CABINET
5 JANUARY 2010

ITEM NO. ....

PRUDENTIAL INDICATORS UPDATE AND TREASURY MANAGEMENT HALF-YEAR REVIEW 2009/10

Responsible Cabinet Member – Councillor Chris McEwan
Efficiency and Resources Portfolio

Responsible Director - Paul Wildsmith, Director of Corporate Services

---

SUMMARY REPORT

Purpose of the Report

1. This report seeks approval of revised Prudential Indicators and provides a half yearly review of the Council's borrowing and investment activities. Cabinet are requested to forward the revised indicators to Council for their approval and note the changes to MTFP with regard to the Treasury Management Budget.

Summary

2. This report and the prudential indicators contained in it were examined by Audit Committee on 18th December 2009 and it was agreed at that meeting that the report to referred to Council via Cabinet to enable the updated indicators to be approved and that Cabinet be advised that Audit Committee is satisfied with the Councils borrowing and investment activities and the reported prudential indicators.

3. The mandatory Prudential Code, which governs councils' borrowing, requires Council approval of controls, called Prudential Indicators, relating to capital spending and borrowing. Prudential Indicators are set in three statutory annual reports. This mid-year update follows Council's approval in February 2009 of the 2009-10 Prudential Indicators and Treasury Management Strategy.

4. The key objectives of the three annual reports are: -

   (a) To ensure that governance of the large amounts of public money under the Council's Treasury Management activities: -
      (i) Complies with legislation
      (ii) Meets high standards set out in codes of practice
   (b) To ensure that borrowing is affordable
   (c) To report performance of the key activities of borrowing and investments.

5. The key proposed revisions to Prudential Indicators relate to: -

   (a) Higher capital expenditure in 2009-10, principally slippage from 2008-09;

(b) Increased capital financing and borrowing requirements, as a result of the previously reported shortfall in planned capital receipts.

Recommendation

6. It is recommended that :-

(a) The Treasury Management half yearly review is noted.
(b) That this report is forwarded to Council for approval of the updated prudential indicators within Tables 1 to 11.

Reasons

7. The recommendations are supported by the following reasons :-

(a) In order to comply with the Prudential Code for Capital Finance in Local Authorities.
(b) To inform Members of the performance of the Treasury Management function.
(c) To comply with the requirements of the Local Government Act 2003
(d) To enable further improvements to be made in the Council's Treasury Management function.

Paul Wildsmith
Director of Corporate Services

Background Papers

Capital Medium term Financial Plan 2009/10
Accounting Record
The Prudential Code for Capital Finance in Local Authorities

Elaine Hufford : Extension 2447

S17 Crime and Disorder	This report has no implications for S17 Crime and Disorder
Health and Well Being	This report has no implications for the Councils Health and Well Being agenda
Sustainability	This report has no implications for the Councils Sustainability agenda
Diversity	This report has no implications for the Councils Diversity agenda
Wards Affected	All wards
Groups Affected	All groups
Budget and Policy Framework	This report must be considered by Council
Key Decision	This is not an executive decision
Urgent Decision	For the purposes of call in this report is not an urgent decision
One Darlington: Perfectly Placed	This report has no particular implications for the Sustainable Community Strategy
Efficiency	The report refers to actions taken to reduce costs and manage risks.

MAIN REPORT

Introduction

8. From 1st April 2004 Local Authorities were given extra freedoms with regard to borrowing. As part of these new freedoms councils can borrow without recourse to central government, with the proviso that the additional borrowing is both prudent and affordable.

9. A framework was developed by CIPFA, “The Prudential Code for Capital Finance”, which is mandatory under the Local Government Act 2003. As part of this framework Council must approve at the beginning of each year controls called Prudential Indicators. These relate to capital expenditure and borrowing and what effect that borrowing will have on council tax levels and housing rent levels. Other statistics relating to treasury management are also included.

10. In line with the key changes to the proposed to the CIPFA Treasury Management Code the Audit Committee will receive this report to examine the strategy, policies and performance in depth and will recommend approval or otherwise by Council via Cabinet.

11. Council must approve three statutory reports relating to the Prudential Code every year, one before the start of the year, one at the end of the financial year and this one mid year. Because our capital programme changes throughout the year the statistics behind the capital programme also change and it is essential that Council approve those changes. The following tables show the new statistics that are expected by the end of the year, against those approved at the beginning of the year.

