Item 5

REPORT TO COUNCIL

29th February 2008

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

TREASURY MANAGEMENT STRATEGY 2008/09

1.0 SUMMARY

1.1 The Treasury Management function covers the borrowing and investment activities of the Council and the effective management of associated risks in relation to these activities. This report outlines the strategy to be followed by the Council over the next financial year in relation to its Treasury Management activities and takes into account guidance on investments issued by the Department of Communities and Local Government (DCLG) and the Prudential Code for Capital Finance in Local Authorities.

1.2 It is usual to produce a three-year strategy, but because of the outcome of the Local Government Review in County Durham and the inception of a new authority from April 2009, the report only considers a strategy for the 2008/09 financial year.

1.3 The Council will also ballot its tenants regarding the transfer of the Council's housing stock during 2008. Members will be kept informed of the implications for the Council's borrowing and investment decisions following the result of the ballot.

2.0 RECOMMENDATIONS

2.1 That following consideration of the issues set out in the report, it is recommended that Council: -

- Approves the Treasury Management Strategy for 2008/09;
- Approves the Investment Strategy for 2008/09;
- Adopts the Prudential Indicators and Limits for 2008/09;
- Approves the Minimum Revenue Provision (MRP) Statement as shown in Appendix B.
- Approves the 'Authorised Limit' for borrowing as shown in Appendix B.

3.0 TREASURY MANAGEMENT STRATEGY 2008/09

Background

3.1 The Treasury Management Service is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the publication of the Prudential Code for Capital Finance in Local Authorities by the Chartered Institute of Public Finance and Accountancy (CIPFA).

3.2 Treasury Management activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Council's Treasury Management Policy complies with the requirements of the CIPFA Code of Practice.

3.3 The Council's Constitution requires an annual strategy to be reported to the Council outlining the expected Treasury activity prior to commencement of the new year. A further report will be produced after the year-end showing the actual activity for the previous financial year.

3.4 A key requirement is to explain both the risks, and the management of the risks, associated with the Treasury Management activities.

This strategy covers: -

- The current Treasury position.
- The expected movement in interest rates.
- The Council's borrowing and debt strategy.
- The Council's investment strategy (in compliance with ODPM guidance).
- Local Treasury Management Indicators (set out in Appendix B).

Current Treasury Position

3.5 The Council's detailed Treasury position is highlighted in the following table: -

Actual	*Actual 31.03.07 £M*	*Average Rate %*	*Estimate 31.03.08 £M*	*Average Rate %*
FIXED RATE DEBT				
Public Works Loan Board				
Annuity	0.95	7.23	0.91	7.23
Maturity	17.37	5.91	17.37	5.91
Other Loans				
Annuity	0.32	7.82	0.32	7.82
	18.64	6.01	18.60	6.01
INVESTMENTS				
Various Banks & Building Societies	(27.26)	5.01	(22.00)	5.75
NET POSITION	(8.62)		(3.40)	

3.6 As the above table shows, loan debt is expected to fall slightly during the current year from £18.64m to £18.60m. Investments are also expected to fall by £5.26m from £27.26m to £22.00m. This results in a reduction in the estimated net position (i.e. investments less borrowing) of £5.22m to £3.40m at 31st March 2008.

Expected Movement in Interest Rates

3.7 The Council engages Butlers as its Treasury Management Consultants, to advise on the Treasury Strategy, to provide economic data and interest rate forecasts, to assist in planning and reduce the impact of unforeseen adverse interest rate movements.

3.8 In Butlers' view, the UK economy is set to slow down markedly in 2008, which following on from the credit crisis of last year, could be the next stage in a return towards more uncertain market conditions.

The extent to which the slowdown affects interest rates depends on various factors, including how long the current market uncertainties persist, and on-going inflation levels. There are a number of events that have combined to produce the current economic conditions:

- The credit crisis of 2007 culminating in the failure of Northern Rock (paragraph 3.9).
- Deterioration in household finances and consumer confidence and the likely effect on UK growth (paragraph 3.10).
- The expectations regarding the level of inflation (paragraph 3.11).
- International and domestic economic uncertainty (paragraph 3.12).

