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 31 December 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 approved indicator. This is due to an additional revenue contribution (CERA) being made to finance the capital programme partly offset by additional investment income. 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 partly to a review of the calculation basis for the indicator, which resulted in the removal of central government supported borrowing from the calculation, and also to a reduction in investment income due to reduced interest rates.

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.

   The projected outturn for the HRA shows a reduction against the approved indicator. This is due to reduced revenue implications in 2005/06 due to the cancellation of the Electronic Record Document Management capital scheme. Clearly, Housing Rents have been set for 2005/06 and in reality these changes have a zero impact on rents but will alter the level of balances in 2005/06.

3. Capital Expenditure

The latest 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 offset by the reprogramming of schemes to 2006/07 as approved by Personnel and Resources Committee and further slippage to 2006/07 which has been identified this quarter. The slippage identified this quarter is to be considered in the Quarterly Budget Monitoring Report which is included on this Agenda.

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 had been undertaken by the end of December 2005. A further £3m was undertaken on 23 January 2006, still within the currently approved limits. This was 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. Further additional borrowing in advance of need may be undertaken before the year-end 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 31 December 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 31 December 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.