



Report to: Cabinet

Subject: Prudential Code Indicator Monitoring 2005/06 and Quarterly Treasury Activity Report

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1. PURPOSE OF REPORT

To inform Members of the performance monitoring of the 2005/06 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 2005/06 to 2007/08 was given by Full Council at its meeting on 9 February 2005. 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 prudential indicators for 2005/06, together with the monitoring position at 30 September 2005.

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 approved indicators against the projected outturn for 2005/06 and this shows minor variances on 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 an additional revenue contribution (CERA) being made to finance the capital programme. This budget is contained within the overall approved revenue estimate, and therefore remains affordable.

The projected outturn for HRA also shows an increase against the approved indicator. This is due to a review of the calculation basis for the indicator which resulted in the removal of central government supported borrowing from the calculation. The projected outturn is contained within the overall approved revenue estimate and is affordable.

2. Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents

The projected outturn for Non-HRA shows a reduction against the approved indicator. This is due to changes in estimated revenue implications in 2005/06 due to the reprogramming of capital schemes to 2006/07 as approved by Personnel and Resources Committee. Clearly, the Council Tax has been set for 2005/06 and in reality these changes have a zero impact on Council Tax but will alter the level of balances in 2005/06.

3. Capital Expenditure

The projected outturn shows that capital expenditure is expected to be higher than originally anticipated. This is due to the inclusion of approved carry forward requests from 2004/05. The projected outturn

has been reduced from the previous quarter to reflect the reprogramming of schemes to 2006/07, following the approval of Personnel and Resources Committee.

4. Capital Financing Requirement

The projected outturn for the Capital Financing Requirement is lower than the approved indicator because it reflects the actual balance sheet position at 1/4/05 which takes into account the adjustment of capital financing accruals.

The Prudential Monitoring report (Appendix 1) shows that external borrowing of £3 million has already taken place. This has been done in advance of actual cash flow need, reflecting the judgement that the cost of long-term borrowing (over 25 years) has reached a low point (£2m) and that shorter term rates (5-10 years) are currently favourable (£1m). Further additional borrowing may be undertaken if interest rates continue to be considered beneficial.

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 30 September 2005 and demonstrates that all activities are contained within the approved limits.

5. QUARTERLY TREASURY ACTIVITY REPORT

The Treasury Activity Report for the quarter ended 30 September 2005 is attached at Appendix 2, in accordance with the Treasury Management Strategy.

6. RECOMMENDATION

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