PRUDENTIAL INDICATORS 2006/07 – 2008/09

1. Introduction

The Prudential Code for Capital Finance in Local Authorities requires capital spending plans to be considered and approved, in conjunction with this, the development of an integrated treasury management strategy.

The Code requires authorities to have regard to fundamental principles of 'prudence, sustainability and affordability', and the indicators are intended to ensure the Council's budget reflects these objectives. The indicators are a benchmark allowing officers and members to monitor the financial position during the coming year.

The prudential indicators also link to the Treasury Management strategy for 2006/07 and a number of the indicators set the boundaries for treasury activities. The treasury indicators are outlined in Section 3 below.

2. Prudential Indicators for 2006/07 – 2008/09

This section outlines the prudential indicators which the Council is required to set to comply with the Prudential Code. The indicators for 2006/07 and future years reflect the recommended capital programme. Comparative figures are also given for 2005/06 based on the expected position at the year end.

No.	PRUDENTIAL INDICATOR	2004/05 Actuals	2005/06 Projected	2006/07	2007/08	2008/09
1	**Estimate of Capital expenditure**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Capital programme – **Core Programme & Bids**	4,745	6,000	5,895	5,344	3,590
	Equipment Fund	508	450	400	350	300
		-------- 5,253	--------- 6,450	--------- 6,295	-------- 5,694	------- 3,890
	This is based on the Council's medium term financial plan and includes capital spending financed from the Equipment fund. For 2006/7 the amount shown is the total of the base programme and bids, and is an upper limit to the projected capital spend. Capital programmes for future years are provisional.					
		2004/05 Actuals	**2005/06 Projected**	**2006/07**	**2007/08**	**2008/09**
3	**Ratio of Financing Costs to Net Revenue Stream**	**%**	**%**	**%**	**%**	**%**
	Ratio of financing costs to net revenue budget	-5.3	-4.7	-3.7	-3.4	-3.1
	This reflects the costs of any borrowing (a portion of the PFI property costs), less the interest gained on investments as a percentage of the net revenue budget. Whilst interest will exceed the revised budget in the current year, this will gradually decrease from the present portion of the revenue budget. This reflects the planned increase the Council's net expenditure and budgeted interest remaining constant.					

No.	**TREASURY MANAGEMENT PRUDENTIAL INDICATORS**	**2004/05 Actuals**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
4	**Capital Financing Requirement (as at 31 March)**	7,629	7,506	7,456	7,456	7,450
	This indicator measures the Authority's underlying need to borrow for capital purposes. Although the Council is 'debt free' it has a positive capital financing requirement (CFR) as a result of the PFI contract which is a long term liability. The trend in the CFR over the financial planning period is important, and shows a marginal decrease then a constant capital financing requirement. This results from the plans to finance the capital programme from existing and future resources, notably capital receipts plus government grants. The Council is not expected to have to borrow to fund its capital programme in the medium term.					
		2004/05 Actuals	**2005/06**	**2006/07**	**2007/08**	**2008/09**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
5	**Authorised Limit for External Debt**					
	Borrowing	4,000	4,000	4,000	5,000	5,200
	Other Long Term Liabilities	9,552	9,296	9,080	8,855	8,593
	Total	**13,552**	**13,296**	**13,080**	**13,855**	**13,793**
6	**Operational Boundary for External Debt**					
	Borrowing	1,750	2,000	2,000	3,000	3,200
	Other Long Term Liabilities	9,552	9,296	9,080	8,855	8,593
	Total	**11,302**	**11,296**	**11,080**	**11,855**	**11,793**
	In 2005/06 to date, no borrowing has taken place reflecting the Council's positive cash flow. In relation to external debt the Executive is asked to approve the authorised external debt limits outlined above. The total authorised limit is made up of external borrowing and 'long term liabilities' – for the Monkton Park PFI offices. The borrowing elements of the authorised limit and operational boundary for external debt will cover the Council's need to borrow for cash flow purposes. Both indicators reflect the Finance Team Leader's estimate of the most likely, prudent but not worst case scenario, with the authorised limit including a factor of additional headroom to allow for unusual cash movements. The operational boundary for external debt is based on officers' expectations of the maximum level for external debt, and the limit allows for expected borrowing to cover cash flow variations.					
		2004/05 Actuals	**2005/06**	**2006/07**	**2007/08**	**2008/09**
7	**Incremental Impact of Capital Expenditure Plans**		**£**	**£**	**£**	**£**
	Increase in Council Tax (per band D property) Incremental effect Cumulative effect	-	£2.38 £2.38	£2.57 £7.33	£2.25 £12.15	£1.91 £16.31
	Whilst the capital programme anticipates no borrowing in the medium term, there is a cost from the loss of interest on capital receipts that would otherwise be invested and this impacts on future Council Tax levels.					

3. Treasury Indicators

The Council is also required to set indicators in relation to its treasury activities for the coming year. Together with the treasury management strategy these will determine the framework for the treasury function.

The Council adopted the CIPFA Code of Practice for Treasury Management in January 2004.

		2004/05 Actuals	2005/06	2006/07	2007/08	2008/09
8	**Upper Limit for Fixed Interest Exposure**	100%	100%	100%	100%	100%
	This is the maximum percentage of the total borrowing that can be at fixed interest.					
9,10	**Upper Limit for Variable Rate Exposure**	0%	25%	25%	25%	25%
	As outlined above it is not anticipated the Council will need to borrow funds, except to provide cover for changes in cash flow. Fixed rate borrowing would contribute to reducing the potential risk from interest rate changes. However depending on forecasts of future rates, it may be appropriate to have a degree of flexibility through the use of variable interest rates. This means the Team Leader Finance will manage fixed interest rate exposures within the range 75% - 100% and variable rate exposures in the range 0% - 25%. This is a continuation of current treasury practices.					
		2004/05 Actuals	**2005/06**	**2006/07**	**2007/08**	**2008/09**
11	**Upper Limit for Total Principal Sums Invested for over 364 days (per maturity date)**	N/A	20%	20%	20%	20%
	It is expected that the majority of lending by both external fund managers and the Council's officers will be for periods of up to 6 months. The proposed indicator allows for a portion of longer lending - for more than 1year - which may be needed to achieve optimum treasury performance.					

		Upper Limit	Lower Limit
12	**Maturity structure of new fixed rate borrowing during 2006/07**	**%**	**%**
	Under 12 months	100	100
	12 months and within 24 months	-	-
	24 months and within 5 years	-	-
	5 years and within 10 years	-	-
	10 years and above	-	-
	During 2006/07 any borrowing will be for short periods to meet cash flow changes, and will be undertaken at fixed rates.		