Information and Analysis

12. This is a statutory report and much of the content is in a prescribed format, which is relatively technical. A summary of the revised headline indicators is presented in **Table 1** below. More detailed explanations of each indicator and any proposed changes are contained in the report. The proposed revised indicators reflect the approved movement in the Capital MTFP since its inception in February 2009. They also reflect revised projections of the profile of spending and the means by which the programme is to be financed.

13. **The Prudential Indicators within this report are based on the compilation of the authority’s accounts under UK GAAP Accounting Standards. During 2009/10 and 2010/11 local authorities will start to compile their accounts under International Financial Reporting Standards (IFRS). Some assets that are currently off balance sheet, such as the PFI scheme for the Education Village and Harrowgate Hill school will come on balance sheet, this will change the Prudential Indicators reported. At present the quantum of these changes is unknown. However these changes to the balance sheet will not affect Council Tax or the prudence and affordability of our borrowing or investments.**

Table 1 – Summary of Key Prudential Indicators 2008/09 to 2011/12

	2008/09 Actual	2009/10 Original Estimate	2009/10 Revised Estimate	2010/11 Revised Estimate	2011/12 Revised Estimate
	£m	£m	£m	£m	£m
Capital Expenditure	49.234	34.890	44.559	70.278	43.913
Capital financing requirement	105.086	118.918	117.596	122.700	123.266
Operational boundary for external debt	113.360	120.918	85.860	95.860	120.860
Authorised limit for external debt	124.638	133.010	94.446	105.446	132.946
Ratio of financing costs to net revenue stream – General Fund	1.5%	3.11%	2.51%	2.72%	3.40%
Ratio of financing costs to net revenue stream –HRA	11.36%	12.49%	6.9%	13.78%	13.54%
Incremental impact of capital investment decisions on the band D Council Tax	£2.88	£0.66	£0.66	£3.03	£2.97
Incremental impact of capital investment decisions on Housing Rents levels	Nil	Nil	Nil	Nil	Nil

Capital Expenditure and Borrowing Indicators

14. **Table 2** shows the Prudential Indicator for levels of Capital Expenditure for 2008/09 to 2011/12. The changes to the 2009/10 capital expenditure estimates have been notified to Cabinet as part of the Capital Budget Monitoring process.

Table 2 – Capital Expenditure – Actual and Estimates 2008/09 to 2011/12

Capital Expenditure	2008/09 Actual	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Variance	2010/11 Original Estimate	2010/11 Revised Estimate	2010/11 Variance	2011/12 Original Estimate	2011/12 Revised Estimate	2011/12 Variance
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total non-HRA-	39.516	24.227	30.104	5.877	24.360	56.089	31.729	11.843	35.533	23.690
Total HRA -	9.718	10.663	14.455	3.792	8.135	14.189	6.054	7.368	8.380	1.012
Total	49.234	34.890	44.559	9.669	32.495	70.278	37.783	19.211	43.913	24.702

15. The main changes are: -

(a) The original Prudential Indicators assumed that the majority of capital funding secured for 2008/09 would be expended that year. Resources of £26.381m have, however, been carried forward from 2008/09.Some of this was slippage of planned spending, but the majority was not expected to be spent during 2008/09. This, together with other additional expenditure already approved by Members as part of the capital budget monitoring process, has increased the anticipated Capital Expenditure for 2009/10.

(b) The total capital resources available to the Authority is £69.394m, as per the November Cabinet monitoring report, it is unlikely that this full amount will be incurred in 2009/10. Therefore, where the profile of spend is expected to cover more than 2009/10, future years Capital expenditure has been amended to reflect this profile.

(c) A full reconciliation of the changes in Capital Expenditure for 2009/10 is attached at **Appendix 1.**

(d) Projections now used for year 2010/11 and 2011/12 have been revised in line with new information and also include expenditure for 2009/10 which is expected to slip into future years.

Changes to the financing of the capital programme; actual and estimated capital financing requirement and external debt

16. **Table 3a** below draws together the main strategy elements of the capital plans, highlighting the externally funded (supported) and unsupported elements of the capital programme, and the expected financing arrangements for this capital expenditure. The net financing need for the year –(borrowing) is the total projected capital expenditure for the year, less all of the other forms of financing.

