FSM/02/2005

KENNET DISTRICT COUNCIL

RESOURCES EXECUTIVE COMMITTEE

to be held on 15th March 2005

Report by Janet Ditte, Chief Accountant & Auditor

Prudential Code for Capital Finance and Treasury Management

1. Purpose of Report

The purpose of this report is to inform members of the impact of the Capital Spending Plans for 2005/2006 in accordance with the Prudential Code for Capital Finance. The report will also present revised Prudential Indicators that reflect the revised Capital Spending Plans for 2004/05.

The report will also present an amended version Treasury Management Policy Statement and Practices and set the Annual Investment Strategy for 2005/2006.

2. Financial and Staffing Implications

There are no staffing implications arising from the report.

The financial implications are set out within the Appendix to the report and have been included within the revenue and capital budgets for 2005/2006.

3. Legal Implications

The Prudential Code of Capital Finance, the Treasury Management Code of Practice and the Guidance on Local Authority Investments, which derive their powers from the Local Government Act 2003, require reports to the Council relating to the Prudential Indicators and the Treasury Management Policy and Strategy. This report ensures that these legal requirements are fulfilled.

4. Background

Since 1st April 2004, all Local Authorities have been required to have regard to the **Prudential Code for Capital Finance,** which has its legislative power derived from the Local Government Act 2003.

The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent, sustainable and follow good practice.

To demonstrate that each authority fulfils these objectives, the Code sets out a number of indicators and factors that must be considered. The measurement of the objectives is also undertaken through an increased emphasis on Treasury Management.

The indicators presented within this report relate to the Capital Programme that was approved at the Meeting of the Council held on 22nd February 2005.

The Prudential Indicators

The Prudential Code uses a mixture of numerical indicators and good practice requirements (Appendix A1). The key numerical indicators of affordability and sustainability require the authority to consider :

- The maximum debt limit for each of the next 3 years (operational and authorised) (Appendix A2)
- The Capital expenditure plans over 3 years (Appendix A3)
- The potential impact of debt financing on the Council Tax (Appendix A3)
- The ratio of debt financing costs compared to income (Appendix A4)

Affordability – Impact on Council Tax

The most important aspect of the Code is the impact capital spending plans will have upon the council tax. Kennet is a debt free authority and as such finances its capital spending from capital receipts and reserves. Although the current strategy is to spend no more than the new receipts generated, any expenditure in excess of new receipts will result in a reduction in reserves and will result in a reduction in investment interest. Assumptions have to be made on interest rate levels, council tax base level and new capital receipts generated to calculate this indicator for 2005/06 to 2007/08.

Sustainability

The objective of the Code is that total capital investment remains within sustainable limits. Any expenditure plans must be considered alongside the medium term financial strategy.

Prudence

Any long term borrowing must only be for capital purposes only. As Kennet has capital reserves, it is not envisaged that any borrowing will take place but instead capital investment will be funded from usable capital receipts and reserves. It is a requirement of the new Code that the Capital Financing Requirement (CFR) be calculated. This figure attempts to show the authority's need for borrowing. (See Appendix A5). Kennet currently has no need to borrow.

Borrowing Limits

Although debt free, Kennet may from time to time need to borrow short term to cover daily cash flow requirements. Borrowing limits therefore need to be set having regard to plans for capital expenditure, cash flow requirements and the CFR. Two limits are set, the operational and authorised limits. The authorised limit over the 3 years will be based on the most likely scenario, with sufficient headroom to allow for operational management (cash flow).

The operational limit is based on the same calculation but removes the headroom included within the authorised limit.

Appendix A2 refers.

Treasury Management Policy Statement and Practices

Following the adoption of Treasury Management Policy Statement (TMPS) and Practices at the Resources Executive Committee held in March 2004, it has been necessary to amend it slightly to incorporate changes required by the Cash Managers appointed in May 2004 and changes requested by the Council's appointed Fund Managers. These amendments have been previously reported to members. A revised version of the Policy Statement and Treasury Management Practices, incorporating these amendments, is attached at Appendix B.

It has also been necessary to incorporate an additional investment category of Registered Social Landlords. This is to ensure that the Council has the necessary authorised limits within the TMPS to facilitate the proposed mortgage investment, as agreed at the Special Joint Committee meeting held on 1st February 2005.

Annual Investment Strategy

It is a requirement of the Treasury Management Code of Practice and Guidance on Local Government Investments issued under section 15(1)(a) of the Local Government Act 2003, that the Council set an Annual Investment Strategy for the coming year prior to the commencement of that financial year. This document is attached as Appendix A to the Treasury Management Policy Statement and Practices.

5. Conclusions

The new Prudential Code for Capital Finance requires the Resources Executive Committee to consider a number of prudential indicators and ensure that capital plans are affordable, sustainable, prudent and follow good practice.

The indicators are presented at Appendix A1 to A6.

An updated version of Treasury Management Policy Statement and Annual Investment Strategy for 2005/2006 requires approval. (Appendix B and C)

6. Recommendations

It is recommended that:

(1) Members should acknowledge and approve the prudential indicators relating to the Capital Programme for 2005/06 through to 2007/08 contained within Appendix A1 to A5.

(2) Adopt the revised Treasury Management Policy Statement and Treasury Management Practices (Appendix B)

(3) Adopt the Annual Investment Strategy for 2005/2006 (Appendix A of TMPS)

(4) Members should approve the inclusion of an additional investment category in the Treasury Management Policy Statement and Annual Investment Strategy allowing the Council to pay a mortgage, as agreed at the Special Joint Committee meeting on 1st February 2005.