Lee Valley
Regional Park Authority

LEE VALLEY REGIONAL PARK AUTHORITY	**Agenda Item No:**
	10
EXECUTIVE COMMITTEE	**Report No:**
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BORROWING LIMITS & PRUDENTIAL INDICATORS 2015/16 (REVISED) – 2019/20

Presented by the Director of Finance and Resources

EXECUTIVE SUMMARY

The Local Government Act 2003 introduced a framework of prudential borrowing for local authorities (and levying authorities – which the Lee Valley Regional Park Authority is) from April 2004. This report provides a summary of the key indicators required from the Prudential Code and sets out the proposed borrowing limits and prudential indicators for this Authority from 2015/16 (revised) to 2019/20.

RECOMMENDATION

Members Approve: (1) the borrowing limits and prudential indicators for 2015/16 (revised) to 2019/20 as set out in paragraphs 9 to 19 of this report.

BACKGROUND

1 The Local Government Act 2003 abolished the system of capital controls for local authorities and levying authorities and introduced a new framework for prudential borrowing. This framework enables authorities to set their own borrowing limits subject to what is prudent, affordable and sustainable. At the same time the Code has the objective of being consistent with and supporting local strategic plans, local asset management planning, proper option appraisal and achievability of the forward financial plan. The decision as to what is prudent, affordable and sustainable must be taken with the advice of the Director of Finance and Resources.

2 The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA), as a professional code of practice to support local authorities in taking their decisions to determine capital investment in fixed assets that are central to the delivery of quality public services. The Lee Valley Regional Park Authority is required by Regulation to have regard to the Prudential Code when carrying out its duties under Part 1 of the Local Government Act 2003. The Prudential Code was updated by CIPFA in 2013.

3 In practice this Authority does not receive revenue support towards capital expenditure (the way other local authorities do), so any new borrowing in the future needs to be self-funded, for example via efficiency savings, levering in external funding, new income streams or through the levy.

4 The Code sets out a clear governance procedure for the setting and revising of prudential indicators. The Director of Finance and Resources will be responsible for ensuring that all matters required to be taken into account are reported for consideration; and for establishing procedures to monitor actual performance against the indicators.

5 In setting or revising the prudential indicators the Authority must have regard to the following matters:

- Affordability (e.g. implications for the levy);
- Prudence and Sustainability (e.g. implications for external borrowing);
- Value for Money (e.g. option appraisal);
- Stewardship of Assets (e.g. asset management planning);
- Service Objectives (e.g. strategic planning for the Authority); and
- Practicality (e.g. achievability of the forward financial plan).

6 The prudential system brings choices to local and levying authorities, e.g., a choice to divert revenue resources to finance borrowing for capital purposes. However the system requires that whatever level of investment is chosen it must be subject to proper consideration and decisions must consider affordability, sustainability and prudence.

THE PRUDENTIAL INDICATORS

7 To demonstrate that authorities have fulfilled these objectives the Code sets out a number of indicators that must be used in decision making as well as other factors that must be taken into account.

8 The majority of the indicators use information contained within the published Statement of Accounts. The indicators specified in the Prudential Code are the minimum required.

LEE VALLEY REGIONAL PARK AUTHORITY PRUDENTIAL INDICATORS & BORROWING LIMITS FOR 2014/15 (REVISED) TO 2018/19

9 **Capital Expenditure**

The Authority incurred £2.4m capital expenditure in 2014/15. The Authority's proposed planned capital expenditure programme (shown elsewhere on this agenda, Paper E/417/15 (subject to approval at this Committee)) for the period 2015/16 to 2019/20 is summarised in the table below.

Capital Expenditure

	2014/15 Actual	2015/16 Revised Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
LVRPA	£2.4m	£4.4m	£3.3m	£2.2m	£1.4m	£1.3m

10 **Ratio of Financing Costs to the Net Revenue Stream**

Financing Costs include the amount of interest payable in respect of borrowing and the amount the Authority is required to set aside to repay debt, less interest and investment income. The Authority repaid the majority of its remaining external debt (£650K) in September and had £14K of outstanding debt as at 30 September 2015, and has currently no new plans that will involve borrowing. The actual Net Revenue Stream is the percentage of the budget to be met from the Levy to fund net capital financing charges. The increase in the ratio for 2015/16 is due to the predicted fall in investment interest received as long term investments mature. Interest rates are estimated to rise from 2016/17, which along with the reduction to the Capital Financing Requirement, will ensure the ratio will reduce in future years.

Ratio of Financing Costs to the Net Revenue Stream

	2014/15 Actual	2015/16 Revised Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
LVRPA	3.6%	2.7%	3.7%	2.8%	1.9%	1.0%

11 **Capital Financing Requirement**

The Capital Financing Requirement is derived from the Authority's balance sheet, and represents the sum of historic capital expenditure that has not been fully financed at the time it was incurred. It represents the Authority's underlying need to finance capital expenditure by either borrowing or other long term liability arrangement, application of capital grants or receipts, or a direct charge to revenue. We are required to make a minimum contribution from revenue each year to reduce the Capital Financing Requirement, and manage our capital programme to ensure that sufficient financing is available to fund future projects.