3.9 There has been a significant tightening of domestic credit conditions initiated by the collapse in the US sub-prime mortgage market and the resultant international credit crisis (widely referred to as the credit crunch). Interest rates rose rapidly as financial organisations became reluctant to lend to each other, which resulted in a severe shortage of funds in the market. In the UK the crisis culminated in the failure of Northern Rock. The uncertainty in the financial markets is set to continue for some time yet and there will be a reduction in the availability of cheap consumer credit.

3.10 Economic activity remained comparatively strong during 2007, driven forward by robust consumer spending and rising corporate investment. However, during 2008 household finances are likely to be affected as an estimated 1.4 million discounted fixed rate mortgages, arranged when interest rates were lower, are renegotiated at higher rates. This, closely following the Northern Rock crisis, will adversely affect consumer confidence and spending and undermine economic growth.

3.11 Inflation will remain comparatively stable in 2008, but it is unlikely that the Consumer Price Index (CPI) inflation rate will fall much below the Government's central target of 2% (the December 2007 CPI rate of inflation was 2.1%). This is due to the underlying strength of oil and commodity prices and the rising cost of basic foodstuffs. In the medium term uncertainty over inflation will limit the scope for significant interest rate cuts and will act as a constraint upon interest rate flexibility.

3.12 The economic outlook and the uncertainties in both the international and domestic markets will affect interest rates. The performance of the US economy will prove critical, and it could be adversely affected by house price weakness and tight credit conditions.

3.13 As a result of the above economic forecast, Butlers see the expected movement in interest rates as follows: -

	Average Base Rate (%)
2006/07 (Actual)	4.82
2007/08	5.54
2008/09	**4.90**
2009/10	4.75

The table shows that the anticipated average base rate for 2007/08 will be 5.54%, having started the year at 5.25% and recently fallen back to that same level from a high of 5.75% from July to December 2007.

In respect of 2008/09, the forecasts anticipate further reductions in the base rate during that year.

The forecasts are based on the assumption that, in Butlers' view, the slowdown in economic activity will provide scope for The Monetary Policy Committee (MPC) to cut official interest rates further during 2008 in the interests of the wider economy. The last cut was in February 2008 and there are likely to be further cuts during 2008. However, the scope for the MPC to cut interest rates will depend critically on underlying inflationary pressures.

Market performance will remain very unpredictable in the short term, as will the squeeze on liquidity and credit. The money markets will continue to trade at a margin above the official Bank Rate, although this will be on a narrower basis than that experienced towards the end of 2007.

Borrowing and Debt Strategy

3.14 The Prudential Code frees Local Authorities from central controls over the level of their borrowings. Previously, borrowing allocations issued by Government were used to control each authority. In recent years the Council has not needed to incur additional borrowing to finance the capital programme, instead utilising capital receipts, external grants and contributions and funding directly from revenue. However, the introduction of the Prudential Code creates an opportunity to consider alternative means of funding the capital programme, as long as they are affordable, prudent and sustainable.

3.15 Any financing costs of increased borrowing or leasing will have to be met within existing revenue budgets and therefore the Council will need to continue to take a prudent and cautious approach to its borrowing and debt strategy. This will include taking advice on the movement in interest rates and the relative costs of the alternative forms of capital financing. There are currently no plans to utilise prudential borrowing for the 2008/09 Capital Programme.

3.16 Debt restructuring opportunities will continue to be examined to reduce the Councils long term financing costs. Rates will be continually monitored throughout the year in order to take advantage of any opportunity in favourable movements, although the Public Works Loan Board (PWLB) changed their arrangements during 2007 and there is no longer the same opportunities or benefits to reschedule debt.

HM Treasury have been asked to review this arrangement, which may make debt rescheduling a more attractive option.

Investment Strategy 2008/09

3.17 The Government issued investment guidance in March 2004, which applied from then onwards. In common with the relaxation of borrowing controls in the prudential system, the more flexible guidance replaces the former detailed prescriptive regulations.

3.18 The key intention of the guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires the Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes. This Council adopted the Code in December 2002, subsequently revised it in September 2005, and continues to apply its principles to all investment activity.

3.19 This annual investment strategy states which investments the Council may use for the prudent management of its balances during the financial year under the heading of specified and non-specified investments. These are explained and listed in Appendix A along with proposed criteria for specified and non-specified investments. There are no proposed changes to the lists approved by Members last year.

