

PRUDENTIAL CODE INDICATORS

1 Capital Expenditure

- 1.1 The Chartered Institute of Public Finance and Accountancy's "Prudential Code" requires us to estimate the capital expenditure that we plan to incur over the medium term. Our capital strategy, asset management plan, ICT projects programme and service plans between them set out our capital needs.
- 1.2 The following table shows existing capital commitments together with the value of sums provisionally allocated for new investment.

Capital Expenditure				
2006/07 £000 Actual	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate
2,927	4,257	3,725	3,363	3,370

2 Prudential indicators for affordability, prudence and sustainability

- 2.1 The Prudential Code requires that a number of indicators are calculated to demonstrate the affordability of our plans. These address the revenue implications of our financial strategy.
- 2.2 **Ratio of financing costs to net revenue stream -**
This indicator measures the ratio of financing costs, e.g. interest on investments less costs of borrowing to our net revenue stream. For us, the figure is negative as we have substantial investments that generate interest. Estimated figures are as follows:

Ratio of financing costs to net revenue stream				
2006/07 Actual	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 estimate
-14%	-13%	-11%	-11%	-9%

2.3 The Capital Financing Requirement –

The Capital Financing Requirement measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It is a measure of the underlying need to borrow for a capital purpose. Our Capital Financing Requirement is minus £118,000 which means that we have this amount available for new capital investment without having to borrow. We are

debt-free and consequently have no need to borrow money for capital purposes.

- 2.4 In accordance with best professional practice, we do not associate the choice of financing with particular items or types of expenditure. We have an integrated treasury management strategy and have adopted the *CIPFA Code of Practice for Treasury Management in the Public Services*. We have at any point in time, a number of cashflows both positive and negative, and manage our treasury position in terms of our investments in accordance with our approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. Cash requirements arise as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects our underlying need to finance capital investment only.
- 2.5 *CIPFA's Prudential Code for Capital Finance in Local Authorities* 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 the Capital Financing Requirement in the preceding year plus estimates of any additional Capital Financing Requirement for the current and next two financial years."*
- 2.6 The Head of Financial Services reports that we had no difficulty meeting this requirement in 2006/07, nor are any difficulties envisaged for the current or future years owing to our debt free status. This view takes into account current commitments, existing plans, and the proposals in this budget report.
- 2.7 **The effect of new capital investment on Council Tax levels -**
In considering its programme for capital investment, we are required within the Prudential Code to have regard to:
- Affordability, e.g. implications for Council Tax
 - 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
 - Practicality, e.g. achievability of the forward plan
- 2.8 The cumulative full year effect of the capital investment on Council Tax is £1.40 in 2008/09, £3.99 (2009/10) and £6.33 (2010/11) respectively. These forward estimates are not fixed and do not commit the Council. They are based on the maximum limits for capital expenditure outlined above. Each year, we will review the level of capital investment taking into account political priorities. For this reason, the actual impact on the Band D Council Tax in future years cannot be determined until the time

the actual budget is set for those years.

3 Treasury Management Indicators

3.1 We have adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

3.2 Borrowing -

We redeemed our external debt in January 2001 to enable us to benefit from debt-free status. This enables us to enjoy various freedoms, including wider access to capital receipts to finance capital expenditure and opportunities to make investments on more advantageous terms, e.g. by allowing us to invest funds for more than one year.

3.3 Consequently, we have no proposals to borrow long term or incur other long term liabilities for the foreseeable future. Under section 3(1) of the Local Government Act 2003, however, we must set limits for external borrowing (temporary, contingencies) taking into account existing plans and the proposals within this report. It is recommended that these are set as detailed below:

- The operational boundary for the periods from 2008/09 – 2010/11 – £500,000
- The authorised limit for the same period – £4,500,000

NB. The authorised limit has been set to cover the worst case scenario, whereas the operational boundary is an estimate of a likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit.

3.4 CIPFA's Prudential Code also requires that we report upon our actual external debt. The figure was NIL as at 31 March 2006.

3.5 Investment interest -

Interest rate risk management is a top priority. While fixed-rate investment can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance may justify, or even demand, retaining a degree of flexibility through the use of variable interest rates on at least part of a treasury management portfolio. This is a best practice approach to treasury management and is to be encouraged to the extent that it is compatible with the effective management and control of risk.

3.6 It is recommended that we set an upper limit on our fixed interest rate investments for 2007/08, 2008/09 and 2009/10 of 100% of our outstanding investments.

3.7 It is further recommended that we set an upper limit on variable interest rate investments of 50% of outstanding investments.

3.8 Total principal sums invested-

In determining the length of time that sums are invested, we must consider the risk that we might be forced to realise investments early. This could have potentially disadvantageous results depending on market conditions. Consequently, the following limits are recommended on investments with maturities beyond the year end.

Limits to be placed on sums invested for longer than 364 days

Limits to be placed on investments that mature in the following financial years :	Upper Limit
2009/2010	£10m
2010/2011	£10m
2011/2012	£7.5m
2012/2013	£7.5m
2013/2014	£5m

3.9 Risk assessment

In managing the portfolio, treasury officers must have due regard to risk and uncertainty. Risks include:

Risk	Mitigation
<p>Unanticipated major capital costs.</p> <p>The availability and timing of capital receipts, grants and external contributions</p> <p>Adverse exposure to interest rate fluctuations.</p> <p>Inadvertent breaches of the VAT partial exemption de minimis status, e.g. arising from cost overruns on a major capital scheme.</p> <p>Risks identified in the CIPFA Code of Practice for Treasury Management in the Public Services – e.g. Counterparty liquidity, exchange rate risks, fraud, error and corruption.</p>	<p>The established practice of monitoring capital expenditure against estimates. Significant variation, for example caused by major over-runs of expenditure on projects is acted upon and explained to members through quarterly reports to the Executive, or ad hoc reports as necessary.</p> <p>Undertaking an (at least) annual review of available capital resources and budget pressures, to ensure effective prioritisation.</p> <p>Reviewing the affordability of each capital scheme against the assumptions within the Medium Term Financial Strategy and through a thorough project appraisal.</p> <p>Formalising existing treasury and capital monitoring by reporting against the key prudential indicators</p>

APPENDIX J

	<p>outlined above. Indicators will be monitored through the revenue and capital monitoring process and exceptions reported to the Executive together with any remedial action or revisions required.</p> <p>Adherence to the CIPFA Code of Practice.</p>
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