17. Key variances in this table relate to: -
    (a) The increase in capital grants relates to scheme that have slipped and new schemes.
    (b) Increased Capital Contribution relating to schemes slipped from 2008/09.
    (c) Increased revenue contributions relating to housing for slipped schemes
    (d) The majority of the increase in borrowing relates to the new house building programme and most of the spend for this will occur in 2010/11. The additional borrowing costs will be met from increased income from the new housing.

18. The second half of the **Table 3b** shows the Capital Financing Requirement (CFR), which is the Council's underlying external indebtedness for capital purposes, compared to the expected borrowing and financing position. It is increased each year by any new borrowing need and decreased by any statutory revenue charge for the repayment of debt (Minimum Revenue Provision). The actual 2008/09 position is shown for comparative purposes. The Council's CFR flows directly from the capital expenditure plans and is also adjusted for annual revenue charge for debt repayment.

Table 3a – Capital Expenditure and Financing

	2008/09 Actual	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Variance	2010/11 Original Estimate	2010/11 Revised Estimate	2010/11 Variance	2011/12 Original Estimate	2011/12 Revised Estimate	2011/12 Variance
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Capital Expenditure										
Supported Spend	42.555	28.161	34.902	6.741	30.571	58.820	28.249	18.752	38.555	19.803
Unsupported Spend	6.679	6.729	9.657	2.928	1.924	11.458	9.534	0.459	5.358	4.899
Total spend	49.234	34.890	44.559	9.669	32.495	70.278	37.783	19.211	43.913	24.702
Capital receipts	0.895	0.360	0.360	0.000	0.450	1.350	0.900	0.450	0.950	0.500
Capital grants	32.466	20.905	27.453	6.548	24.680	53.627	28.947	13.483	36.350	22.877
Capital Reserves		0.000	0.000	0.00	0.0	0.0	0.0	0.0	0.0	0.0
Capital Contribution	1.861	0.010	1.620	1.610	0.0	0.702	0.702	0.0	0.0	0.0
Revenue	3.220	2.189	2.868	0.679	1.826	1.971	0.145	1.976	2.013	0.037
Net Financing Need for the year-Borrowing	10.792	11.426	12.258	0.832	5.539	12.628	7.089	3.302	4.600	1.298

Table 3b – Capital Financing Requirement

	2008/09 Actual	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Variance	2010/11 Original Estimate	2010/11 Revised Estimate	2010/11 Variance	2011/12 Original Estimate	2011/12 Revised Estimate	2011/12 Variance
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
CFR – Non Housing	74.286	81.706	79.428	-2.278	82.165	81.809	-.0356	81.143	81.131	-0.012
CFR - Housing	30.800	37.212	34.638	-2.574	37.936	40.891	2.955	37.725	42.135	4.410
Total CFR	105.086	118.918	114.056	-4.862	120.101	122.700	2.599	118.868	123.266	4.398
Net movement in CFR	6.960	13.216	8.970	-4.246	1.183	8.644	7.461	-1.233	0.566	1.799
Borrowing	104.242	118.918	85.860	-33.058	120.101	95.860	-24.241	118.868	120.860	1.992
Other long term liabilities	0.00	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Debt 31 March	104.242	118.918	85.860	-33.058	120.101	95.860	-24.241	118.868	120.860	1.992

Limits to Borrowing Activity

19. **Table 4** shows the relationship of net borrowing to the CFR. The first key control over the Council's activity is a Prudential Indicator to ensure that over the medium term, net borrowing will only be for capital purposes. Net external borrowing should 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 2008/09 and next two financial years. This allows some flexibility for limited early borrowing for future years.

20. At the end of 2008/09 the Councils CFR at £105.086M was very close to its actual borrowing position of £104.242M showing that at that time the council was effectively under borrowed by £0.844M using internal balances to fund part of the CFR.

21. Due to the economic climate a decision was taken earlier in this financial year to use some of the investments held by the Council to repay some of its outstanding debt. There were two factors which influenced this decision.
    (a) The interest charge for debt was greater than the interest charge received for investments; by repaying some of the councils debt portfolio a reduction could be made in the financing charges budget, details of which are later in this report and
    (b) By reducing investments, counterparty risk could also be reduced.

