PRUDENTIAL INDICATORS UPDATE – FOR 2007/08 TO 2009/10
(EXECUTIVE – 21 AUGUST 2007)

CAPITAL EXPENDITURE & EXTERNAL DEBT INDICATORS

1 Estimated Ratio of capital financing costs to the net Revenue Budget

The estimated ratios of financing costs to the net Revenue Budget for the current and future years, and the actual figures for 2005/06 and 2006/07 are as follows:

Year	Executive 6 February 2007		Update August 2007	
	Basis	%	**Basis**	%
2005/06	actual	4.4	actual	4.4
2006/07	probable	8.7	actual	8.8
2007/08	estimate	9.1	estimate	8.7
2008/09	estimate	9.3	estimate	9.2
2009/10	estimate	9.3	estimate	9.7

The estimates of financing costs include current Capital Plan commitments based on the latest Capital Plan.

Comment

The figures for 2006/07 and subsequent years are significantly affected by the introduction of the new Dedicated Schools Grant from 1 April 2006. This change of funding mechanism by the Government has the effect of reducing the County Council's net Revenue Budget by around 50% which results in an effective doubling of this Indicator.

The calculations reflect capital financing costs less interest earned on the temporary investment of surplus cash balances.

The updated estimates for 2007/08 to 2009/10 reflect the net effect of a range of factors, principally

(a) an increased forecast cost for new capital borrowing resulting from recent interest rate increases

(b) additional prudential borrowing costs resulting from the inclusion in the Capital Plan of a significant Waste Strategy project

(c) a higher return on investments achieved resulting from recent interest rate increases together with a higher level of funds and balances available to invest

(d) ongoing savings resulting from debt rescheduling exercises undertaken in 2006/07 and expected to be undertaken in 2007/08

ANNEX E

<table>
<tr><th>Prudential Indicator</th><th>Comment</th></tr>
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2 Estimates of the incremental impact of capital investment decisions on the Council Tax

In considering its programme for future capital investment, the County Council is required within the Prudential Code to have regard to:

affordability (eg implications for Council Tax)
prudence and sustainability (eg implications for external borrowing)
value for money (eg option appraisal)
stewardship of assets (eg asset management planning)
service objectives (eg strategic planning for the authority)
practicality (eg achievability of the Capital Plan)

A key measure of affordability is the incremental impact on Council Tax. The County Council can consider different options for its capital investment programme based on their differential impact on the Council Tax.

The estimate of the incremental impact on Council Tax (at Band D) of past capital investment decisions which are reflected in the latest Capital Plan and also in the Revenue Budget for 2007/08 and Medium Term Financial Strategy compared with the 2006/07 Council Tax are:

<table>
<tr><th rowspan="2">Year</th><th colspan="2">Executive 7 February 2007</th><th colspan="2">Update August 2007</th></tr>
<tr><th>Basis</th><th>£ - p</th><th>Basis</th><th>£ - p</th></tr>
<tr><td>2007/08</td><td>estimate</td><td>+ 1.21</td><td>estimate</td><td>+1.21</td></tr>
<tr><td>2008/09</td><td>estimate</td><td>+ 2.61</td><td>estimate</td><td>+2.61</td></tr>
<tr><td>2009/10</td><td>estimate</td><td>+ 3.81</td><td>estimate</td><td>+3.81</td></tr>
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This Indicator shows the incremental impact on Band D Council Tax of the capital financing costs resulting from borrowing required to fund the Capital Plan. This borrowing includes the funding shortfall of capital bids approved by Executive on 3 February 2004, as part of the 10 year Capital Forecast projection, together with a number of subsequent funding approvals. The 10 year Capital Forecast is due to be reviewed during the current financial year using a new capital prioritisation methodology.

Financing charges resulting from Invest to Save schemes and certain other capital provisions are excluded however, as these are deemed to be self financed from within Directorate revenue budgets.

No changes are proposed to these figures for the time being.

The estimated figures for the three years 2008/09 to 2010/11 will however be updated as part of the 2008/09 Budget process and review of the Medium Term Financial Strategy.

