



**Report to: Cabinet**

**Subject: Prudential Code Indicator Monitoring 2007/08 and Quarterly Treasury Activity Report**

**Date: 6 December 2007**

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## **1. PURPOSE OF REPORT**

To inform Members of the performance monitoring of the 2007/08 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 2007/08 to 2009/10 was given by Full Council at its meeting on 21 February 2007. 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 2007/08, together with the monitoring position at 30 September 2007.

**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 2007/08 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. 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 lower than originally anticipated. This is due to the net effect of the inclusion of approved carry-forward requests from 2006/2007, and the slippage of schemes to 2008/09.

#### 3. Capital Financing Requirement

No new external borrowing had been undertaken at the end of September 2007, however, additional borrowing for 2007/08 and possibly some borrowing in advance of need for 2008/09 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.

**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 – represented by the maximum permitted net outstanding principal sum borrowed at fixed rates. Please note that a negative indicator represents net investment.
3. Upper Limit for Variable Interest Rate Exposure – represented by the maximum permitted net outstanding principal sum borrowed at variable rates. Please note that a negative indicator represents net investment.
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 2007 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 September 2007 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.