NORTHAMPTON
BOROUGH COUNCIL

Council 3/02/05	Item No.

Portfolio: Financial Strategy Directorate: Strategic Resources, Author/Contact Officer: Tel. 01604 838718 Alison Betts, Technical Finance Manager ext 8718 .	Title of Report: **Prudential and Treasury Indicators**

Recommendation(s)

1. Members are asked to approve the Treasury and Prudential Indicators set out in the attached report.

Summary

Executive on 31/01/05 agreed the Capital Programme for 2005/2006 to 2007/2008 and considered the Prudential and Treasury Indicators for this period. The Local Government Act 2003 requires these indicators to be set by full Council. This report therefore brings forward the recommendation from Executive.

1. Introduction

1.1 The 2003 Prudential Code for Capital Finance in local authorities introduced requirements for the manner in which capital spending plans are to be considered and approved.

1.2 It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the " Affordable Borrowing Limit".

1.3 The Council must have regard to the Prudential Code when setting their Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax/rent levels in "acceptable".

1.4 Whilst termed "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The affordable borrowing limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. It is not envisaged that the Council will borrow beyond the level of Government Supported Borrowing for capital purposes in 2005/6.

2. Current Portfolio Position

2.1 The Council's treasury portfolio position as at 09/12/04 comprised:

Long-term borrowing - Market Loans £24,600,000

All the above loans are at fixed rates with maturity dates of up to 25 years. Interest rates vary from 5.68% to 7.03%.

Temporary borrowing of £1,576,000 at variable interest rates, currently averaging 4.11%.

Loan from English Partnerships £1,302,345 for 29 years at 9.25%.

Other long-term liabilities of £1,000,000

Total debt therefore equal £28,478,345

The Capital Financing Requirement for 2005/6 is estimated at £9,379,000

The Council also has investments at variable rates of £44,280,450 of which two external fund managers manage £11,125,145 and £2,155,308 is in two business reserve bank accounts with instant access with an average interest rate of 4.5%.

3. Prudential Indicators 2005/6

3.1 In accordance with the Local Government Act 2003 and Prudential Code for Capital Finance in Local Authorities 2003, the Treasury Limits and Prudential Indicators are recommended to the Council as part of its treasury policy:-

Indicator 1
Estimate of Capital Expenditure

	2004/2005 £,000	2005/2006 £,000	2006/2007 £,000	2007/2008 £,000
HRA	10,225	7,198	7,176	7,580
Non HRA	14,710	9,401	4,979	3,598
Total	24,935	16,599	12,155	11,178

This indicator simply shows the proposed capital expenditure over the current and the next three years and are detailed in the Corporate Financial Strategy Capital Programmes.

Indicator 2
Estimate of Capital Financing Requirement

	2005/2006 £,000	2006/2007 £,000	2007/2008 £,000
HRA	10,712	10,712	10,712
Non HRA	24,537	24,859	25,833
Total	13,825	14,147	15,121

This indicator reflects the authority’s underlying need to borrow for a capital purpose.

Indicator 3
Estimate of Ratio of Financing to Net Revenue Stream

Table A	2004/2005 %	2005/2006 %	2006/2007 %	2007/2008 %
HRA	-1.4	-1.3	-1.3	-0.8
Non HRA	3.0	2.7	2.6	1.8

Table B	2004/2005 %	2005/2006 %	2006/2007 %	2007/2008 %
HRA & Non HRA	0.73	0.73	0.73	0.73

These indicators express the net costs of financing as a percentage of the funding receivable from the Government and Council Tax payers. The net cost of financing includes interest and debt repayments on borrowing, premia on debt redemption netted off by interest receivable on investments and interest. Table A conforms to the Prudential Code by splitting HRA and Non HRA elements, whereas table B shows the overall position. Table B shows the overall trend relevant for the local authority as a whole.

Indicator 4a
Estimate of the Incremental Impact of Capital Investment Decisions on the Council Tax

£00.00

Indicator 4b

Estimates of the Incremental Impact of Capital Investment Decisions on Average Weekly Housing Rents

£00.00

These indicators express the incremental impact of capital investment decisions proposed in the budget report. These indicators do not take account of the revenue effect, such as running costs of the capital programme. As the authority is proposing not to undertake any non-supported borrowing the effect on the Council Tax and Housing rents is nil.

Indicator 5
Net Borrowing to Capital Financing Requirement

The Prudential Code states:-

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the 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 and next two financial years."

The Chief Finance Officer reports that the authority has no difficulty in meeting this rule.

Indicator 6
Authorised Limit

	2005/2006 £,000	2006/2007 £,000	2007/2008 £,000
Authorised Limit	£46,000	£46,000	£47,500

This is a "worst case" limit based on assumptions about potential increases in temporary borrowing, underachievement of capital receipts in year and overspend on the capital programme.

Indicator 7
Operational Boundary

	2005/2006 £,000	2006/2007 £,000	2007/2008 £,000
Operational Boundary	£38,500	£40,000	£41,500

This is the likely maximum indebtedness of the council, including a small contingency sum.

Indicator 8a
Upper Limit for Fixed Rate Exposure

	2005/2006 %	2006/2007 %	2007/2008 %
Upper Limit for Fixed Rate Exposure	100	100	100

Nearly all or debt at present is fixed rate and therefore 100% is the required percentage.

Indicator 8b
Upper Limit for Fixed Rate Exposure

	2005/2006 %	2006/2007 %	2007/2008 %
Upper Limit for Variable Rate Exposure	50	50	50

As a hedge against our variable investment rate it could be useful to change to variable rate borrowing.

Indicator 9
Principal Sums Invested for Periods of Longer than 364 days

	2005/2006 %	2006/2007 %	2007/2008 %
Principal Sums Invested for Periods of Longer Than 364 Days	33	33	33

33% of investments may be over 364 days. This will be used to limit interest rate risk.

Indicator 10
Upper and Lower Limits on the maturity Structure of Borrowing

Limits on the Maturity Structure of Borrowing	Upper Limit %	Lower Limit %
Maturity period	100	0
Under 12 months	100	0
12 Months and within 24 months	100	0
2 Years and within 5 years	100	0
5 Years and within 10 years	100	0
10 Years and above	100	0

This will allow us the maximum flexibility for rescheduling and repayment of debt under the new financial regulations.

Indicator 11
Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services

The Council has customarily considered an annual Treasury Management Strategy Statement under the requirement of the CIPFA code of practice on Treasury Management, which has been adopted by this Council.

4. Resource Implications

4.1 The resource implications of the capital programme and corresponding borrowing limits have been taken into account in the Service Delivery Budget and Capital Programme.

5. Social Impact

5.1 The social impact of capital programme schemes is identified as part of the CCS process and outcomes for schemes were outlined in the Capital Programme report to Executive.

6. Community Strategy

6.1 The alignment of capital programme schemes with the community strategy is identified as part of the CCS process. Schemes have been aligned with the proposed corporate objectives in the Capital Programme report to Executive.

7. Recommendations

7.1 Members are asked to approve the Treasury and Prudential Indicators set out in the attached report.