COUNCIL 27 02 07
Item 9

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY 2007-08

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Summary: This report outlines the Council's prudential indicators for 2007-08 to 2009-10 and sets out the expected treasury operations for this period. It fulfils three key reports required by the Local Government Act 2003.

1. The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities
2. The treasury strategy for 2006/07 in accordance with the CIPFA Code of Practice on Treasury Management (Appendix A), and
3. The investment strategy (in accordance with the DCLG investment guidance) (included in Appendix A)

Recommendation: That the Full Council:

1. Adopts the prudential indicators and limits for 2007/08 to 2009/10 contained within the report;
2. Approves the treasury management strategy 2007/08, and the treasury prudential indicators (Appendix B);
3. Approves the investment strategy 2007-08 contained in the treasury management strategy (appendix A) and the detailed criteria included in the annex A1

Impact on delivering Copeland 2020 objectives: Statutory requirement. Links directly to the budget process and funding of the capital programme

Impact on other statutory objectives (e.g. crime & disorder, LA21): As above

Financial and human resource implications: None directly of this report

Project & Risk Management: None

Key Decision Status

- **Financial:**
- **Ward:**

Other Ward Implications:

INTRODUCTION

1.1 Following the introduction of the new Prudential Code, the Council has freedom over capital expenditure, so long as it is prudent affordable and sustainable. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. This report revised the indicators for 2006/07, 2007/08 and 2008/09 and introduces new indicators for 2009/10. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the Council's underlying capital appraisal systems.

1.2 Within this overall prudential framework, there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the treasury management strategy for 2007-08 is included at Appendix A to complement the indicators and this report includes the prudential indicators relating to the treasury activity.

2. CAPITAL EXPENDITURE PLANS

2.1 The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This expenditure can be paid for immediately (by resources such as capital receipts, capital grants etc), but if resources are insufficient any residual expenditure will form a borrowing need.

2.2 A certain level of capital expenditure will be grant supported by the Government; anything above this level will be unsupported and will need to be paid for from the Council's own resources. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although no control has yet been required.

2.3 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some of the estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.

2.4 The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

	2006-07 Revised	**2007-08 Estimated**	**2008-09 Estimated**	**2009-10 Estimated**
Capital Expenditure				
Total Expenditure	8,715,318	2,923,285	2,276,000	2,276,000
Financed By:				
Capital Receipts	2,015,002	800,000	650,000	650,000
Capital Grants	5,722,261	1,511,000	1,476,000	1,476,000
Capital Reserves	0	0	0	0
Revenue	978,055	612,285	150,000	150,000
Net Capital Requirement	**0**	**0**	**0**	**0**

3. THE COUNCIL'S BORROWING NEED (THE CAPITAL FINANCING REQUIREMENT)

3.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need, but also includes unfinanced elements of finance leases etc. The net capital financing need above will impact directly on the CFR. As the Council is not intending to borrow, the CFR projections for the following four years are zero. Council is asked to approve the CFR projections below:

	2006-07 Revised	**2007-08 Estimated**	**2008-09 Estimated**	**2009-10 Estimated**
Capital Financing Requirement – CFR				
Total CFR	0	0	0	0
Net Movement in CFR	-1,480,000	0	0	0

4. THE USE OF THE COUCIL'S RESOURCES AND THE INVESTMENT POSITION

4.1 The application of resources (capital receipts, reserves etc) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc).

5. LIMITS TO BORROWING ACTIVITY

5.1 Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.

5.2 For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2007-08 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

	2006-07 Revised	**2007-08 Estimated**	**2008-09 Estimated**	**2009-10 Estimated**
Gross Borrowing	-5,000,000	-5,000,000	-5,000,000	-5,000,000
Investments	-18,000,000	-18,000,000	-18,000,000	-18,000,000
Net Borrowing	-13,000,000	-13,000,000	-13,000,000	-13,000,000
CFR	0	0	0	0

5.3 The Head of Finance and Business Development reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the Budget Report.

5.4 A further two prudential indicators control or anticipate the overall level of borrowing. These are:

5.5 **The authorised limit –** This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Members. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

5.6 **The operational boundary –** This indicator is based on the probable external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure the authorised limit is not breached.

5.7 The Council is asked to approve the following authorised limit and operational boundary:

Authorised limit for external debt	**2006-07 Revised**	**2007-08 Estimated**	**2008-09 Estimated**	**2009-10 Estimated**
Borrowing	5,000,000	5,000,000	5,000,000	5,000,000
Temp Rev and Capital estimate	4,000,000	4,000,000	4,000,000	4,000,000
TOTAL	**9,000,000**	**9,000,000**	**9,000,000**	**9,000,000**

Operational boundary for external debt	**2006-07 Revised**	**2007-08 Estimated**	**2008-09 Estimated**	**2009-10 Estimated**
Borrowing	5,000,000	5,000,000	5,000,000	5,000,000
TOTAL	**5,000,000**	**5,000,000**	**5,000,000**	**5,000,000**

6. AFFORDABILITY PRUDENTIAL INDICATORS

6.1 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 overall Council's finances. The Council is asked to approve the following indicators:

6.2 **Actual and estimate of the ratio of financing costs to net revenue stream –** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing cost include current commitments and the proposals in this budget report.

Ratio of Financing Costs to Net Revenue Stream	**2006-07 Revised**	**2007-08 Estimated**	**2008-09 Estimated**	**2009-10 Estimated**
General Fund	-8%	-7%	-7%	-7%

6.3 **Estimates of the incremental impact of capital investment decisions on the Council Tax – This** indicator identifies the revenue costs associated with new schemes introduced to the three-year capital programme (recommended in the Budget Report), compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published over a three-year period.

6.4

Incremental impact of capital investment decisions on the Band D Council Tax	**Proposed Budget 2007-08**	**Forward Projection 2008-09**	**Forward Projection 2009-10**
Council Tax – Band D	£57.01	£36.13	£36.14

List of Appendices: Appendix A – Treasury Strategy and Investment Strategy

List of Background documents – Treasury Management Practices, Budget 07/08

List of consultees: Corporate Team, Accountants, and Leader