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Prudential Indicator

3 Capital Expenditure - Actual and Forecasts

The actual capital expenditure that was incurred in 2005/06 and 2006/07 and the latest estimates of capital expenditure to be incurred for the current and future years are:

Year	Executive 6 February 2007		Update August 2007	
	Basis	£m	Basis	£m
2005/06	actual	81.5	actual	81.5
2006/07	probable	90.8	actual	95.4
2007/08	estimate	109.4	estimate	118.9
2008/09	estimate	77.8	estimate	102.2
2009/10	estimate	63.7	estimate	89.3

The above figures reflect the updated Capital Plan together with expenditure on fixed assets funded directly from the Revenue Budget and not included in the Capital Plan.

Comment

The Indicators approved by Executive on 6 February 2007 were based on a Capital Plan approved by Executive in November 2006 as adjusted for a number of provisional variations. This Indicator now reflects an updated Capital Plan incorporating Capital Outturn in 2006/07 and the Capital Plan update for Q1 2007/08.

The significant variations are principally a result of:-

(a) increased levels of spending on fixed assets funded directly from the Revenue budget, particularly by schools

(b) the addition to the Capital Plan of two significant new provisions funded from Prudential Borrowing – Loans to Companies and Waste Strategy project

(c) a number of additional and variations to existing Capital Plan provisions which are self funded from capital grants, contributions and from revenue

(d) capital expenditure re-phasing between years

(e) various other capital approvals and refinements to the Capital Plan

<table>
<tr><th>Prudential Indicator</th><th>Comment</th></tr>
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4 Capital Financing Requirement (CFR)

Actuals and estimates of the Capital Financing Requirement (CFR) at the defined year ends are as follows:

<table>
<tr><th>Date</th><th colspan="2">Executive 6 February 2007</th><th colspan="2">Update August 2007</th></tr>
<tr><th></th><th>Basis</th><th>£m</th><th>Basis</th><th>£m</th></tr>
<tr><td>31 Mar 06</td><td>actual</td><td>281.2</td><td>actual</td><td>281.2</td></tr>
<tr><td>31 Mar 07</td><td>estimate</td><td>317.5</td><td>actual</td><td>317.8</td></tr>
<tr><td>31 Mar 08</td><td>estimate</td><td>345.4</td><td>estimate</td><td>352.1</td></tr>
<tr><td>31 Mar 09</td><td>estimate</td><td>363.0</td><td>estimate</td><td>379.8</td></tr>
<tr><td>31 Mar 10</td><td>estimate</td><td>386.2</td><td>estimate</td><td>412.1</td></tr>
</table>

The CFR measures the underlying need for the County Council to borrow for capital purposes. In accordance with best professional practice, the County Council does not earmark borrowing to specific items or types of expenditure. The County Council has an integrated treasury management approach and has adopted the CIPFA Code of Practice for Treasury Management. The County Council has, at any point in time, a number of cashflows, both positive and negative, and manages its treasury position in terms of its overall borrowings and investments in accordance with its approved Annual Treasury Management Strategy. In day to day cash management, no distinction is made between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the County Council as a whole and not simply those arising from capital spending. In contrast, the CFR Indicator reflects the County Council's underlying need to borrow for capital purposes only.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key definition 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 the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years."

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The February 2007 figures were based on a Capital Plan approved by Executive in November 2006, as adjusted for a number of provisional variations.

The updated figures now recommended for approval reflect the following variations to the February 2007 figures

(a) the addition to the Capital Plan of the significant new provisions funded from Prudential Borrowing – Loans to Companies and Waste Strategy project (see explanation (a) on **Indicator 5**)

(b) expenditure re-phasing between years that is funded from borrowing

(c) capital receipts slippage between years that affects year on year borrowing requirements

(d) various other refinements

The Corporate Director - Finance and Central Services has previously reported that the County Council had no difficulty meeting this requirement up to 2006/07 nor are any difficulties envisaged for the current or future years of the Medium Term Financial Strategy. This opinion takes into account current spending commitments, existing and proposed Capital Plans, 2007/08 Revenue Budget and Medium Term Financial Strategy.

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Prudential Indicator

5 Authorised Limit for External Debt

In respect of its external debt, it is recommended that the County Council approves the following Authorised Limits for its total external debt for the next three financial years.

The Prudential Code requires external borrowing and other long term liabilities to be identified separately. The figures shown below for the County Council however consist wholly of external debt with no other long term liabilities.

