Treasury Limits and Prudential Indicators 2006-07 to 2008-09, with 2007-08 monitoring information as at 30 November 2007.

Indicator 1 - Estimate of Capital Expenditure

This indicator simply shows the proposed capital expenditure over the current and the next three years.

	2005-06	2006-07	2007-08	2008-09
	£000	£000	£000	£000
HRA	8,678	6,896	7,000	7,000
Non HRA	12,990	10,180	5,200	5,200
Total	21,668	17,076	12,200	12,200

2007-08 monitoring Information - as at 30 November 2007

The prudential indicator requires reasonable estimates of the total of capital expenditure to be incurred. It is in the nature of capital expenditure to have variations to the capital programme as the year proceeds, for example as new grant or other third party funding becomes available, or to accommodate slippage from the previous year. This is acknowledged in the Prudential Code.

Revised estimates for capital expenditure for 2007-08 are shown in the table below

	2007-08
Estimates of Capital Expenditure	Estimate as at 30 Nov 2007
	£000
Housing Revenue Account (HRA)	9,075
General Fund (Non HRA)	10,113
Total	19,188

The estimates are consistent with the latest proposed capital programme for 2007-08 as put forward to Cabinet for approval on 7 January 2008.

Risk – There is a real risk of cost variations to planned expenditure against the capital programme, arising for a variety of reasons, including tenders coming in over budget, changes to specifications, and slippage or acceleration of project phasing. There is also the possibility of needing to provide for urgent and unplanned capital works. The risks are managed by officers on an ongoing basis, by means of active financial monitoring, with monthly reports to Cabinet.

The availability of financing from capital receipts, grants and external contributions also carries significant risk. This is particularly true of capital receipts, as projects in the programme are dependant on forecast receipts, which may or may not materialise in year. Where capital receipts are not received in year the funding gap has to be plugged by prudential borrowing, which has a knock on impact of the Council's debt financing position, and on the other prudential indicators. The financing position of the capital programme is also closely monitored by officers on an ongoing basis and reported to Cabinet.

Cabinet are asked to recommend to Council that they approve the revised prudential indicator for the estimates of capital expenditure in 2007-08.

Indicator 2 - Estimate of Capital Financing Requirement

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

	2006-07	2007-08	2008-09
	£000	£000	£000
HRA	(10,712)	(10,712)	(10,712)
Non HRA	24,710	26,070	27,430
Total	13,998	15,358	16,718

2007-08 monitoring Information - as at 30 November 2007

In day-to-day cash management no distinction can be made between revenue cash and capital cash. External borrowing may arise as consequence of all the financial transactions of the authority, and not simply those arising from capital spending. However the Capital Financing Requirement reflects the local authority's need to borrow for a capital purpose.

	2007-08
Estimates of Capital Financing Requirement 31 March 2008	Estimate as at 30 Nov 2007
	£000
Housing Revenue Account (HRA)	(8,175)
General Fund (Non HRA)	21,848
Total	13,673

The reduction in the estimates of CFR are as a result of technical adjustments relating to previous years, and the impacts of actual borrowing in 2006-07 and forecast borrowing in 2007-08. The estimates are consistent with the 2006-07 Statement of Accounts and with the borrowing requirements of the latest proposed capital programme for 2007-08 being put forward to Cabinet for approval on 7 January 2008.

Risk – Any prudential borrowing undertaken by the Council increases the Council's CFR, and also impacts on the debt financing budget position since repayment of principal and interest has to be accounted for.

The financing position of the capital programme is closely monitored by officers on an ongoing basis and reported to Cabinet on a monthly basis. The position represented in the CFR estimate assumes that there will be no slippage in the capital programme. This is unlikely, and as prudential borrowing will be the funding source of last resort at year-end, it is probable that the actual closing CFR figure for 2007-08 will be below estimate, and that some of the borrowing requirement will be deferred for another year.

Cabinet are asked to recommend to Council that they approve the revised prudential indicator for the estimates of Capital Financing Requirement 2007-08.

Indicator 3 - Estimate of Ratio of Financing to Net Revenue Stream

These indicators express the net costs of financing as a percentage of the funding receivable from the Government and Council Tax Payers

Table A	2005-06	2006-07	2007-08	2008-09
	%	%	%	%
HRA	(1.3%)	(1.3%)	(0.8%)	(0.8%)
Non HRA	2.7%	2.6%	1.8%	1.8%

Table B	2005-06	2006-07	2007-08	2008-09
	%	%	%	%
HRA & Non HRA	0.7%	0.7%	0.7%	0.7%

<u>2007-08 monitoring Information - as at 30 November 2007</u>

This indicator is calculated as the estimated debt interest costs for the year divided by the net budget requirement for the General Fund and total HRA income for the HRA. The objective is to enable year on year trends to be identified.

