Report to: **Cabinet**

Subject: **Prudential Code Indicator Monitoring 2006/07 and Quarterly Treasury Activity Report**

Date: **3 August 2006**

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1. PURPOSE OF REPORT

To inform Members of the performance monitoring of the 2006/07 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 2006/07 to 2008/09 was given by Full Council at its meeting on 8 February 2006. 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 2006/07, together with the monitoring position at 30 June 2006.

Section 1 – Estimates - details those indicators that are based on estimates of expected outcomes, and include four key indicators of affordability. The following indicators are monitored on a quarterly basis, and Appendix 1 compares the approved indicators against the projected outturn for 2006/07 and this shows minor variances on the indicators as described below:

1. Ratio of Financing Costs to Net Revenue Stream

   The projected outturn for both Non-HRA and HRA show increases against the approved indicators. This is largely due to additional revenue contributions (CERA) being made to finance the capital programme. The larger increase is in respect of the HRA, and is due to the approval by Council on 1 March of an additional contribution of £200,000. The budgets are contained within the overall approved revenue estimates, and therefore remain affordable.

2. 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 2005/06.

3. 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 1/4/06.

   No new external borrowing had been undertaken at the end of June 2006, however, additional borrowing for 2006/07 and possibly some borrowing in advance of need for 2007/08 may be undertaken before the year-end if interest rates are considered to be beneficial. Advice will continue to be taken from Sector Treasury Services in this regard.

<u>Section 2 – Limits</u> - 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.

<u>Affordability</u>

1. Authorised Limit for External Debt

2. Operational Boundary for External Debt

<u>Prudence:</u>

1. Net Borrowing and the Capital Financing Requirement

2. Upper Limit for Fixed Interest Exposure -

   It is proposed to alter this indicator from a percentage, which is conceptually difficult to explain, to an absolute value. The revised indicator of £10m represents the maximum permissible **net outstanding principal sum borrowed**, at any given time, on fixed interest rates, ie. it may include the effect of both sums borrowed <u>and</u> sums invested on fixed rates, but the net borrowing position must not exceed £10m.

3. Upper Limit for Variable Interest Rate Exposure -

   Again, it is proposed to alter this indicator from a percentage to an absolute value of £2m. This represents the maximum permissible **net outstanding principal sum borrowed**, at any given time, on variable interest rates. This limit has been set at a much lower level in order to reflect the Council's policy to borrow on fixed rates, whilst retaining a small amount of flexibility to borrow at variable rates if specifically required. In practice the Council will usually only <u>invest</u> at variable rates, therefore the daily position in respect of this indicator will generally be negative.

4. Upper limits for the maturity structure of borrowing

5. Upper limits for principal sums invested for periods over 364 days -

   The Council's forward capital programme reflects a growing underlying need to borrow. In the event that market rates are favourable, borrowing in advance of need may be the most prudent course of action, and this in turn may require greater flexibility in the use of investment periods exceeding 364 days. To accommodate the possible use of this strategy it is proposed to increase the limits for sums maturing beyond 31 March 2007 to £5m, and beyond 31 March 2008 to £3m.

Appendix 1 shows the actual position as at 30 June 2006 and demonstrates that all activities are contained within the currently approved limits.

4. QUARTERLY TREASURY ACTIVITY REPORT

The Treasury Activity Report for the quarter ended 30 June 2006 is attached at Appendix 2, in accordance with the Treasury Management Strategy.

5. RECOMMENDATION

Members are asked to:

1. Note the Prudential Indicator Monitoring at Appendix 1 and the Treasury Activity Report at Appendix 2.

2. Refer the amended indicators of prudence to Full Council for approval in accordance with the requirements of the Prudential Code.