

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY 2006/07

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Summary: The attached reports covers the operation of the Council's prudential indicators, its treasury function and its likely activities for the forthcoming year. The report incorporates three key Council reporting requirements:

1. The reporting of the main prudential indicators in accordance with the requirements of 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, and
3. Incorporating the summary to the investment strategy (in accordance with ODPM investment guidance) at [Appendix A](#). It also includes the specific treasury management prudential indicators.

Recommendation: That the Full Council:

1. Adopts the prudential indicators and limits for 2006/07 to 2008/09 contained within the report ;
2. Approves the treasury management strategy 2006/07, and the treasury prudential indicators ([Appendix A](#));
3. Approves the investment strategy 2006/07 contained in the treasury management strategy. ([Appendix A](#))

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 The capital expenditure and treasury procedures are now firmly established. The Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Council must approve, revise and monitor at least a basic range of prudential indicators covering the forthcoming three years. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. This report revises the indicators for 2005/06, 2006/07 and 2007/08, introduces new indicators for 2008/09 and shows the 2004/05 actual. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the 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 2006/07 is included at Appendix B to complement the indicators. This report also includes the prudential indicators relating to the treasury activity. The production of the treasury management strategy is a requirement of the CIPFA Code of Practice on Treasury Management. Compliance with this Code is required by the Prudential Code.

2. CAPITAL EXPENDITURE PLANS

- 2.1 The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. The total expenditure is funded by resources such as capital receipts and capital grants etc. Any remaining expenditure which cannot be immediately funded from other resources will form a borrowing need – but it is not expected that the Council will need to undertake any borrowing. A more detailed analysis from which the figures in this report are drawn, and the impact on the Council's debt and investment levels, is shown in Annex A1 to this report.
- 2.2 A certain level of capital expenditure will be grant supported by the Government; anything above this level will be unsupported and be paid for from the Council's own resources.
- 2.3 There are two main limiting factors which may impact on the Council's ability to undertake unsupported capital expenditure:
 - Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs
 - The Government may use a long stop control to limit either the total of all council's plans, or in the event of an assessment by Central Government that local plans are unaffordable at a specific council, it may implement a local control to limit its capital expenditure plans. No such control was implemented during 2005/06, and the situation for 2006/07 is unclear at the moment.
- 2.4 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.
- 2.5 The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

	2004-05 Actual	2005-06 Revised	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated
Capital Expenditure					
Total Expenditure	3,365,362	4,699,171	3,066,000	2,276,000	2,276,000
Financed By:					
Capital Receipts	441,543	1,404,961	1,290,180	650,000	650,000
Capital Grants	1,742,062	2,623,090	1,776,000	1,476,000	1,476,000
Capital Reserves	0	0	0	0	0
Revenue	443,663	671,123	0	150,000	150,000
Net Capital Requirement	738,091	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:

	2004-05 Actual	2005-06 Revised	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated
Capital Financing Requirement – CFR					
Total CFR	738,091	0	0	0	0
Net Movement in CFR		-738,091	0	0	0

4. LIMITS TO BORROWING ACTIVITY

- 4.1 Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.
- 4.2 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 2006/07 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

	2005-06 Revised	2006-07 Estimated	2007-08 Estimated	2008-09 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

- 4.3 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.
- 4.4 A further two prudential indicators control or anticipate the overall level of borrowing. These are:
- 4.5 **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.
- 4.6 **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.
- 4.7 The Council is asked to approve the following authorised limit and operational boundary:

Authorised limit for external debt	2005-06 Revised	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated
Borrowing	5,000,000	5,000,000	5,000,000	5,000,000
Temp Rev and Capital estimate	3,500,000	3,300,000	3,300,000	3,300,000
TOTAL	8,500,000	8,300,000	8,300,000	8,300,000

Operational boundary for external debt	2005-06 Revised	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated
Borrowing	5,000,000	5,000,000	5,000,000	5,000,000
Contingency	500,000	500,000	500,000	500,000
TOTAL	5,500,000	5,500,000	5,500,000	5,500,000

5. AFFORDABILITY PRUDENTIAL INDICATORS

- 5.1 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 on the overall Council's finances. The Council is asked to approve the following indicators:
- 5.2 **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	2004-06 Actual	2005-06 Revised	2006-07 Estimated	2007-08 Estimated	2008-09 Estimated
General Fund	-6%	-9%	-9%	-8%	-8%

- 5.3 **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the trend in the cost of proposed changes in the three year capital programme recommended in this 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.

Incremental impact of capital investment decisions on the Band D Council Tax	Proposed Budget 2006/07	Forward Projection 2007-08	Forward Projection 2008-09
Council Tax – Band D	£51.50	£36.14	£36.14

List of Appendices: [Appendix A – Treasury Strategy and Investment Strategy](#)

List of Background documents – Treasury Management Practices, Budget 06/07

List of consultees: Corporate Team, Accountants, Leader