22. Should the present economic climate remain the same gross borrowing is likely to remain below CFR until 2012/13

Table 4 – Net Borrowing Compared With Capital Financing Requirement

	2008/09 Actual	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Variance	2010/11 Original Estimate	2010/11 Revised Estimate	2010/11 Variance	2011/12 Original Estimate	2011/12 Revised Estimate	2011/12 Variance
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross Borrowing	104.242	118.918	85.860	-33.058	120.101	95.860	-24.241	118.868	120.860	1.992
Investments	39.900	42.350	20.000	-22.350	41.475	25.000	-16.475	41.475	37.500	-3.975
Net Borrowing	64.342	76.568	65.860	-10.708	78.626	70.860	-7.766	77.393	83.360	5.967
CFR	105.086	118.918	114.056	4.862	120.101	122.700	2.599	118.868	123.266	4.398

23. The Director of Corporate Services reports that the Council complied with the requirement to keep net borrowing below the relevant CFR in 2008/09, and no difficulties are envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this report.

24. **Table 5** shows the further two Prudential Indicators that control the overall level of borrowing. These are :-

    (a) **The authorised limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003 (for England and Wales). The authorised limit is typically 10% higher than the operational boundary and this is reflected in the new revised authorised limit which is influenced by the movements in the revised operational boundary figures.

(b) **The operational boundary** –This indicator is based on the probable external debt during the course of the year; it is not an absolute limit and actual borrowing could exceed this boundary for short times during the year. CIPFA expect that this should act as an indicator to ensure the authorised limit is not breached. It is proposed that this limit be amended to reflect the gross borrowing shown in Table 4.

Table 5 - Authorised limit for external debt

	2008/09 Actual	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Variance	2010/11 Original Estimate	2010/11 Revised Estimate	2010/11 Variance	2011/12 Original Estimate	2011/12 Revised Estimate	2011/12 Variance
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Authorised Limit	124.638	133.010	94.446	-38.564	134.311	105.446	-28.865	132.955	132.946	-0.009
Operational Boundary	113.360	120.918	85.860	-35.058	122.101	95.860	-26.241	120.868	120.860	-0.008

Affordability Prudential Indicators

25. **The ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing costs net of interest and investment income) as a percentage of net revenue budget. The variations in Non HRA, shown in **Table 6**, are due to improvements to the Authority's Treasury Management Budget as detailed at paragraph 38. The decreases in future years relate to better than expected financing costs mainly due to the reduction in interest rates for debt. The changes in the HRA line reflect the reduced actual use of prudential borrowing for that service as opposed to what was estimated.

Table 6 - The Ratio Of Financing Costs To Net Revenue Stream

	2008/09 Actual %	2009/10 Original Estimate %	2009/10 Revised Estimate %	2009/10 Variance %	2010/11 Original Estimate %	2010/11 Revised Estimate %	2010/11 Variance %	2011/12 Original Estimate %	2011/12 Revised Estimate %	2011/12 Variance %
Non-HRA	1.5%	3.11	2.51	-0.60	3.35	2.72	-0.63	3.50	3.40	-0.10
HRA	11.36%	12.49	6.9	-5.59	13.78	13.78	0.00	13.54	13.54	0.00

26. **The incremental impact of new capital investment decisions on the council tax –Table 7**. This indicator identifies the trend in the cost of changes in the three-year capital programme compared to the Council's original budget commitments. No new corporate borrowing over and above that in the original MTFP has been identified. Some other departmental unsupported borrowing is anticipated to be undertaken, in the form of invest to save schemes and replacing leasing with prudential borrowing, The repayment of this borrowing will be accommodated within Departmental resource allocations, which will therefore have no incremental effect on Council Tax.

Table 7 –
The Incremental Impact of New Capital Investment Decisions On The Council Tax

	2008/09 Actual £	2009/10 Original Estimate £	2009/10 Revised Estimate£	2009/10 Variance £	2010/11 Original Estimate£	2010/11 Revised Estimate £	2010/11 Variance £	2011/12 Original Estimate £	2011/12 Revised Estimate£	2011/12 Variance £
Council Tax – Band D	2.88	0.66	0.66	0.00	3.03	3.03	0.00	2.97	2.97	0.00

27. **Incremental impact of capital investment decisions on housing rent levels – Table 8**. Similar to the Council tax calculation this indicator identifies the trend in the cost of changes in the housing capital programme compared to the Council's original commitments, expressed as a change in weekly rent levels. Within the Housing's Capital programme unsupported borrowing is to be undertaken to ensure that the authority meets the Decent Homes Standard. However the additional repayment costs are to be accommodated within the Housing Revenue Account resources, the increased financing charges will be compensated by a reduction in other management costs, therefore, there is no incremental effect on housing rent levels. In addition to this new borrowing is anticipated for the new build but additional rent income from these properties will cover these financing costs.

