutory requirement that prudential indicators must be approved before the start of the new financial year.

2.2 Financial & Risk Implications

Financial implications and risk inherent in the Council's borrowing and investment strategy have been considered throughout this report in line with statutory guidance and the requirement to set indicators that are affordable, sustainable and prudent.

2.3 Equalities Implications

None identified in this report.

2.4 Employment Issues

None identified in this report.

2.5 Sustainability Issues

None identified in this report

2.6 Consultation

CIPFA's prudential indicator amendment and Sector's (our treasury management advisors) views have been incorporated within this report.

2.7 Reputational Issues

In undertaking Treasury Management activities, the Council is investing and potentially borrowing public money. In doing so, the Council must have regard to security, liquidity and yield of investments (in that order). The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code (CIPFA Prudential Code for Capital Finance in Local Authorities) and produce prudential indicators.

3. Background Papers

CIPFA – The Prudential Code for Capital Finance in Local Authorities (fully revised second edition 2009) and amendment notification to replace the prudential indicator for net debt with an indicator for gross debt to be compared with the CFR – November 2012.
CIPFA – Treasury Management in the Public Services – Code of Practice.