3.20 The credit rating of counterparties (banks and institutions that the Council is prepared to invest in) will be monitored on a regular basis. The Council receives credit rating advice from Butlers on a daily basis and when ratings change, and counterparties are reviewed on an ongoing basis.

3.21 In the normal course of the Council's cash flow it is expected that both specified and non-specified investments will be utilised as both categories allow for short-term investments. The Council will maintain a minimum of £5m of investments in specified investments to provide it with the flexibility to meet any short-term cash outflows.

3.22 The use of longer-term investments (greater than 364 days) will fall in the non-specified investment category. These instruments will only be used when the Council's investment requirements are safeguarded and therefore only organisations with a high security rating will be used for these investments.

<u>Risk Issues</u>

3.23 Expectations are that shorter-term interest rates, on which investment decisions are based, will remain unpredictable during 2008/09, given the market conditions detailed in sections 3.7 to 3.13. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and Butlers own forecasts. It is likely that investment decisions will be for longer periods with fixed investment rates to lock into good value and security of return. The Director of Resources, using delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown above.

The credit crisis of 2007 has reaffirmed the need to adhere to the fundamental principles of Local Authority investment, which are: Security First, Liquidity Second and Yield Third.

Local Treasury Management Indicators

3.24 The Local Code requires the Council to set performance indicators to assess the adequacy of the Treasury Management function. These are distinct historic indicators, as opposed to the Prudential Indicators, which are predominantly forward looking.

	2008/09 %
DEBT	
Average Rate Movement Year on Year	No Change
INVESTMENTS	
Return compared with the 7 day LIBID Rate	+ 0.05

3.25 In effect, what these performance indicators mean is that we plan to manage our affairs so that there will be no change to the average rate of interest paid on external borrowings next year, whilst our investment returns will exceed the industry standard benchmark (the 7 day LIBID rate) by 0.05%. Actual performance against these indicators will be reported in the Annual Report for next year. There is little further scope at this point in time to secure further reductions in the average rate, although the situation will be continuously monitored to take advantage of opportunities arising from fluctuations in market interest rates.

Prudential Indicators and Limits 2008/09

3.26 The Prudential Code sets out a framework of self-regulation of capital spending, in effect allowing Councils to invest in capital projects as long as they are affordable, prudent and sustainable.

3.27 In general terms, the Council complies with the Prudential Code by:

- Having medium term plans (Medium Term Financial Plan, Corporate Capital Strategy, Revenue and Capital Budgets);
- Having plans to achieve sound capital investment (Capital Strategies, Capital Project Appraisals and Asset Management Plans);
- Complying with the Treasury Management Code of Practice.

3.28 To support capital investment decisions, the Prudential Code requires the Council to agree and monitor a number of Prudential Indicators. The purpose of the indicators is to provide a framework for capital expenditure controls. It highlights through the indicators the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure that spending remains affordable, prudent and sustainable.

The specific indicators that Council is asked to approve are shown in Appendix B alongside the Treasury Management Indicators.

4.0 RESOURCE IMPLICATIONS

4.1 The financial implications have been summarised at each stage of this report and have been taken into account in the preparation of the Budget Framework for 2008/09 and the Transitional Plan for 2008/09, which has superseded the three-year Medium Term Financial Plan following the outcome of Local Government Review. The annual figures shown in the report and appendices recognise the inception of the new authority for County Durham from April 2009.

5.0 CONSULTATION

5.1 Consultation on the spending proposals contained in the Budget Framework 2008/09 has been undertaken including the involvement of the Council's Overview and Scrutiny Committees. The Council's Audit Committee at its meeting on 28th January 2008 considered the Strategy and recommended its acceptance by Cabinet. Cabinet at its meeting on 14th February 2008 considered the Strategy and recommended its acceptance by Council. The Council's treasury advisors (Butlers) have also been consulted in the preparation of this Treasury Strategy.

6.0 OTHER MATERIAL CONSIDERATIONS

6.1 <u>Links to Corporate Objectives/Values</u>
The proposals contained in the report support the Council's corporate value of being responsible with and accountable for public finances. The Council's Treasury Management Strategy supports the effective management of its debt and investment portfolio within a framework that ensures that it is responsible for public finances. The reporting of this strategy and the requirement to obtain formal approval for its implementation demonstrates accountability.

