

PRUDENTIAL INDICATORS

In line with the requirements of the CIPFA Prudential Code for Capital Finance in local authorities, the various indicators that inform authorities whether their capital investment plans are affordable, prudent and sustainable, are set out below.

A further key objective of the code is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The indicators for Treasury management are set out in this paper.

Compliance with the Code is required under Part I of the Local Government Act 2003.

	<u>2006/07</u> Actual	<u>2007/08</u> Estimate	<u>2008/09</u> Estimate	<u>2009/10</u> Estimate	<u>2010/11</u> Estimate
Capital Expenditure	£77.0m	£74.4m	£93.9m	£94.0m	£75.1m
Capital financing requirement	£350m	£361m	£372m	£383m	£389m
Ratio of financing costs to net revenue stream	3.56%	6.91%	7.21%	7.34%	7.32%
Impact on Band D Council Tax	£2.39	£4.92	£6.34	£5.15	£5.15

The projected level of capital expenditure shown above differs from the total of the detailed three year programme presented in this report as an allowance has been provided to cover estimated additional resources that may become available to the authority during the course of a year, typically further developer contributions arising from housing development.

The capital financing requirement measures the authorities need to borrow for capital purposes and as such is influenced by the availability of capital receipts and income from third parties e.g. developer contributions.

The prudential code includes the following as a key indicator of prudence:

'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'.

It is anticipated this requirement can be met by 2008/9 having taken into account current commitments, existing plans, and the proposals in the budget report.

The ratio of capital financing costs to the net revenue stream is fairly stable. Although a decrease in capital financing costs was predicted last year the impact of Central Government replacing supported borrowing with capital grant to finance capital expenditure, has been slower than originally anticipated.

The key indicator of affordability is the impact of capital expenditure on Council Tax. This indicator shows the marginal impact of unsupported borrowing (borrowing that is not supported by Central Government resources) on Council Tax. However it is worth noting that the next three years proposed capital programme is currently not forecasting any unsupported borrowing to finance capital expenditure. The additional cost of £5.15 in 2010/11 is lower than the 2008/09 band D figure.

In respect of its external debt, it is recommended that the Council approves the following limits for its total external debt for the next three financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Director of Corporate Resources, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to the Cabinet at its next meeting following the change.

There are 2 limits on external debt: the 'Authorised Limit' and the 'Operational Boundary'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case scenario. The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

Authorised limit for external debt

	<u>2008/09</u> <u>£m</u>	<u>2009/10</u> <u>£m</u>	<u>2010/11</u> <u>£m</u>
Borrowing	411.0	434.0	436.0
Other long term liabilities	0.2	0.2	0.1
TOTAL	411.2	434.2	436.1

Operational boundary for external debt

	<u>2008/09</u> <u>£m</u>	<u>2009/10</u> <u>£m</u>	<u>2010/11</u> <u>£m</u>
Borrowing	391.0	414.0	415.0
Other long term liabilities	0.2	0.1	0.1
TOTAL	391.2	414.1	415.1

In agreeing these limits, the Council is asked to note that the authorised limit determined for 2008/09 (see paragraph above) will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

Comparison of original 2007/08 indicators with the latest forecast

In February 2007 the County Council approved certain prudential limits and indicators, the latest projections of which are shown below:

	<u>Prudential Indicator set 2007/08</u>	<u>Latest Projection 25/01/08</u>
Actual Capital Financing Costs as a % of Net Revenue Stream	*7.35%	6.91%
Capital Expenditure (£000)	£65.0m	£74.4m
Authorised Limit for External Debt (£000)	£422.3m	£422.3m
Operational Boundary for External Debt (£000)	£382.3m	£382.3m
Interest Rate Exposure – Fixed	65-100%	74%
Interest Rate Exposure – Variable	0-35%	26%
Capital Financing Requirement (£000)	£360m	£361m

*Note – The figure of 3.93% was reported last year, but due to changes in methods of calculation, the equivalent figure is 7.35%.

The reduction in the indicator of financing costs to the net revenue stream is accounted for by the increase in interest received on investments and a reduction in interest payable on external loans.

The Capital Expenditure indicator shows an increase of £9.4m. This is primarily due to the acceleration in Phase 2 of the Children's Centres programme and the approval of the Earl Shilton Bypass. Actual capital expenditure may vary further at year end.

The latest forecast of external debt, £362m shows that it is within both the authorised borrowing limit and the operational boundary set for 2007/08, however debt will probably exceed the capital financing requirement until 2008/9 as a result of decisions taken last year to pre borrow in order to take advantage of low long term interest rates.

The maturity structure of debt is within the indicators set.

Treasury Management Indicators

The Local Government Act 2003 requires the County Council to ensure that treasury management is carried out with good professional practice. The Prudential Code includes the following as the required indicators in respect of treasury management:-

- a) Upper limits on fixed interest and variable rate exposures.

- b) Upper and lower limits for the maturity structure of borrowings.
- c) Upper limit for principal sums invested for periods longer than 364 days.

After reviewing the current situation and assessing the likely position next year, the following limits are recommended:-

- a) An upper limit on fixed interest rate exposures for 2008/09, 2009/10 and 2010/11 of 100% of its net outstanding principal sums and an upper limit on its variable interest rate exposures for 2008/09, 2009/10 and 2010/11 of 35% of its net outstanding principal sums.

This means that the Director of Corporate Resources will manage fixed interest rate exposures within the range 65% to 100% and variable interest rate exposures within the range 0% to 35%.

- b) Upper and lower limits for the maturity structure of its borrowings 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:

	<u>Upper Limit</u>	<u>Lower Limit</u>
	<u>%</u>	<u>%</u>
under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

- c) An upper limit for principal sums invested for periods longer than 364 days is proposed, of 35% of the portfolio.

The County Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.