Capital Financing Requirement

	2014/15 Actual	2015/16 Revised Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
LVRPA	£14.9m	£14.3m	£13.7m	£13.3m	£12.8m	£12.2m

12 **Authorised Limit for External Debt**

In order to ensure that over the medium term borrowing will only be for capital purposes, the Authority will need to ensure that net external borrowing does not (except in the short term) exceed the total of the Capital Financing Requirement in the previous year plus estimates of any additional financing requirements for the budget in this and the following two years. On this basis the following authorised limits for external debt are recommended for approval:

Authorised Limit for External Debt

	2014/15 Actual	2015/16 Revised Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	£5m	£5m	£5m	£5m	£5m	£5m
Other L/T liabilities	£5m	£5m	£5m	£5m	£5m	£5m

13 **Operating Boundary for External Debt**
The following indicator ensures that an operational limit for borrowing is set. The sum for borrowing reflects the potential need to borrow to fund the capital programme. In reality the Authority is more likely to utilise its own capital reserves; but by setting this boundary it ensures compliance with the Code and acts as an early warning indicator if the Authority is approaching its own authorised limit.

Operating Boundary for External Debt

	2014/15 Actual	2015/16 Revised Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	£2m	£2m	£2m	£2m	£2m	£2m
Other L/T liabilities	£2m	£2m	£2m	£2m	£2m	£2m

14 **Estimate of the Impact of Capital Investment Decisions on the Levy**
The estimated impact of capital investment decisions on the levy is shown in the table below. Where additional revenue from the levy is used to finance capital expenditure this would have an impact on contributing authorities. This would mean that the Authority would need to increase the levy over the current level. However when considering new capital investment projects the Authority intends that in the majority of cases that the cost of capital will be repaid by the projects to minimise the impact on the levy. The base indicator from 2015/16 to 2019/20 is £1.8m and is shown in the table below. This figure takes account of the resourcing requirements for the capital programme and is included in the report to Members as part of the 2015/16 (revised) to 2019/20 capital programme elsewhere on this agenda.

Estimate of the Impact of Capital Investment Decisions on the Levy

	2014/15 Actual	2015/16 Revised Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Direct Revenue	£0.9m	£1.0m	£1.0m	£1.0m	£1.0m	£0.9m
Capital Fund	£0.3m	£0.3m	£0.3m	£0.3m	£0.3m	£0.3m
R & R Fund	£0.5m	£0.5m	£0.5m	£0.5m	£0.5m	£0.5m
Total:	£1.7m	£1.8m	£1.8m	£1.8m	£1.8m	£1.7m

15 **Treasury Management Policy**
The Prudential Code requires the Authority to comply with CIPFA's Code of Practice for Treasury Management in Public Services. Members approved a Treasury Management Strategy and Policy at the Authority meeting in July 2015 (Paper A/4214/15). Each year Members of this Committee receive an annual report in May updating them on the year's Treasury Management activity. That report (Paper E/405/15) sets out an Investment Strategy for the year and sets a target rate of return on investments.

16 **Interest Rate Exposure – Fixed Loans & Investments**

	2016/17	2017/18	2018/19	2019/20
Principal Sums Outstanding in respect of Borrowing at Fixed Rates	£0.0m	£0.0m	£0.0m	£0.0m
Principal Sums Outstanding in respect of Investments at Fixed Rates	£17.5m	£17.5m	£17.5m	£17.5m
Balance	£17.5m	£17.5m	£17.5m	£17.5m

17 **Interest Rate Exposure – Variable Loans & Investments**

	2016/17	2017/18	2018/19	2019/20
Principal Sums Outstanding in respect of Borrowing at Variable Rates	£0.0m	£0.0m	£0.0m	£0.0m
Less				
Principal Sums Outstanding in respect of Investments at Variable Rates	£0.5m	£0.5m	£0.5m	£0.5m
Balance Outstanding:	£0.5m	£0.5m	£0.5m	£0.5m

18 **Maturity Structure of Borrowing**

	2016/17	2017/18	2018/19	2019/20
Under 12 months	0.00%	0.00%	0.00%	0.00%
Over 12 months and less than two years	0.00%	0.00%	0.00%	0.00%
Between two and five years	0.00%	0.00%	0.00%	0.00%
Total:	0.00%	0.00%	0.00%	0.00%

This table shows that the Authority will be free of external debt from the end of March 2016.

19 This Authority has the following principal sum invested for a period longer than 364 days.

	2016/17	2017/18	2018/19	2019/20
Principal Sums Invested for longer than 364 days	£0.0m	£0.0m	£0.0m	£0.0m

CONCLUSION

20 In line with the Prudential Code guidance and best practice (and taking account of this Authority's financial plans) this report sets out the requirements of the prudential code for borrowing for this Authority. Members are asked to approve the prudential indicators and borrowing limits set out in paragraphs 9 to 19 for

2015/16 (revised) to 2019/20 as set out above.

ENVIRONMENTAL IMPLICATIONS

21 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

22 These are dealt with within the body of the report.

HUMAN RESOURCE IMPLICATIONS

23 There are no human resource implications arising directly from the recommendations in this report.

LEGAL IMPLICATIONS

24 These are dealt with within the body of the report.

RISK MANAGEMENT IMPLICATIONS

25 There are no risk management implications arising directly from the recommendations in this report.

EQUALITY IMPLICATIONS

26 There are no equality implications arising directly from the recommendations in this report.

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PREVIOUS COMMITTEE REPORTS

Executive Committee	E/405/15	Annual Report on Treasury Management 2014/15 and Annual Investment Strategy 2015/16	21 May 2015
Authority	A/4214/15	Treasury Management Policy and Annual Investment Strategy 2015/16	9 July 2015

LIST OF ABBREVIATIONS

CIPFA	Chartered Institute of Public Finance and Accountancy