The authorised limit for 2007/08 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

Year	Executive 6 February 2007 Borrowing Limit £m	Update August 2007 Borrowing Limit £m
2006/07	349.0	N/A
2007/08	387.3	389.8
2008/09	400.2	412.1
2009/10	428.8	451.6

Comment

The Corporate Director – Finance and Central Services confirms that these authorised limits are consistent with the County Council's current commitments, updated Capital Plan and the financing of that Plan, the 2007/08 Revenue Budget and updated Medium Term Financial Strategy and with its approved Treasury Management Policy Statement.

The Corporate Director - Finance and Central Services also confirms that the limits are based on the estimate of most likely prudent, but not worst case, scenario with sufficient headroom over and above this to allow for operational issues (eg unusual cash movements). To derive these limits a risk analysis has been applied to the Capital Plan, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

The updated figures reflect the following variations to the February 2007 figures.

(a) the addition to the Capital Plan of a significant new scheme to be mainly funded from external Prudential Borrowing. This Waste Strategy project has been added to the Capital Plan at a total cost of £23.8m over the 3 years 2007/08 to 2009/10 with £21.9m required to be funded from borrowing after allowing for contributions of £1.9m. The revenue implications resulting from this project are already included in the 2007/08 Revenue Budget and MTFS.

(b) expenditure re-phasing between years that is funded from borrowing

(c) capital receipts slippage between years that affects year on year borrowing requirements

<table>
<tr><th>Prudential Indicator</th><th>Comment</th></tr>
<tr><td></td><td>(d) variations in the total capital borrowing requirement that is taken from external borrowing as against from internal sources

(e) changes to loan repayment cover arrangements which affect external debt levels at any one point of time, but do not impact on the Capital Financing Requirement

(f) various other refinements

The above refinements are also common to the Operational Boundary for External Debt (see Indicator 6) with many also applying to the Capital Financing Requirement (see Indicator 4)</td></tr>
<tr><td>6 Operational Boundary for External Debt

It is recommended that the County Council approves the following Operational Boundary for external debt for the same period.

The proposed operational boundary for external debt is based on the same estimates as the Authorised Limit (ie Indicator 5 above) but reflects an estimate of the most likely prudent, but not worst case, scenario without the additional headroom included within the Authorised Limit to allow for eg unusual cash flows.

<table>
<tr><th>Year</th><th>Executive 6 February 2007
Borrowing Limit £m</th><th>Update August 2007
Borrowing Limit £m</th></tr>
<tr><td>2006/07</td><td>329.0</td><td>N/A</td></tr>
<tr><td>2007/08</td><td>367.3</td><td>369.8</td></tr>
<tr><td>2008/09</td><td>380.2</td><td>392.1</td></tr>
<tr><td>2009/10</td><td>408.8</td><td>431.6</td></tr>
</table>
</td><td>The Operational Boundary represents a key management tool for the in year monitoring of external debt by the Corporate Director - Finance and Central Services.

The updated figures reflect refinements which are common to the Authorised limit for External Debt (see Indicator 5).</td></tr>
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<tr><th>Prudential Indicator</th><th>Comment</th></tr>
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7 Actual External Debt

The County Council's actual external debt is set out below.

<table>
<tr><th rowspan="2">Year</th><th colspan="2">Executive 6 February 2007</th><th colspan="2">Update August 2007</th></tr>
<tr><th></th><th>£m</th><th></th><th>£m</th></tr>
<tr><td>31 Mar 2006</td><td>actual</td><td>274.4</td><td>actual</td><td>274.4</td></tr>
<tr><td>31 Mar 2007</td><td>actual</td><td>NA</td><td>actual</td><td>299.0</td></tr>
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It should be noted that actual external debt is not directly comparable to the authorised limit (**Indicator 5 above**) and operational boundary (**Indicator 6 above**) since the actual external debt reflects a position at one point in time.

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The year on year movement in external debt is as follows

<table>
<tr><th></th><th>£m</th></tr>
<tr><td>external debt at 31 March 2006</td><td>274.4</td></tr>
<tr><td>new external borrowing in 2006/07</td><td>+30.0</td></tr>
<tr><td>loans repaid in 2006/07</td><td>-5.4</td></tr>
<tr><td>= external debt at 31 March 2007</td><td>299.0</td></tr>
</table>

The net year on year increase of £24.6m reflects additional capital investment during 2006/07 principally supported by Government Borrowing approvals, particularly on Schools and the Highways Local Transport Plan.

