



**Report to:** Cabinet

**Subject:** Prudential Code Indicator Monitoring 2004/05 and Quarterly Treasury Activity Report

**Date:** 10 February 2005

**Author:** Head of Finance

## **1. PURPOSE OF REPORT**

To inform Members of the performance monitoring of the 2004/05 Prudential Code Indicators, and to advise Members of the quarterly treasury activity as required by the Treasury Management Strategy

## **2. BACKGROUND**

The Local Government Act 2003 introduced the new Prudential Framework for Local Authority Capital Investment. The key objectives of the Code are:

1. That capital investment plans are affordable, prudent and sustainable
2. That treasury management decisions are taken in accordance with good professional practice
3. That local strategic planning, asset management and proper option appraisal are supported

To demonstrate that these objectives have been fulfilled, the Prudential Code details the indicators that must be set and monitored. The indicators are designed to support and record local decision-making, and not to be comparative performance indicators.

Approval of the Prudential Indicators for 2004/05 to 2006/07 was given by Full Council at its meeting in February 2004. Some indicators were subsequently revised, and approval of these was given by Full Council at its meeting on 15 December 2004. The Prudential Code requires the Chief Financial Officer to establish procedures to monitor performance against all forward-looking prudential indicators, and to report any significant deviations from expectations.

### **3. PRUDENTIAL CODE INDICATOR MONITORING**

Appendix 1 details the original and revised prudential indicators for 2004/05, together with the position at 31 December 2004.

**Section 1 – Estimates** - details those indicators that are based on estimates of expected outcomes, and include four key indicators of affordability. These are monitored on a quarterly basis, and Appendix 1 compares the revised indicator against the projected outturn for 2004/05 and this shows variances on 3 of the indicators as described below:

#### **1. Ratio of Financing Costs to Net Revenue Stream**

The projected outturn for Non-HRA shows an increase against the revised indicator. This is due to the inclusion of Minimum Revenue Provision in the indicator and also to an additional revenue contribution being made to finance the capital programme. These budgets are contained within the overall approved revenue estimate and therefore remain affordable.

The projected outturn for HRA shows a minor increase against the revised indicator. This is due to an additional revenue contribution being made to finance the capital programme, which is contained within the overall approved revenue estimate and therefore remains affordable.

#### **2. Incremental Impact of Capital Investment Decisions**

The projected outturn for Non-HRA shows a minor decrease against the revised indicator. This is due to savings on revenue implications of the capital programme in respect of schemes which are currently being projected to slip to 2005/06.

#### **3. Capital Expenditure**

The projected outturn shows that capital expenditure is expected to be

below budget for both Non-HRA and HRA. This is due to anticipated slippage in the capital programme, which will be the subject of carry forward requests at the year-end.

#### 4. Capital Financing Requirement

The Capital Financing Requirement outturn is anticipated to be in line with the revised indicator.

**Section 2 – Limits** - details those indicators that are based on limits, beyond which activities should not pass without management action. These include two key indicators of affordability and five key indicators of prudence.

#### Affordability

1. Authorised Limit for External Debt
2. Operational Boundary for External Debt

#### Prudence:

1. Net Borrowing and the Capital Financing Requirement
2. Upper Limit for Fixed Interest Exposure
3. Upper Limit for Variable Interest Rate Exposure
4. Upper limits for the maturity structure of Borrowing
5. Upper limits for principal sums invested for periods over 364 days

Appendix 1 shows the actual position as at 31 December 2004 and demonstrates that all activities are contained within the approved limits.

#### 4. **QUARTERLY TREASURY ACTIVITY REPORT**

The Treasury Activity Report for the quarter ended 31 December 2004 is attached at Appendix 2, in accordance with the Treasury Management Strategy.

#### 5. **RECOMMENDATION**

Members are asked to note the Prudential Indicator Monitoring at Appendix 1, and the quarterly Treasury Activity Report at Appendix 2.