6.2 <u>Risk Management</u>
Treasury management activities are comprehensively governed by professional codes of practice and regulations surrounding borrowing and debt management. The Council approved a revised code of treasury management practices in September 2005, which provides full details of how risk is assessed, managed and mitigated. In particular, Treasury Management Practice 1 (TMP1) deals specifically with the design, implementation, and monitoring of arrangements for identification, management and control of treasury management risk, which will govern the implementation of this strategy.

6.3 <u>Health and Safety</u>
There are no significant health and safety implications arising from this report.

6.4 <u>Equality and Diversity</u>
There are no significant equality and diversity issues arising from this report.

6.5 <u>Legal and Constitutional</u>
Arrangements surrounding the management and reporting of the Council's treasury management activities are contained in the Council's constitution and this report complies with those requirements. No new implications are identified in this report.

7.0 OVERVIEW AND SCRUTINY IMPLICATIONS

7.1 As mentioned above, full consultation and engagement on the Council's budget proposals has been made with all three Overview and Scrutiny Committees.

Contact Officer: **Alan Smith (Director of Resources)**
Telephone: **01388-816166 ext. 7776**
E-mail: **alansmith@sedgefield.gov.uk**

BACKGROUND PAPERS

1. CIPFA Code of Practice on Treasury Management.
2. Local Code of Treasury Management Activities – Report to Council, December 2002
3. Prudential Code for Capital Finance in Local Authorities.
4. Review of the Local Code of Treasury Management Practice – Report to Council, 30.09. 2005
5. Treasury Management Strategy 2008/09 report to Audit Committee, January 2008
6. Treasury Management Strategy 2008/09 report to Cabinet, February 2008
7. Treasury Management Annual Review 2006/07 report to Council, July 2007

APPENDICES

1. Appendix A – Schedule of Specified and Non-Specified Investments.
2. Appendix B – Treasury Management Indicators.

EXAMINATION BY STATUTORY OFFICERS

	YES	NOT APPLICABLE
1. The report has been examined by the Council's Head of the Paid Service or his representative	✓	
2. The content has been examined by the Council's S151 Officer or his representative.	✓	
3. The content has been examined by the Council's Monitoring Officer or his representative		✓
4. The report has been approved by Management Team.		✓

ANNUAL INVESTMENT STRATEGY
Schedule of Specified and Non-Specified Investments

Specified Investments
These investments are sterling dominated of not more than one-year in maturity, or those which could be for a longer period but where the Council has a right to be paid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible.

Specified Investment Category	Credit Rating	Max Period
UK Government – including Debt management Office, UK Treasury Bills or gilts with less than one year to maturity	High security. No Credit rating criteria needed.	1 year
Supranational Bonds – 1) issued by a financial institution that is guaranteed by the UK 2) multi lateral development bank bonds aimed at economic development (e.g. European Investment Bank)	High security. No Credit rating criteria needed	1 year
Local Authority, Parish or Community Council	High security. No Credit rating criteria needed	1 year
Money Market Funds (Investment Schemes)	AAA rating by Fitch, Moody's and Standard and Poors	1 year
Highly Credit Rated Body – investments made with a bank/building society from the Council's counterparty list	Short term rating of at least F1 (or equivalent)	1 year

Non - Specified Investments
Non –specified investments are any other type of investment (i.e. not defined as specified investments above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

Non -Specified Investment Category	Limit (£)
Supranational Bonds greater than 1 year to maturity – 1) issued by a financial institution that is guaranteed by the UK 2) multi lateral development bank bonds aimed at economic development (e.g. European Investment Bank)	£15m
Gilt edged securities greater than 1 year to maturity – Government bonds providing the highest level of security.	£15m
Building Societies not meeting the basic security requirements under the specified investments – the Council may use such building societies which have a minimum asset size of £200m.	£15m
Any **Bank or Building Society** that has a minimum long term credit rating of A- for deposits of greater than one year (including forward deals in excess of one year from inception to repayment)	£15m
Any **Non rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from the parent company.	£3m
Share capital or loan capital in a body corporate – the use of these instruments will count as capital expenditure and will be an application of capital resources. Revenue resources will not be invested in corporate bodies.	£3m

TREASURY MANAGEMENT INDICATORS

The purpose of these Prudential Indicators is to contain the activity of the Treasury Management function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions, impacting negatively on the Council's overall financial position. Four Prudential Indicators are required under this category: -

Upper Limits on Fixed Interest Rate Exposure
This indicator provides the range within which the authority will manage its exposure to fixed rates of interest.

