

## Appendix 5

### Prudential indicators under the Prudential Code for capital finance

1. The purpose of the indicators is to provide a framework for capital expenditure decision making, highlighting through the prudential indicators the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure the plans are affordable, prudent and sustainable.
2. The actual capital expenditure that was incurred in 2006/07 (along with the estimate originally set for the year) and the capital investment programme for the current and future years that are recommended for approval are:

**Table 1 - Estimates and Actual Capital Expenditure**

	2006/07 £'000 Estimate	2006/07 £'000 Actual	2007/08 £'000 Estimate	2008/09 £'000 Estimate	2009/10 £'000 Estimate	2010/11 £'000 Estimate
General Fund	1,795	1,614	2,180	3,565	6,028	1,394
HRA	3,490	3,777	3,056	3,136	3,090	3,145
<b>Total</b>	<b>5,285</b>	<b>5,391</b>	<b>5,236</b>	<b>6,701</b>	<b>9,118</b>	<b>4,539</b>

Note: 2008/09 and 2009/10 includes provisions for Hadleigh Community facilities. The scope and costing of this work will not be decided until later in 2008.

2. This indicator identifies the trend in the cost of capital against the net revenue stream.

**Table 2 - Ratio of Net Financing Costs to Net Revenue Stream**

	2006/07 Estimate	2006/07 Actual	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate
General Fund	(6.10)%	(6.42)%	(7.96)%	(6.41)%	(5.22)%	(4.30)%
HRA	23.90%	23.99%	23.75%	21.86%	20.99%	20.20%

The estimates of financing costs include current commitments and the proposals in the budget report.

Note: Babergh has a negative figure for the General Fund due to having low external debt charges, which are more than offset by investment income on surplus funds. There is a positive figure for the HRA as the Council has historically borrowed internal funds to finance Council Housing expenditure and these costs are reimbursed through housing subsidy.

3. Estimates of the end of year capital financing requirement for the authority for the current year and future years and the actual capital financing requirement at 31<sup>st</sup> March 2007 are:

**Table 3 - Estimates and Actual Capital Financing Requirement**

	31/03/07 £'000 Estimate	31/03/07 £'000 Actual	31/03/08 £'000 Estimate	31/03/09 £'000 Estimate	31/03/10 £'000 Estimate	31/03/11 £'000 Estimate
General Fund	(426)	(470)	(331)	2,228	3,333	4,030
HRA	4,001	4,001	4,551	5,101	5,651	6,201
<b>Total</b>	<b>3,575</b>	<b>3,531</b>	<b>4,220</b>	<b>7,329</b>	<b>8,984</b>	<b>10,231</b>

4. The Calculation of the Capital Financing Requirement (CFR) represents the Council's **underlying** need to finance its current and historic capital expenditure, which has not yet been charged to revenue. The change year on year will be influenced by the capital expenditure incurred within the year financed by borrowing. The actual borrowing requirements for 2008/9 is 3.12 M (£2.6M General Fund and £0.55 HRA)
5. The treasury management function is an important part of the overall financial management of the Council's affairs. The Council has an integrated treasury management strategy and has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*. At any point in time, there are a number of cash flows that are positive and negative, and this is monitored and managed in terms of the investments and any overdraft in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. Any debt in the form of overdraft arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.
6. CIPFA's *Prudential Code for Capital Finance in Local Authorities* includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current year and next two financial years."

The Head of Finance reports that the authority had no difficulty meeting this requirement in 2006/07, nor are there any difficulties envisaged for

the current or future years. This view takes into account current commitments, existing plans, and the proposals in the budget report.

7. In respect of external debt, it is recommended that the Council approves the following maximum authorised limits for its total external debt gross of investments for the next three financial years, which takes account of the latest balance sheet values of relevant items. The Council is asked to approve these limits.

**Table 4 - Authorised Limits for External Debt**

	2006/07 Proposed £'000	2006/07 Actual £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Borrowing (Capital Financing Requirement)	3,575	3,531	4,220	7,329	8,984	10,231
Other Long Term Liabilities	1,117	1,099	905	711	534	357
Cash flow deficit/margin	1,308		1,375	1,460	1,482	1,412
<b>Total</b>	<b>6,000</b>	<b>4,630</b>	<b>6,500</b>	<b>9,500</b>	<b>11,000</b>	<b>12,000</b>

8. The Head of Finance reports that these authorised limits are consistent with the Council's current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Head of Finance also confirms that they are based on an estimate of the most likely, prudent but not worst-case scenario with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements.
9. Risk analysis and risk management strategies have been taken into account; as have potential plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.
10. The Council is also asked to approve the following operational boundary for external debt for the same time period. This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as indicator to ensure that the authorised limit is not breached. In keeping with the definitions in CIPFA's *Prudential Code for Capital Finance in Local Authorities*, overdraft limits are not included within figures for debt. The Council is asked to approve these limits.

**Table 5 - Operational Boundary for External Debt**

	2006/07 Proposed £'000	2006/07 Actual £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Borrowing	1,221	1,100	1,789	4,898	6,553	7,799
Other Long Term Liabilities / Cash Flow Deficit	1,779	1,099	1,711	1,602	1,447	1,201
<b>Total</b>	<b>3,000</b>	<b>2,199</b>	<b>3,500</b>	<b>6,500</b>	<b>8,000</b>	<b>9,000</b>

11. The Council's actual external debt at 31<sup>st</sup> March 2007 remained at £1.1m, which is lower than the original figure proposed for the end of 2006/07 as borrowing requirements were met internally.
12. In taking it's decisions on the budget, the Council is asked to note that the authorised limit determined for 2008/09 (see Table 4) will be the Statutory limit determined under section 3(1) of the Local Government Act 2003.
13. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council are:

**Table 6 - Incremental Impact on Council Tax and Housing Rents**

	2008/09	2009/10	2010/11
	£	£	£
Band D Council Tax	+1.27	+1.53	+2.64
Average Weekly Housing Rent	+0.69	-0.50	+0.02

**Note:** The above are based on the council's annual capital spending plans outlined in table 1. 2009/10 Band D Council Tax figure includes an estimated LAMP saving of £80 K.

## Treasury management strategy and annual plan for 2008/09

1. Babergh District Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.
2. The full Treasury Management Strategy for 2008/09 will be presented to Strategy Committee in March 2008.
3. It is recommended that, for the purpose of setting prudential indicators, the following upper limits are set on its fixed and variable rate exposures, based upon the debt position, for future financial years as follows:

	2008/09	2009/10	2010/11
<b>Upper Limit of Fixed Rate Exposures</b>	100%	100%	100%
<b>Upper Limit of Variable Rate Exposures</b>	70%	70%	70%

4. It is recommended that for the purpose of setting prudential indicators, the following lower and upper limits are set regarding the maturity structure of the Council's borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

### Maturity Structure of existing fixed borrowing

	2008/09		2009/10		2010/11	
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	0%	0%	0%	0%	0%
12 months to 2 yrs	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%
5 years to 10 years	0%	0%	0%	0%	0%	0%
10 yrs and above	0%	100%	0%	100%	0%	100%

5. It is recommended that the Council approve the following limits on principal sums to be invested for periods greater than 364 days. These limits apply to investments with final maturities beyond the year-end.

	2008/09 £'000	2009/10 £'000	2010/11 £'000
<b>Upper Limit of Principal Sums maturing beyond the year end</b>	3000	3000	3000