Agenda Item No: 15

Title:	**Treasury Management – Revised Prudential Indicators 2007- 08**
Portfolio Holder:	**Cllr While – Finance Portfolio Holder**
Reporting Officer:	**Andy Brown – Financial Accountant**

Purpose

This report reviews and updates the 2007/08 prudential indicators that were agreed by Council as part of the Annual Treasury Management Statement in February 2007. The revised indicators are set out in Appendix A.

Background

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance.

This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the other statutory requirements.

A requirement of the code is for prudential indicators to be monitored during the year. Any changes should be reported and agreed by Council.

Key Issues

The original prudential indicators for 2007/08 were considered by Cabinet on 7 February 2007 and determined by Council on 21 February 2007. They may be revised at any time during the financial year.

Changes to the capital programme arising from slippage and additional schemes and a treasury management review means that some indicators need to be revised.

The prudential indicators were reviewed by Cabinet on 5 September and the Audit Committee on 27 September. The Audit Committee advises that it is satisfied that the revised prudential indicators for 2007/08 are appropriate for accurate reporting of the Council's position. Only Council can undertake the formal setting and revision of the indicators.

The indicators highlight the need for borrowing to support future capital programmes. This is a separate piece of work and the detail is currently being reviewed by the Head of Finance and Butlers (the Council's treasury management advisors).

Effect on strategies and codes
The prudential indicators have been revised in accordance with the code of practice for treasury management. The revenue and capital projections have been allowed for in the Council's Medium Term Financial Plan.

Risk management implications

The prudential indicators are updated in accordance with best practice.

Finance and performance implications

There are no finance and performance implications arising from this report.

Legal and human rights implications

There are no legal and human rights implications arising form this report.

Recommendations

Council is recommended to adopt the revised prudential indicators as set out in Appendix 1.

Background papers

Appendix A

PRUDENTIAL INDICATORS Revised 2007/08

Indicator: The local authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the current financial year and at least the following two financial years.

Capital Programme	2006/07 Actual £m	2007/08 Estimate £m	2007/08 Revised £m	2008/09 Estimate £m	2009/10 Estimate £m
Gross	3.598	2.571	3.963	2.338	2.372
Less Grants and Contributions	1.327	1.237	1.477	1.355	1.556
Net	2.271	1.334	2.486	0.983	0.816

Indicator: The local authority will make reasonable estimates of the total capital financing requirement at the end of the current financial year and the following two years.

	2006/07 Actual £m	2007/08 Estimate £m	2007/08 Revised £m	2008/09 Estimate £m	2009/10 Estimate £m
Capital Financing Requirement	(0.775)	(0.016)	(0.025)	0.958	1.667

The capital financing requirement is a measure of the Council's underlying need to borrow money long term. There is no requirement to borrow when the figures are negative. At the end of each financial year the actual capital financing requirement will be calculated directly from the Council's balance sheet.

Local authorities have available to them a number of ways of financing capital investment. In all cases cash will be paid out, the term "financing" does not refer to the payment of cash but the resources that are used to pay for schemes. A number of financing options are available to local authorities, these include;

- The application of useable capital receipts
- A direct charge to revenue
- Application of a capital grant
- Contributions received from another party

Capital expenditure that is not financed by one of these methods will increase the Capital Financing Requirement (CFR) of the Council or reduce the negative CFR as the case may be.

Indicator: 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 financial year plus the estimates of any additional capital financing requirement for the current and next two financial years.

	2007/08 Estimate £m	2007/08 Revised £m
Gross borrowing	1.800	2.000
Investments	(1.000)	(3.000)
Net borrowing	0.800	(1.000)
Capital Financing Requirement	(0.016)	(0.025)

This indicator is to show that, apart from short-term cash flow movements, the Council's net borrowing is for capital purposes only. The gross borrowing shown is for a short-term period only at year-end and is repaid early in the new financial year. The reason for measuring the requirement over a three-year period is to give the Council flexibility in borrowing with the aim of reducing borrowing costs.

Indicator: Where a local authority invests for periods longer than 364 days the authority will set an upper limit for each forward financial period for the maturing of such investments.

Maturity	2007/08 Estimate £m	2007/08 Revised £m	2008/09 Estimate £m	2009/10 Estimate £m
Up to 1 year	5.000	5.000	3.000	2.000
1 – 2 Years	0	0	0	0
2 – 5 Years	0	0	0	0
5 – 10 Years	0	0	0	0
Over 10 Years	0	0	0	0

Indicator: The local authority will estimate for the current financial year and the following two financial years the ratio of financing costs to net revenue stream.

	2007/08 Estimate	2007/08 Revised	2008/09 Estimate	2009/10 Estimate
Financing costs to net revenue stream	(1.89%)	(1.68%)	(0.82%)	0.45%

The indicator has been calculated as net loss of interest on investments (interest from investments less interest paid) plus any revenue consequences of capital schemes, divided by the net General Fund revenue budget.

Indicator: The local authority will estimate for the current financial year and the following two financial years the incremental impact of capital investment decisions on the Council Tax.

	2007/08 Estimate	2007/08 Revised	2008/09 Estimate	2009/10 Estimate
Incremental impact of capital investment decisions on Council Tax	£3.25	£3.78	£3.59	£4.69