



<b>Report to:</b>	Council
<b>Date of Meeting:</b>	1 March 2007
<b>Report from:</b>	Accountancy Manager
<b>Title of Report:</b>	Prudential Indicators
<b>Agenda Item Number:</b>	<b>19</b>

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## **1. PURPOSE AND SUMMARY**

- 1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. This report sets out the indicators for 2007/08, 2008/09 and 2009/10, together with the expected outturn for 2006/07. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the Council's underlying capital appraisal systems.

## **2. CONSULTATION**

- 2.1 The Director of Resources has consulted with Corporate Management Team regarding the implications of the issues raised in the report. The Council's Treasury Management advisors have also been consulted.

## **3. CORPORATE PLAN AND PRIORITIES**

- 3.1 The purpose of the indicators is to provide a framework for decision making on capital expenditure. The Prudential Indicators therefore relate to capital expenditure programmes, and their impact on the revenue budget and provide limits to associated borrowing. The Council's budget sets out the financial resources which will be used to deliver the Council's plan and corporate priorities.

## **4. IMPLICATIONS**

### **4.1 Financial Implications and Value for Money Statement**

The financial implications are detailed throughout the report.

#### 4.2 Legal

The Local Government Act of 2003 provides the powers to borrow and invest as well as providing controls and limits on these activities. Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act. The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

#### 4.3 Personnel

There are no personnel implications.

#### 4.4 Other Services

The impact on both the Housing Revenue Account and the General Fund is highlighted throughout the report.

#### 4.5 Diversity

There are no diversity implications.

#### 4.6 Risk

The Council complies with all the relevant statutory and regulatory requirements which limit the levels of risk associated with treasury management activities.

The setting, monitoring and reporting of the Prudential Indicators ensure that the Council's capital expenditure is prudent, sustainable and affordable; and the treasury practices demonstrate a low risk approach.

#### 4.7 Crime and Disorder

There are no Crime and Disorder implications.

#### 4.8 Other Implications

There are no other implications associated with this report.

### 5. **PRUDENTIAL INDICATORS**

#### 5.1 Capital Expenditure and the Financing of the Expenditure

This table shows the Prudential Indicator (PI) which highlights the updated estimated capital programme for 2006/07 to 2009/10. The financing of the capital programme is also shown. Changes to the capital expenditure estimates for 2006/07 reflect the changes agreed by the Capital Working Group, as detailed in the Director of Resources' report presented to the Executive on 6 November 2006.

Capital Expenditure by Service	2006/07 Original Projection £'000	2006/07 Revised Projection £'000	2007/08 Estimated Projection £'000	2008/09 Estimated Projection £'000	2009/10 Estimated Projection £'000
<b>Total non- HRA-</b>	5,130	7,424	3,720	2,377	2,377
<b>Total HRA -</b>	4,566	4,766	4,031	0	0
<b>Total</b>	9,696	12,190	7,751	2,377	2,377
<b>Financed by:</b>					
<i>Major Repairs Allowance</i>	2,376	2,376	2,383	0	0
<i>Capital receipts</i>	7,012	3,017	3,758	2,250	2,250
<i>Capital grants</i>	118	1,890	1,420	127	127
<i>Capital Reserves</i>	0	0	0	0	0
<i>Revenue</i>	0	0	0	0	0
<b>Net financing need for the year</b>	<b>190</b>	<b>4,907</b>	<b>190</b>	<b>0</b>	<b>0</b>

## 5.2 The Council's underlying Need to Borrow for a Capital Purpose

The table below shows the Council's Capital Financing Requirement, which is the Council's underlying external indebtedness for a capital purpose. It flows directly from the capital expenditure plans above, and will also be adjusted for annual revenue charge for debt repayment (the Minimum Revenue Provision).

	2006/07 Original Projection £m	2006/07 Revised Projection £m	2007/08 Estimated Projection £m	2008/09 Estimated Projection £m	2009/10 Estimated Projection £m
<b>Prudential Indicator - Capital Financing Requirement</b>					
CFR – Non Housing	-0.15	3.92	3.79	3.66	3.54
CFR - Housing	15.76	15.97	15.97	0	0
Total CFR	15.61	19.89	19.76	3.66	3.54
<b>Prudential Indicator - External Debt</b>					
Borrowing	14.62	18.91	18.89	0	0
Other long term liabilities	0.04	0.04	0.04	0.04	0.04
Total Debt 31 March	14.66	18.95	18.93	0.04	0.04

## 5.3 Limits to Borrowing Activity

The first key control over the Council's activity is a Prudential Indicator to ensure that over the medium term, net borrowing will only be for a capital purpose. Net external borrowing should 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 2006/07 and following two financial years. This allows some flexibility for limited early borrowing for future years.