Upper Limits on Variable Interest Rate Exposure
This indicator provides the range within which the authority will manage its exposure to variable rates of interest.

Maturity Structure of Fixed Borrowing
This indicator measures the amount of fixed rate borrowing maturing at each period expressed as a percentage of total borrowing at fixed rate at the start of each period.

Maximum Principal Sums Invested for more than 1 year
The purpose of this indicator is to contain the exposure to the possibility that loss might arise as a result of seeking early repayment or redemption of sums invested, or exposing public funds to unnecessary or unquantified risk.

The Council is asked to approve these indicators, which have been calculated as follows:

Treasury Indicators	*2008/09 % of debt*
Upper Limits on Fixed Interest Rates	100%
Upper Limits on Variable Interest Rates	50%
Maturity Structure of Fixed Borrowing	
Under 12 months	50%
12 months to 2 years	50%
2 years to 5 years	50%
5 years to 10 years	50%
10 years and above	100%
Upper Limit on Principal Sums Invested for more than 1 year	£25m

CAPITAL EXPENDITURE AND THE CAPITAL FINANCING REQUIREMENT

Capital Expenditure

This indicator shows the overall capital spending plans of the Council over the medium term and reflects planned investment levels in line with the relevant corporate plans. The actual capital expenditure that was incurred in 2006/07 and the estimates of capital expenditure to be incurred during 2007/08 and 2008/09 are shown below:

Capital Expenditure	*2006/07 Actual £'000*	*2007/08 Estimated Outturn £'000*	*2008/09 Estimated £'000*
Housing	7,345	8,970	7,700
Non-Housing	8,109	11,030	12,300
Total	**15,454**	**20,000**	**20,000**

Capital Financing Requirement (CFR)

This figure represents the Council's underlying need to borrow for a capital purpose, and the change year on year will be influenced by the capital expenditure in the year and how much of this is supported directly through grants, contributions and capital receipts. The CFR is essentially a replacement of the former 'credit ceiling' mechanism, which was also a measure of underlying borrowing need.

The Council is asked to approve the CFR for 2008/09 as follows:

Capital Financing Requirement	*2006/07 Actual £'000*	*2007/08 Estimated Outturn £'000*	*2008/09 Estimated £'000*
Housing	9,927	10,140	10,270
Non-Housing	9,056	3,694	8,413
Total CFR	**18,983**	**13,834**	**18,683**

£5 million of unapplied capital receipts will be used in 2007/08 to voluntarily reduce the CFR. This will have a knock-on effect for 2008/09 of reducing the MRP by £200,000. During 2008/09 the capital receipts applied in 2007/08 will be used to finance the capital programme. This will return the CFR back to the 1st April 2007 position.

ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT

Minimum Revenue Provision (MRP)

The existing Capital Finance Regulations require local authorities to charge to their revenue account for each financial year a Minimum Revenue Provision (MRP) to account for the cost of their debt in that financial year. The regulations set out the method to be followed in calculating the MRP.

Draft amendments to the above regulations propose to replace the detailed calculation with a requirement to calculate MRP that local authorities consider to be prudent.

The guidance recommends that prior to the start of each financial year a local authority prepares a statement of its policy on MRP in respect of that financial year and submits it to full Council. The statement should indicate which options for calculating the MRP have been followed. The MRP Statement for 2008/09 is shown below.

The Council is asked to approve the MRP Statement for 2008/09 as follows:

MRP Statement 2008/09

Draft Regulation 28 of the Local Authorities Capital Finance & Accounting Regulations 2008 requires local authorities to calculate for the current financial year an amount of minimum revenue provision (MRP) which it considers to be prudent. Local Authorities are required to prepare an annual statement of policy on calculating the MRP.