Table 8 - Incremental Impact Of Capital Investment Decisions On Housing Rent Levels

	2008/09 Actual	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Variance	2010/11 Original Estimate	2010/11 Revised Estimate	2010/11 Variance	2011/12 Original Estimate	2011/12 Revised Estimate	2011/12 Variance
Weekly Housing Rents	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Treasury Management Prudential Indicators

28. The first Treasury Management indicator is a simple "yes" or "no" regarding the adoption of the CIPFA Code of practice on Treasury Management. This Council adopted the Code of Practice on Treasury Management on 21st March 2002 (Min Ref 63/Mar/2002 refers) and so the Council consistently and continually complies with the indicator.

29. There are four further indicators:-

    Upper Limits On Variable Rate Exposure – **Table 9.** This indicates a maximum limit for variable interest rates based upon the debt position net of investments.

    Upper Limits On Fixed Rate Exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

    Historically for a number of years this council has used these percentages; together they give flexibility to the treasury management strategy allowing the Council to take advantage of both fixed and variable rates in their portfolio whilst ensuring that its exposure to variable rates of interest is limited. The council's portfolio of debt is currently all fixed to take advantage of low rates and to give stability to future years financing costs.

Table 9 - Upper Limits On Variable and Fixed Rate Exposure

	2008/09 Actual	2009/10 Original Limit	2009/10 Revised Limit	2009/10 Variance	2010/11 Original Limit	2010/11 Revised Limit	2010/11 Variance	2011/12 Original Limit	2011/12 Revised Limit	2011/12 Variance
Prudential indicator limits based on debt net of investments										
Limits on fixed interest rates	100%	100%	100%	0.00%	100%	100%	0.00%	100%	100%	0.00%
Limits on variable interest rates	12.8%	40%	40%	0.00%	40%	40%	0.00%	40%	40%	0.00%

30. **Maturity Structures of Borrowing – Table 10.** These gross limits are set to restrict the Council's exposure to large value fixed rate loans (which carry a fixed interest rate for the duration of the loan) falling due for refinancing within short periods. The higher limits for longer periods reflect the fact that longer maturity periods generally attract lower interest rates. **Appendix 2** shows the current maturity profile of debt held by the Council.

Table 10 - Maturity Structures of Borrowing

	2008/09 Actual	2009/10 Original Limit	2009/10 Revised Limit	2009/10 Variance	2010/11 Original Limit	2010/11 Revised Limit	2010/11 Variance	2011/12 Original Limit	2011/12 Revised Limit	2011/12 Variance
Under 12 months	12.9%	25%	25%	0.00	25%	25%	0.00	25%	25%	0.00
12 months to 2 years	13.2%	40%	40%	0.00	40%	40%	0.00	40%	40%	0.00
2 years to 5 years	8.4%	60%	60%	0.00	60%	60%	0.00	60%	60%	0.00
5 years to 10 years	0.0%	80%	80%	0.00	80%	80%	0.00	80%	80%	0.00
10 years and above	65.5%	100%	100%	0.00	100%	100%	0.00	100%	100%	0.00

31. **Total Principal Funds Invested – Table 11**. These limits are based on the Authority's projected reserves and are the level of core investments available to the Authority. This limit allows the authority to invest for longer periods if they give better rates of return than shorter periods. It also allows some stability in the interest returned to the Authority. These figures are reduced until 2011/12 in line with the reduced investments expected.

Table 11 - Total Principal Funds Invested

	2008/09 Actual	2009/10 Original Limit	2009/10 Revised Limit	2009/10 Variance	2010/11 Original Limit	2010/11 Revised Limit	2010/11 Variance	2011/12 Original Limit	2011/12 Revised Limit	2011/12 Variance
Maximum principal sums invested > 364 days	£12M	£15M	£6M	-£9M	£15M	£10M	-£5M	£15M	£15M	0.00

Treasury Management Activity from 1st April 2009 to 30th September 2009

Short Term Cashflow Investments

32. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. A total of 114 investments were made in the period 1st April 2009 to 30th September 2009 totalling £123M. These were for periods of between 1 and 364 days and earned interest of £156,000 at an average daily rate of 0.485%.

