APPENDIX 1

Comparison of Cash Flows for Retaining or Repaying Money Market Loan

------Retention------

Year	Annual Interest £	Principal Repaid £	Discount Rate (3.5%)	Net Present Value £
31/03/2005	48,750	0	0.966	47,101
31/03/2006	48,750	0	0.934	45,509
31/03/2007	48,750	0	0.902	43,970
31/03/2008	48,750	0	0.871	42,483
31/03/2009	48,750	0	0.842	41,046
31/03/2010	48,750	0	0.814	39,658
31/03/2011	48,750	0	0.786	38,317
31/03/2012	48,750	0	0.759	37,021
31/03/2013	48,750	0	0.734	35,769
31/03/2014	48,750	0	0.709	34,560
31/03/2015	48,750	0	0.685	33,391
31/03/2016	48,750	0	0.662	32,262
31/03/2017	48,750	0	0.639	31,171
31/03/2018	48,750	0	0.618	30,117
31/03/2019	48,750	0	0.597	29,098
31/03/2020	48,750	0	0.577	28,114
31/03/2021	48,750	0	0.557	27,164
31/03/2022	48,750	0	0.538	26,245
31/03/2023	48,750	0	0.520	25,358
31/03/2024	48,750	0	0.503	24,500
31/03/2025	48,750	0	0.486	23,672
31/03/2026	48,750	0	0.469	22,871
31/03/2027	48,750	0	0.453	22,098
31/03/2028	48,750	0	0.438	21,350
31/03/2029	48,750	0	0.423	20,628
31/03/2030	48,750	0	0.409	19,931
31/03/2031	48,750	0	0.395	19,257
31/03/2032	48,750	1,000,000	0.382	400,260
TOTALS	1,365,000	1,000,000		1,242,922

------Repayment------

31/03/2005	150,000	1,000,000	1.000	1,150,000

APPROVED PRUDENTIAL INDICATORS 2004 to 2007

Prudential Indicator	2002/03 Actual	2003/04 Estimate	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate
1 – Capital Expenditure:					
❑ General Fund	1,696	2,519	1,887	960	990
❑ Housing	1,892	2,297	1,872	1,851	1,838
Total	**3,588**	**4,816**	**3,759**	**2,811**	**2,828**
2 – Ratio of Financing Costs to Net Revenue Stream:					
❑ General Fund	11.4%	8.0%	5.9%	5.5%	5.3%
❑ Housing	7.9%	6.4%	4.4%	4.1%	3.9%
3 – Capital Financing Requirement (CFR)	£18.8m	£19.4m	£19.9m	£20.4m	£20.8m
4 – Authorised Limit for External Debt					
❑ Borrowing Limit	£18m	£18m	£18m	£18m	£18m
❑ Long term Liabilities	£4.5m	£4.1m	£3.6m	£3.2m	£2.8m
Total	**£22.5m**	**£22.1m**	**£21.6m**	**£21.2m**	**£20.8m**
5 – Operational Boundary for External Debt	£15m	£15m	£15m	£15m	£15m

Indicator 1 - Capital Expenditure

This represents a summary statement of actual capital expenditure that was incurred in 2002/03 and the estimates of capital expenditure to be incurred for future years. The estimate for 2004/05 is based on the proposals set out in this report and is fully financed.

The estimates for 2005 to 2007 are only based on known commitments. They do not include any provision for further capital investment other than that detailed in this report.

In addition, the Council is maintaining a balance of useable receipts (£870,000) and current projections do not include any additional resources being generated from 2004/05 and beyond. Therefore, it is considered that the Council is taking a prudent view with its capital expenditure plans.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

This indicator aims to show the level of <u>gearing</u>, i.e. the extent of the Council's debt liability. If this percentage is high and/or rising, then it could give cause for concern as it may indicate that an organisation is relying too heavily on loan finance.

The indicator for the Council shows that in percentage terms, the Council's overall debt interest is reducing. This is due mainly to the current interest being earned on bank deposits from reserved capital receipts.

However, the overall level of interest payable is still a fairly significant amount for the Council, although in monetary terms it is reducing. In addition, the Council's current budget proposals do not assume at this stage, any further long term borrowing to be undertaken. Furthermore, the current interest payable is contained within the financial projections. Options for reducing the Council's debt is subject to a further report on the Agenda.

Indicator 3 – Capital Financing Requirement (CFR)

The CFR is a measure of the Council's underlying need to borrow for capital investment, and is based on the value of its assets contained in the balance sheet. Under the Prudential System, the Council will need to ensure that net external borrowing does not exceed the CFR.

Based on current debt outstanding and spending plans, it is unlikely that this limit will be breached over this forecasting period. The Council's outstanding debt (approximately £9m) is less than 50% of the CFR and the budget proposals do not assume any further long term borrowing to be undertaken.

Indicator 4 - Authorised Limit for External Debt

This limit is designed to cover all borrowing and long-term liabilities. As regards borrowing, the Council's current Treasury Management Strategy already sets out an overall annual borrowing limit, and it is proposed that this amount is used for this purpose. The Council's long-term liabilities relate to principal amounts outstanding on Covenants.

Based on the current financial plans and cash flow forecasts, this is considered to be an adequate limit to cover all eventualities, i.e. long term borrowing and credit requirements, together with short term cash flow requirements – in all cases whether revenue or capital.

The Committee is asked to note that the limit of £22.5m for 2004/05 will be the statutory limit determined under Section 35(1) of the Local Government Act 2003.

Indicator 5 - Operational Boundary for External Debt

This limit will act as the trigger for the Chief Finance Officer in managing day to day treasury management. It is designed to act as an early warning sign in advance of the Council possibly exceeding the statutory limit above. There is no definitive guidance on how this should be calculated and it depends on local circumstances.

Due to the amount of money currently on deposit, it is considered that the Council will not be required to borrow to cover variations in cash flow over this forecasting period. Based on debt and covenants outstanding, and with no plans to undertake further borrowing, it is recommended that this boundary be set at £15m.

APPENDIX 3

APPROVED LENDING LIST & POLICY (as per TMP 4)

1. Approved Types of Investment

The Council may use the following types of investment when managing funds:

- Fixed Term Deposits
- On Call Deposits

2. Approved Institutions for Investment

The Council may invest surplus cash with the following institutions, subject to the provisions within the **investment policy** below:

- UK Debt Management Office (DMO);
- Local Authorities and Police Authorities within the UK;
- Major clearing banks incorporated in the UK and their subsidiaries *(use of non-British banks is subject to the assessment and approval of the Finance Services Manager);*
- UK Building Societies;
- British Merchant Banks and Securities House Association members;
- The secondary banking sector *(use of non-British banks is subject to the assessment and approval of the Finance Services Manager).*
- Foreign Banks with an F1+ Rating *(subject to the assessment and approval of the Finance Services Manager).*

3. Investment Policy

The following limits apply on the amount of money that can be invested with any one institution mentioned above, by the designated officers:

• UK Debt Management Office (DMO)	£10M
• Highest quality financial institutions (see note below)	£5M
• Local authorities and police authorities	£1M
• 100% owned subsidiaries of clearing banks	£1M
• F1/AA rated building societies	£1M
• Top 10 building societies (Butlers Guide List)	£1M
• F1/A rated building societies	£0.5M
• F1 /A rated merchant or secondary banks	£0.5M
• F2/A rated merchant or secondary banks	£0.25M

NOTE

The highest quality financial institutions must have a minimum short-term "Fitch" IBCA rating of F1+ and long-term rating of AA-.