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Report

Subject	:	Prudential Limits 2008/09
Report to	:	Full Council
Date	:	Monday 31 March 2008
Author	:	Head of Financial Services

PRUDENTIAL LIMITS 2008/09

1. Report Summary:

The purpose of the report is to:

1.1 Recommend approval for prudential debt limits for 2008/09.

2. Introduction:

2.1 The Local Government Act 2003 sets our requirements in relation to Local Authority borrowing and capital finance. The Act requires authorities to comply with the Prudential Code.

2.2 The Code effectively replaced the duties in relation to capital financing under the Local Government and Housing Act 1989. The Code became fully operative on 1st April 2004.

2.3 Regulation 2 of the Act requires an authority to set the following prudential limits in advance each financial year, although the limits can be varied during the financial year subject to full Council approval. The prescribed limits are:

2.3.1 The authorised limit for external debt.
2.3.2 The operational boundary of external debt (to take account of short term and cash flow borrowing).
2.3.3 The exposure to fixed and variable interest rates.
2.3.4 Upper and lower limits for the maturity structure of borrowing.
2.3.5 Limits for principal sums invested for longer than 364 days.
2.3.6 In addition there are further prudential indicators in respect of affordability, capital expenditure and capital financing, these are reported separately in the budget and outturn reports each year.

3. Current Position:

3.1 In its Financial Strategy (Cabinet minute 80 10 October 2007) the Council assumes that it remains without external borrowing. The strategy allows for, on a case by case basis, prudential borrowing where it would be a cost effective method of capital financing. The Council's revenue budget and capital programme are based on this principle. The Council's Capital Strategy also contains this commitment.

3.2 Regulations allow authorities to borrow without repaying debt until the relevant capital scheme is completed. Therefore as the Council's office project is the only asset which is partly financed by prudential borrowing, principal repayments will not be required until 2010/12 at the earliest. The Council accounts for the cost of interest on an annual basis as part of its revenue budget.

3.3 The Council's current Treasury Management Policies set out the principles for the investment of cash surpluses, maximising returns within a low risk strategy.

3.4 Regular and rigorous budget monitoring compliments these processes.

3.5 Future arrangements will have to be agreed with the Implementation Executive.

4. Options for consideration:

4.1 The Council's capital programme approved on 18 February 2008 forecasts a capital financing requirement of £8.4m by 31.03.09, rising to £18.9m by 31.03.11. There is an assumption that the Council will realise £1.5m of capital receipts in 2008/9, some of which will be subject to approval by the Implementation Executive. Therefore the forecast gross requirement is £9.9m for 2008/09.

4.2 The Council has cash reserves well in excess of its capital financing requirement and therefore is unlikely to require any external loans, however it is permissible to borrow against future capital need.

4.3 To allow for cash flow and unforeseen short-term requirements it is permissible to set an operational boundary for borrowing above the overall borrowing limit, or more commonly Councils set a limit below the overall limit that would act as a trigger for reviewing the limit.

4.4 The maximum therefore that the Council could justifiably borrow would therefore be around £20m in order to finance future capital need. Any such decision would now require approval by the Implementation Executive.

4.5 As the One Council for Wiltshire project moves forward, policy on debt management will become clearer, therefore it would seem pragmatic to allow as much flexibility in current policy to facilitate future policy.

5. Consultation Undertaken:

5.1. The Council consults annually on its budget proposals.

6. Recommendations:

It is recommended that:

6.1 The authorised limit for external debt for 2008/09 be set at £20m.
6.2 The operational boundary for external debt for 2008/09 be set at £10m.
6.3 The maximum exposure to fixed or variable interest rates be set at 100%.
6.4 The upper limit to the debt structure maturity be £20m for up to 40 years and there be no lower limit.
6.5 The Head of Financial Services be given delegated authority to borrow in line with the limits set out above in consultation with Wiltshire County Council.
6.6 The limit for principal sums to be invested for more than 364 days be £20m.

7. Background Papers:

7.1 2008/9 Financial Strategy – Cabinet 10 October 2007.
7.2 Revenue Budget – Council 18 February 2008.
7.3 Capital Programme –2007/8 – 2012/13 – 18 February 2008.

8. Implications:

8.1	Financial:	As set out in the report.
8.2	Legal:	By setting these prudential limits the Council ensures compliance with the Local Government Act 2003.
8.3	Human Rights:	The human rights relating to this issue have been considered and any potential interference is considered proportionate to the legitimate end to be achieved.
8.4	Personnel:	None
8.5	Climate Change:	None
8.6	Council's Core Values:	The Council's financial plans are a financial expression of the Council's aims and objectives underpinned by the Council's core values.
8.7	Wards Affected:	All