Report to: **Cabinet**

Subject: **Prudential Code Indicator Monitoring 2009/10 and Quarterly Treasury Activity Report**

Date: **18 February 2010**

Author: **Head of Corporate Services**

1. PURPOSE OF REPORT

To inform Members of the performance monitoring of the 2009/10 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 2009/10 to 2011/12 was given by Full Council at its meeting on 25 February 2009. 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 2009/10, together with the monitoring position at 31 December 2009.

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 2009/10 and shows variances on some of the indicators, as described below:

1. Ratio of Financing Costs to Net Revenue Stream

   The projected outturn shows a reduction against the approved indicator from 5.01% to 3.72%, due largely to the decision not to replace £1.7m of maturing PWLB debt in March 2009. Previously, a full year's interest had been assumed on this replacement debt, however the decision not to replace was taken in the light of the economic climate and the banking crisis. Advice will continue to be taken from the Council's Treasury Advisers with regard to the timing of all future borrowing.

2. Capital Expenditure

   The latest projected outturn shows that capital expenditure is expected to be lower than originally anticipated. This is due to the deferral of some capital projects to the 2010/11 programme.

3. Capital Financing Requirement (CFR)

   No new external borrowing had been undertaken at the end of December 2009, however, further borrowing in advance of need for future years may be undertaken before the year-end if interest rates are considered to be sufficiently favourable. Advice regarding the timing of borrowing will be taken from Sector Treasury Services, bearing in mind the current year's strategy to run down investments in preference to borrowing, in order to minimise the authority's risk. The estimated closing CFR for 2009/10 is lower than originally anticipated, due largely to slippage in the capital programme during 2008/09, and to a reduced requirement to apply borrowing to fund expenditure in 2009/10, again due to slippage.

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 31 December 2009 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 2009 is attached at Appendix 2, in accordance with the Treasury Management Strategy. For reference, standard definitions of LIBOR and LIBID are given below.

LIBOR is the London Interbank Offered Rate

LIBOR is the interest rate at which the London banks are willing to offer funds in the inter-bank market. It is the average of rates which five major London banks are willing to lend $10 million for a period of three or six months, and is the benchmark rate for setting interest rates for adjustable-rate loans and financial instruments.

Ie. the London banks are LENDING to each other, which affects the rate at which the banks will lend to other parties eg. local authorities, ie. LIBOR is relevant when Gedling are BORROWING money.

LIBID is the Interbank BID (LIBID) rate

LIBID is the interest rate at which London banks are willing to borrow from one another in the inter-bank market. It is the average of rates which five major London banks willing to bid for a $10 million deposit for a period of three or six months.

Ie. the London banks are BORROWING from each other, which affects the rates at which they will borrow from other parties eg. local authorities, ie. LIBID is relevant when Gedling are LENDING money

5. RECOMMENDATION

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