Long Term Capital Investments

33. The Council's reserves and capital receipts are invested for varying periods up to the maximum permitted time of 4 years although in the present economic climate longer term investments are limited to between 6months and 1 year. The investments have been at an average level of £12.05M. Some individual loans have matured and been renewed during this period. The long-term investments have earned interest of £266,000 for the first six months of 2009/10 at an average rate of 4.35%.

Investment returns measured against the Finance Service Plan

34. The target for our investments returns is to better or at least match a number of external comparators.

35. As can be seen from **Table 12** , the short term cashflow investments achievements are above market expectations. These are higher than the average of short-term indicators again due to undertaking longer-term investments at periods when rates were higher. The long term capital investments are also above the long term indicators due to placing investments for longer periods of time when interest rates were higher than experienced recently. Interest rates are falling, but it is expected that our actual rate of return for long term should remain above the average indicators until the end of the year.

Table 12 – Investment Returns Comparisons

	Short Term Cashflow Investments %	Long Term Capital Investments %
Darlington Borough Council -Actual	**0.48**	**4.35**
External Comparators		
Local Authority- 2 day	0.37	
Local Authority - 7 day	0.37	
Local Authority - 6 months		1.13
Local Authority - 12 months		1.43
London Inter Bank Bid Rate – 7 day	0.45	0.45
Average of External Comparators	**0.39**	**1.00**

Borrowing

36. No additional loans have been taken this year

37. The current economic climate has facilitated the early repayment of a proportion of our outstanding debt. A repayment of £23.407M was made during May and June of this year. A premium of £26,000 was paid to the Public Works Loan Board to repay these loans, but a saving of £75,000 per month can be made on financing costs for the period that interest rates on investments remain at current levels, however any increases in investment interest rates will reduce savings available.

38. In January 2009 a decision was taken to take advantage of the current low interest rates for short term debt and £27.224M of debt was rescheduled but this debt is due for repayment in January 2010 and December 2010. Officers have worked proactively to secure competitive borrowing to replace this debt as it becomes due for repayment and have secured loans to protect the current low borrowing rates going forward.

39. The current consolidated rate of interest on the Councils debt is 3.44%, an improvement on the rate at end of 2008/09 when it was 4.27%

Treasury Management Budget

40. There are three main elements within the Treasury Management Budget:-
    (a) Long term capital investments interest earned – a cash amount of c£12m, which earns interest and represents the Council's revenue and capital balances, unused capital receipts, reserves and provisions.

    (b) Cashflow interest earned – since becoming a unitary council in 1997, the authority has consistently had a positive cashflow. Unlike long term capital investments it does not represent any particular sum but it is the result of the council doing business. This is difficult to forecast, as it is the consequence of many different influences such as receipt of grants, the relationship of debtors to creditors, cashing of cheques and payments to suppliers.

    (c) Debt servicing costs – This is the principal and interest on the Council's long-term debt to finance the capital programme.

41. The Treasury Management budget has recently been reviewed and the following changes to the 2009/10 budget should now be made. These changes are as the result of proactive management decisions and the reduction of debt as previously explained.

Table 13 - Changes to Treasury Management Budget 2009/10

	£m	£m
Original Treasury Management Budget 2009-10		**3.954**
Less Reduced Repayment of Principal	0.222	
Less Reductions in interest due relating to repayment of Debt	0.308	
Projected reduction in net financing costs 2009-10		0.530
Revised Treasury Management Budget 2009-10		**3.424**

42. This statement concludes that the Treasury Management budget is forecast to achieve an improvement of £0.530m in 2009/10, further savings will be achieved should our current position of reduced debt and investments be maintained until the end of the year, savings in finance costs will be returned to Council balances.

Conclusion

43. The prudential indicators have been updated to take account of the Council's borrowing position. The key borrowing indicator (the Operational Boundary) has been reduced to reflect the current debt and investment position. The Council's return on investments has been good, exceeding both of the targets set of matching external comparators for the first six months of the current financial year. Based on the first six months of 2009/10 the Council's borrowing and investments is forecast to achieve an improvement of £0.530m on the 2009/10 approved budget.

Outcome of Consultation

44. No external consultation was undertaken in the production of this report, however this report was examined by Audit Committee at its meeting on 18th December 2009 and its recommendations are outlined in paragraph 2 of this report.