Report to: **Cabinet**

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

Date: **6 November 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 September 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 to additional investment interest achieved both as a result of the "credit crunch", with the associated reluctance of banks to lend to each other, and to the temporary investment of borrowing taken at the end of 2007/08 at extremely favourable rates, pending usage for the financing of capital expenditure. This has been partially offset by PWLB interest payable on the additional borrowing, together with a recalculation of the adjustment for debt redeemed as a result of LSVT.

   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 the LSVT.

2. Capital Expenditure

   The latest projected outturn shows that Non HRA capital expenditure is expected to be lower than originally anticipated. This is due to slippage on the 2008/09 capital programme, offset by the inclusion of approved carry-forward requests from 2007/08. HRA capital expenditure is expected to be lower than anticipated due to the LSVT.

2. Capital Financing Requirement (CFR)

   No new external borrowing had been undertaken at the end of September 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 was originally anticipated, due to the initial indicator assuming a higher application of borrowing to capital expenditure in 2007/08 than was actually undertaken. This balance of borrowing will be applied at the end of 2008/09, but the effect of this on CFR is not relevant until 2009/10.

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

Members are advised that the Council has not been adversely affected by the crisis with Icelandic banks, due to rigorous monitoring of the counterparty list to ensure that approved criteria continue to be met. To date, only UK and Republic of Ireland counterparties have been used, and in the light of recent events this is likely to continue.

5. RECOMMENDATION

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