



**Report to: Cabinet**

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

**Date: 15 February 2007**

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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. Accordingly, revisions to the indicators were approved by Full Council at its meeting on 11 October 2006.

### 3. PRUDENTIAL CODE INDICATOR MONITORING

Appendix 1 details the prudential indicators for 2006/07, together with the monitoring position at 31 December 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 Non HRA shows a reduction against the approved indicator due largely to additional investment income, which exceeds the increase in PWLB interest payable. The projected outturn for HRA shows an increase due to the approval by Council on 1 March of an additional revenue contribution. A further revenue contribution of £140,000 is included in the projected outturn, this being subject to approval of the budget monitoring item elsewhere on this agenda. 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 due to the inclusion of approved carry-forward requests from 2005/06, but lower than projected at 30 September due to slippage.

#### 3. Capital Financing Requirement

At 31 December 2006, additional external borrowing in advance of need totalling £4m had been undertaken, in the light of favourable interest rates. In addition, £1m of debt had been rescheduled in order to take advantage of both favourable interest rates and the generation of a small discount. Advice will continue to be taken from Sector Treasury Services in this regard.

**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 – this indicator was revised at Council on 11 October 2006. It is now represented by the maximum permitted net outstanding principal sum borrowed at fixed rates. At 31 December 2006, the net position for Gedling is a net investment of £4m.
3. Upper Limit for Variable Interest Rate Exposure –this indicator was revised at Council on 11 October 2006. It is now represented by the maximum permitted net outstanding principal sum borrowed at variable rates. At 31 December 2006, the net position for Gedling is net investment of £4.55m.
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 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 31 December 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.