The actual indicator for 2007-08, determined at the point of time of setting the Council's budget is as follows:

Ratio of Financing Costs to Net Revenue Stream	2007-08
	%
HRA	(0.53%)
Non HRA	0.75%

Cabinet are asked to recommend to Council that they approve the revised prudential indicator for the estimate of ratio of financing to net revenue stream.

Indicator 4 - Estimate of the Incremental Impact of Capital Investment Decisions on the Council Tax and on Average weekly Housing Rents

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 the running costs of 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 4a - Estimate of the Incremental Impact of Capital Investment Decisions on the Council Tax

£3.96

Indicator 4b - Estimate of the Incremental Impact of Capital Investment Decisions on the Average Weekly Housing Rents

£0.00

<u>2007-08 monitoring Information - as at 30 November 2007</u>

These indicators are set before the start of the financial year, in the context of the wider budget setting process, which feeds into the setting of Council Tax and housing rents. Once these have been set, and the financial year is underway it is not possible to adjust these indicators.

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 estimates of any additional capital financing requirement for the current and next to financial years’.

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

<u>2007-08 monitoring Information - as at 30 November 2007</u>

This indicator is the key indicator of prudence*.*

The Council’s net external debt figure is a negative figure – ie investments are in excess of debt. The net external debt figure has therefore been presented as zero.

The increases in CFR for future years (2008-09 and 2009-10) are subject to Council decisions on the capital programme, and a figure of £2m increase in CFR for each of these years has been included as a reasonable assumption for illustrative purposes.

Net external debt compared to CFR	
	2007-08
	As at 30 Nov 2007
	£000
Borrowing	26,503
Less investments	61,691
Net external debt – Treated as zero as a negative figure	0
2006-07 Closing CFR (actual)	10,766
Additional CFR:	
2007-08	2,907
2008-09	2,000
2009-10	2,000
Adjusted CFR	17,673
Net external debt less than adjusted CFR	Yes

Net external debt is less than the adjusted CFR. This prudential indicator has therefore not been breached.

Indicator 6 – Authorised Limit

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

	2006-07	2007-08	2008-09
	£000	£000	£000
Authorised Limit	45,500	47,000	48,500

2007-08 monitoring Information - as at 30 November 2007

The authorised limit for external debt is the authorised limit for borrowing (comprising total external debt, including temporary borrowing, gross of investments) plus the authorised limit for other long-term liabilities.

The limit represents the maximum amount that the Council may borrow at any point of time in the year.

The table below shows the Council’s borrowing position as at 30 Nov 2007, demonstrating that external debt has not exceeded the authorised limit of £47,000.

	2007-08
Council Borrowing	Actual as at 30 Nov 2007
	£000
Borrowing	26,503
Other Long Term Liabilities	0
Total	26,503

Indicator 7 – Operational Boundary

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

	2006-07	2007-08	2008-09
	£000	£000	£000
Operational Boundary	39,000	40,500	42,000

2007-08 monitoring Information - as at 30 November 2007

The operational boundary for external debt is based on the same information as the authorised limit for borrowing, but excludes the additional headroom that is included in the latter to provide for unusual cash movements

The operational boundary represents a key management tool for in year monitoring of the Council's debt levels.

The table below shows the Council's borrowing position as at 30 Nov 2007, demonstrating that external debt has not exceeded the operational boundary of £40,500.

	2007-08
Council Borrowing	Actual as at 30 Nov 2007
	£000
Borrowing	26,503
Other Long Term Liabilities	0
Total	26,503

Indicator 8a – Upper Limit for Fixed Rate Exposure

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

	2006-07	2007-08	2008-09
Upper Limit for Fixed Rate Exposure	100%	100%	100%

2007-08 monitoring Information - as at 30 November 2007

This prudential indicator sets the upper limit to which the Council is exposed to the effects of changes in fixed interest rates. This indicator can be set in relation to principal outstanding or interest payable, and can be expressed as either an absolute value or a percentage. It relates to the net borrowing – i.e. debt less investments.