	2006/07 Original Projection £m	2006/07 Revised Projection £m	2007/08 Estimated Projection £m	2008/09 Estimated Projection £m	2009/10 Estimated Projection £m
Gross Borrowing	14.62	18.91	18.89	0	0
Investments	3.00	8.10	3.00	3.00	3.00
Net Borrowing	11.62	10.81	15.89	-3.00	-3.00
CFR	15.61	19.89	19.76	3.66	3.66

The Director of Resources reports that the Council complied with the requirement to keep net borrowing below the relevant CFR in 2005/06, and no difficulties are envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

A further two Prudential Indicators control the overall level of borrowing which support. These are:

1. **The authorised limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.
2. **The operational boundary** – This indicator is based on the probable maximum external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. CIPFA anticipate that this should act as an indicator to ensure the authorised limit is not breached.

Authorised limit for external debt	2006/07 Original Indicator £m	2006/07 Revised Limit £m	2007/08 Estimated Limit £m	2008/09 Estimated Limit £m	2009/10 Estimated Limit £m
Borrowing	20.00	22.00	22.00	5.00	5.00
Other long term liabilities	0.05	0.05	0.05	0.05	0.05
Total	20.05	22.05	22.05	5.05	5.05
Operational boundary for external debt					
Borrowing	15.50	20.00	20.00	4.00	4.00
Other long term liabilities	0.04	0.04	0.04	0.04	0.04
Total	15.54	20.04	20.04	4.04	4.04

#### 5.4 Affordability Prudential Indicators

**Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing costs net of interest and investment income) against the net revenue stream.

	2006/07 Original Projection %	2006/07 Revised Estimate %	2007/08 Estimate %	2008/09 Estimate %	2009/10 Estimate %
Non-HRA	1.19	-0.04	0.55	-0.31	-0.35
HRA	11.19	11.68	12.35	N/A	N/A

**Estimates of the incremental impact of capital investment decisions on the council tax and housing rent levels** – This indicator measures the impact on the Band D council tax level and on the average weekly rent of tenants of any capital investment included above which may involve unsupported borrowing as a means of financing projects. It is not considered that the capital programme for 2007/2008 above includes any requirement for unsupported borrowing. (Unsupported borrowing means borrowing the revenue costs of which will not feed into the Capital Financing element of the Council's Formula Spending Share and therefore will not be supported by any Government external funding).

The capital investment proposed therefore has no impact on council tax or rents.

Incremental impact of capital investment decisions (£) on:	2006/07 Original £	2006/07 Revised £	2007/08 Estimated £	2008/09 Estimated £	2009/10 Estimated £
Band D Council Tax	0	0	0	0	0
Housing rents levels	0	0	0	0	0

## 5.5 Treasury Management Prudential Indicators

The first treasury indicator requires the adoption of the CIPFA Code of practice on Treasury Management. This Council adopted the Code of Practice on Treasury Management on 27 March 2003, and as a result adopted a treasury management policy statement.

There are four further indicators:

**Upper Limits On Variable Rate Exposure** – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

**Upper Limits On Fixed Rate Exposure** – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

	2006/07 Original Indicator £m	2006/07 Revised Limit £m	2007/08 Upper Limit £m	2008/09 Upper Limit £m	2009/10 Upper Limit £m
<b>Prudential indicator limits based on debt only</b>					
Limits on fixed interest rates	18.00	20.00	20.00	4.00	4.00
Limits on variable interest rates	9.00	10.00	10.00	2.00	2.00
<b>Prudential indicator limits based on investments only</b>					
Limits on fixed interest rates	0	10.00	10.00	5.00	5.00
Limits on variable interest rates	0	5.00	5.00	3.00	3.00
<b>Prudential indicator limits based on debt net of investments</b>					
Limits on fixed interest rates	18.00	10.00	10.00	-1.00	-1.00
Limits on variable interest rates	9.00	5.00	5.00	-1.00	-1.00

**Maturity Structures Of Borrowing** – These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing. In addition to the required indicator this Council also monitors the entire maturity profile including both fixed and variable rate loans.

	2007/08 Lower Limit %	2007/08 Upper Limit %
<b>Maturity Structure of all borrowing, both fixed and variable</b>		
Under 12 months	0	60
12 months to 2 years	0	60
2 years to 5 years	0	80
5 years to 10 years	0	80
10 years and above	0	100
<b>Maturity Structure of fixed borrowing</b>		
Under 12 months	0	60
12 months to 2 years	0	60
2 years to 5 years	0	80
5 years to 10 years	0	80
10 years and above	0	100

**Total Principal Funds Invested** – These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

	2006/07 Original Limit £m	2006/07 Revised Limit £m	2007/08 Limit £m	2008/09 Limit £m	2009/10 Limit £m
<b>Maximum principal sums invested &gt; 364 days</b>	2.00	2.00	2.00	2.00	2.00

## **6. RECOMMENDATIONS**

- 6.1 The Council is recommended to approve the prudential indicators and limits as detailed in this report.

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