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TREASURY MANAGEMENT INDICATORS

8 Adoption of CIPFA Code of Practice for Treasury Management

The County Council formally adopted the CIPFA Code of Practice for Treasury Management in the Public Service at its meeting on 15 May 2002.

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The County Council has fully complied with this Code following approval by Executive in February 2004 of a Treasury Management Policy Statement incorporating the 12 Treasury Management Practice statements.

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<tr><th>Prudential Indicator</th><th>Comment</th></tr>
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9 Interest Rate Exposures

The County Council set upper and lower limits on its fixed and variable interest rate exposures as a percentage of outstanding principal sums for 2007/08, 2008/09 and 2009/10 as set out below -

<table>
<tr><th></th><th>Lower
%</th><th>Upper
%</th></tr>
<tr><td>Borrowing</td><td></td><td></td></tr>
<tr><td>- Fixed</td><td>70</td><td>100</td></tr>
<tr><td>- Variable</td><td>0</td><td>30</td></tr>
<tr><td>Investments</td><td></td><td></td></tr>
<tr><td>- Fixed</td><td>0</td><td>20</td></tr>
<tr><td>- Variable</td><td>80</td><td>100</td></tr>
<tr><td>Combined Net Borrowing and Investments</td><td></td><td></td></tr>
<tr><td>- Fixed</td><td>0</td><td>130</td></tr>
<tr><td>- Variable</td><td>-30</td><td>25</td></tr>
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No changes to these limits are required.

This means that the Corporate Director – Finance and Central Services, will

for **borrowing** manage fixed interest rate exposure within the range 70% to 100% of outstanding principal and variable interest rate exposure within the range 0% to 30% of outstanding principal

for **investments** will manage fixed interest rate exposure within the range 0% to 20% of outstanding principal and variable rate exposure within the range 80% to 100% of outstanding principal. The split of investments between fixed and variable rates is based on the market convention that investments up to 365 days are regarded as being at variable rates.

The **combined net borrowing and investment** position represents the formal Prudential Indicator for Interest Rate Exposures. On its own however it does not show clearly how borrowing and investments will be managed, hence the two separate ‘local indicators’ shown above.

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Prudential Indicator	Comment
10 Maturity Structure of Borrowing The upper and lower limits for the maturity structure of County Council borrowings are as follows:- The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate:	**No changes to these limits approved by Executive on 6 February 2007 are proposed.**

Period	Lower Limit	Upper Limit %	Memo item - actual at 1 April 06 %	1 April 07 %
under 12 months	0	50	2	2
12 months & within 24 months	0	15	2	2
24 months & within 5 years	0	45	17	11
5 years & within 10 years	0	75	15	11
10 years & above	20	100	64	74
			100	100

Prudential Indicator	Comment
11 Total Principal Sums Invested for periods longer than 364 days A maximum of 20% of funds available for investment (both in house and externally managed) will be held in aggregate in ' non specified ' investments over 364 days. Based on estimated levels of funds and balances over the next three years, the need for liquidity and day to day cash flow requirements, it is forecast that £12m of the overall fund balances can be prudently committed to longer term investments over 364 days.	**No change to this limit is proposed.** Two investments for longer than 364 days were made in 2006/07 totalling £5m (£2m for two years maturing in December 2008 and £3m for three years maturing in November 2009). Prior to 31 March 2004, Regulations generally prevented local authorities from investing for longer than 364 days. As a result of the new Prudential Regime however, these prescriptive regulations have been abolished and replaced with Government Guidance from April 2004. This Guidance gives authorities more freedom in their choice of investments (including investing for periods longer than 364 days) and recognises that a potentially higher return can be achieved by taking a higher risk. The new flexibility requires authorities to produce an Annual Investment Strategy that classifies investments as either **Specified** (liquid, secure, high credit rating & less than 365 days) or **Non Specified** (other investments of a higher risk). Non Specified investments are perfectly allowable but the criteria and risks involved must be vigorously assessed, including professional advice, where appropriate. Investments for 364 days+ are therefore now allowable as a Non Specified investment under the new Government Guidance. The potential use of such investments is now incorporated into the County Council's Annual Treasury Management and Investment Strategy.