The amount of MRP recommended to Council to be included in the 2008/09 Treasury Management Strategy calculated in accordance with the four options given in the Regulation & Guidance is set out below:

Option 1 Regulatory Method MRP on all capital expenditure prior to 1 April 2008 4% of the non-housing Capital Finance Requirement calculated in accordance with previous regulations 28 & 29 and adjusted for £5 million of unapplied capital receipts used in 2007/08.	**£** 150,551
Option 2 Capital Financing Requirement Method Not Used	NIL
Option 3 Asset Life Method Not Used	NIL
Option 4 Depreciation Method Not Used	NIL
Total MRP for 2008/09	150,551

LIMITS TO BORROWING ACTIVITY

Net Borrowing

The first key control over the Council's activity is to ensure that over the medium term net borrowing will only be for a capital purpose. The Council needs to ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional future capital financing requirements.

Notwithstanding the above, there is currently a gap between the CFR and Gross Borrowing and the Director of Resources will consider limited borrowing opportunities within this narrow band where it is in the Council’s financial interests.

The Council is asked to approve the following borrowing limits, which take into account current commitments, existing plans and the proposals in the Budget Framework: -

Net Borrowing	*2006/07 Actual £'000*	*2007/08 Estimated Outturn £'000*	*2008/09 Estimated £'000*
Gross Borrowing	18.640	18.600	18.556
Investments	(27.260)	(27.000)	(23.000)
Net Borrowing	**(8.620)**	**(8.400)**	**(4.444)**

A further two prudential indicators control the overall level of borrowing*:* **Authorised Limit** and the **Operational Boundary**. These limits separately identify borrowing from other long-term liabilities such as finance leases. Net borrowing is expected to increase over time as capital receipts are used to finance the capital programme, which means that they are no longer available for investment purposes.

Authorised Limit
This represents the limit beyond which borrowing is prohibited and 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 a statutory limit that the Council must determine in accordance with Section 3(1) of the Local Government Act 2003.

The Council is asked to approve the following authorised limits:

Authorised Limit	*2006/07 Actual £'000*	*2007/08 Estimated Outturn £'000*	*2008/09 Estimated £'000*
Borrowing	30,000	30,000	30,000
Long Term Liabilities	-	-	-
Total	**30,000**	**30,000**	**30,000**

Operational Boundary
This indicator is based on the probable 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. It should act as an indicator to ensure that the authorised limit is not breached.

The Council is asked to approve the following operational limits:

Operational Boundary	*2006/07 Actual £'000*	*2007/08 Estimated Outturn £'000*	*2008/09 Estimated £'000*
Borrowing	22,000	22,000	22,000
Long Term Liabilities	-	-	-
Total	**22,000**	**22,000**	**22,000**

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

The Council is asked to approve the following indicators:

Ratio of Financing Costs to Net Revenue Stream

This indicator expresses the amount of interest payable on external debt and other debt management expenses (i.e. financing costs) as a proportion of the amount of income received from Government and local taxpayers (i.e. net revenue stream). The definition of net revenue stream for the HRA is based on the statutory definition which incorporates charges to the account under Part 4 of the Local Government and Housing Act 1989.

Financing Costs to Net Revenue Stream	*2006/07 Actual*	*2007/08 Estimated Outturn*	*2008/09 Estimated*
Housing	45.0%	39.6%	30.2%
Non-Housing	(2.0%)	(2.8%)	(2.8%)

Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents

As the Council's capital programme is financed by Government allocations, external funding from partners, and from the Council's own resources, such as capital receipts, there is no requirement for the Council to borrow to finance its capital investment over the short term. As a consequence there are no additional financing charges to be absorbed by both the General Fund and Housing Revenue Accounts over this period. This is reflected in the following two indicators, which show the impact on Council Tax and Housing Rents.

The Council will ballot its tenants during 2008/09 regarding the transfer of the Council's housing stock. The outcome of this ballot could affect borrowing and investment decisions post December 2008.

This indicator identifies the impact of the Council's General Fund Capital Programme on revenue budgets and is expressed in terms of Band D Council Tax.

Incremental Impact of Capital Programme	*2007/08 Actual*	*2008/09 Projection*
Council Tax at Band D	£0.00	£0.00

Similar to the Council Tax calculation this indicator identifies the impact of the Housing Capital Programme on revenue budgets, expressed in terms of weekly rent levels.

Incremental Impact of Capital Programme	*2007/08 Actual*	*2008/09 Projection*
Weekly Housing Rent	£0.00	£0.00