**Report to:** **Cabinet**

**Subject:** **Prudential Code Indicator Monitoring 2008/09 and Quarterly Treasury Activity Report**

**Date:** **4 September 2008**

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## 1. PURPOSE OF REPORT

To inform Members of the performance monitoring of the 2008/09 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 2008/09 to 2010/11 was given by Full Council at its meeting on 27 February 2008. The Prudential Code requires the Chief Financial Officer (ie. the Head of Corporate Services) 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 2008/09, together with the monitoring position at 30 June 2008.

**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 2008/09 and shows variances on some of 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 the Minimum Revenue Provision (MRP) for debt repayment being lower than originally estimated because of slippage in the 2007/08 capital programme and consequent reduction in usage of borrowing. The projected outturn for HRA is lower than the approved indicator, due to reduced revenue contributions being required to finance capital expenditure as a result of LSVT.

2. Capital Expenditure

   The latest projected outturn shows that Non HRA capital expenditure is expected to be higher than originally anticipated, due to the effect of the inclusion of approved carry-forward requests from 2007/08. HRA capital expenditure is expected to be lower than anticipated due to the planned LSVT in November 2008.

3. Capital Financing Requirement (CFR)

   No new external borrowing had been undertaken at the end of June 2008, however, further borrowing in advance of need for future years may be undertaken before the year-end if interest rates are considered to be beneficial. As always, advice will be taken from Sector Treasury Services in this regard. The estimated closing CFR for 2008/09 is lower than originally anticipated, largely due to the original indicator assuming a higher usage of borrowing than is actually expected to be applied in financing capital expenditure in the year. The indicator will be reviewed as part of the budget process and the planned review of MRP policy reported to Council in April 2008.

**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 June 2008 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 2008 is attached at Appendix 2, in accordance with the Treasury Management Strategy.

## 5. RECOMMENDATION

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