The NBC indicator is set as a percentage in respect of principal outstanding. The actual percentage of net borrowing at fixed rate as at 30 November 2007 is 84%. This is within the 100% limit.

Fixed Rate Exposure	2007-08 Actual at 30 Nov 07
Fixed Rate Exposure	84%

The Council's LOBO (Lender Option, Borrowing Option) long-term loans have been treated as fixed term investments for the purposes of calculating this indicator. It is unclear from the Prudential Code guidance whether this is the correct treatment, and this will be clarified prior to setting the prudential indicators for 2008-09 to 2009-10.

Indicator 8b – Upper Limit for Variable Rate Exposure

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

	2006-07	2007-08	2008-09
Upper Limit for Variable Rate Exposure	50%	50%	50%

<u>2007-08 monitoring Information - as at 30 November 2007</u>

This indicator sets the upper limit to which the Council is exposed to the effects of changes in variable interest rates.

As with the upper limit for fixed rate exposure this indicator can be set in relation to principal outstanding or interest payable, can be expressed as either an absolute value or a percentage, and relates to the net borrowing – i.e. debt less investments.

The NBC indicator is set as a percentage in respect of principal outstanding. The actual percentage of net borrowing at variable rate as at 30 November 2007 is 16%. This is within the 50% limit.

Variable Rate Exposure	2007-08 Actual at 30 Nov 07
Variable Rate Exposure	16%

The Council's LOBO (Lender Option, Borrowing Option) long-term loans have been treated as fixed term investments for the purposes of calculating this indicator. It is unclear from the Prudential Code guidance whether this is the correct treatment, and this will be clarified prior to setting the prudential indicators for 2008-09 to 2009-10.

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

75% of investments may be over 364 days. This will be used to limit interest rate risk

	2006-07	2007-08	2008-09
Principal Sums Invested for Periods of Longer than 364 days	75%	75%	75%

<u>2007-08 monitoring Information - as at 30 November 2007</u>

Prior to 1st April 2004, indebted local authorities were unable to invest for periods in excess of 364 days. However, under the Local Government Act 2003 and the DCLG Guidance on Local Authority Investments, all local authorities are now permitted to invest for longer periods. The Council is required to set an upper limit for the maturing of such investments.

The Council's prudential limits for principal sums invested for longer than 364 days are taken into account whenever any new investments are undertaken.

No investments over 364 days have been undertaken during the year to date. As shown in the table this equates to a percentage figure of zero. The prudential indicator limit has therefore not been reached or exceeded.

Principal Sums Invested for Periods of Longer than 364 days	2007-08 Actual to 30 Nov 07
	Maximum in period
	%
Principal Sums Invested for Periods of Longer than 364 days	0%

Indicator 10 – Upper and Lower Limits on the Maturity Structure of Borrowing

The limits set out below will allow us the maximum flexibility for rescheduling and repayment of debt under the new financial regulations

Maturity Period	Upper Limit	Lower Limit
	%	%
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

<u>2007-08 monitoring Information - as at 30 November 2007</u>

The Council's limits for the maturity structure of borrowing are taken into account whenever any new borrowing or loan rescheduling is undertaken. The following table indicates the maturity structure of borrowing at 30 November 2007, demonstrating that the limits have not been reached or exceeded.

The amounts maturing in under 12 months refer to the monies invested by the Council on behalf of Orchestras Live, Billing Parish Council and Northampton Volunteering Centre, which are treated as temporary borrowing in the Council's accounts. As these can be accessed on demand by the bodies concerned, they are shown as maturing under 12 months since they can be recalled on demand.

The borrowings set for maturity between five and ten years, and over ten years are in respect of the long-term borrowings undertaken to finance the Council's capital expenditure.

Maturity Periods of Council Borrowing	2007-08 Actual at 30 Nov 07
Under 12 months	2%
12 months and within 24 months	0%
2 years and within 5 years	0%
5 years and within 10 years	59%
10 years and above	39%

Indicator 11 – Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services

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

<u>2007-08 monitoring Information - as at 30 November 2007</u>

The Council adopted the CIPFA Code of Practice for Treasury Management in Public Services following its publication in 2001. This is evident from a review of Cabinet and Council reports pertaining to Treasury Management in the intervening years. However the actual date of adoption is not apparent from the Committee records.

Cabinet are therefore to be asked to recommend to Council that they formally adopt the CIPFA Code of Practice for Treasury Management in Public Services, so that this can be formally recorded as a Council decision.