

EAST RENFREWSHIRE COUNCIL

12 February 2015

Report by Chief Executive

PRUDENTIAL CODE FOR CAPITAL FINANCE

PURPOSE

1. The purpose of this report is to set prudential indicators which will help to confirm that capital investment plans and treasury management decisions are affordable, prudent and sustainable. The report also sets out procedures for monitoring the indicators.

RECOMMENDATION

2. It is recommended that the Council:-
- (a) approves the prudential indicators contained in this report; and
 - (b) approves the monitoring arrangements described in paragraphs 9 and 10 of this report

BACKGROUND

3. Prudential indicators are required to be set before the beginning of the forthcoming financial year. They may be revised at any time and must be reviewed when the indicators are set for the following year. Council previously approved the indicators for 2014/15-2016/17 at its meeting on 13 February 2014.

4. Capital investment plans, prudential indicators and treasury management activities are inter-related. This report concentrates on prudential indicators while capital plans and treasury management activities are the subject of separate reports to be considered by Council at this meeting.

5. The Prudential Code does not specify limits or ratios. These are for each Council to determine individually.

PRUDENTIAL INDICATORS

6. The actual indicators for 2013/14 together with the revised indicators for 2014/15-2017/18 are shown in the appendix.

Affordability

7. The fundamental objective in the consideration of the Council's capital plans is to ensure that the proposed level of investment is sustainable in terms of its impact on council tax and rent levels.

8. Prudential indicators 1-7 are key indicators of affordability.

Indicator 1 - Capital Expenditure

This indicator requires the Council to estimate capital expenditure and to monitor out-turn. The estimated capital expenditure set out in this report is consistent with the General Fund and HRA capital programmes to be considered by the Council in separate reports at this meeting. In addition to investment reflected within the Council's capital programmes and to comply with requirements of both the Prudential Code for Capital Finance in Local Authorities and IFRS the capital expenditure figure for 2016/17 includes an accounting entry of £14.407m reflecting Scottish Government support for the new Barrhead High School project.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

This indicator highlights how much of the Council's income is committed to repaying debt. The HRA ratios are increasing reflecting the increased capital investment and borrowing.

Indicator 3 - Incremental Impact on Council Tax

This indicator calculates the impact of capital investment decisions on council tax and takes account of the level of support for capital expenditure provided by the Scottish Government - both capital grant support and ongoing revenue support. The impact of additional borrowing will be covered in full by corresponding revenue savings. On this basis there is no impact on council tax each year from 2015/16 to 2017/18.

Indicator 4 - Incremental Impact on Rents

This indicator calculates the impact on council house rents of the planned capital investment. The service continues to seek efficiencies to minimise the impact of investment decisions.

Indicator 5 - Capital Financing Requirement

Capital expenditure may be financed in a number of ways including the application of capital receipts, CFCR, capital grants and contributions from other parties. Capital expenditure not financed by one of these methods will be funded by borrowing from external sources or from internal surpluses and day to day cash management balances. This prudential indicator reflects the need to borrow for capital investment from these sources less the repayment of principal on existing borrowing, charged to revenue accounts.

Indicator 6 - Operational Boundary for External Debt

This indicator takes account of capital expenditure and financing requirements and projects the expected level of external debt for operational purposes. Temporary breaches of the operational boundary are quite acceptable and the Head of Accountancy/Chief Financial Officer has delegated authority to manage movement between borrowing and other long term liabilities such as finance leases in accordance with option appraisal and value for money considerations. Any such movement will be reported to the Council following the change.

Indicator 7 - Authorised Limit for External Debt

This indicator is similar to the operational boundary but includes headroom to accommodate adverse cash flow movements. It is expected that the authorised limit will not normally be breached. In circumstances where a breach takes place the reasons shall be reported to the next meeting of the Council and the limit revised if appropriate. The same delegated powers are in place as for the operational boundary.

Prudence

Indicator 8 – Gross Debt

This indicator is a key test of prudence and the amounts shown should be less than the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. The purpose is to ensure that the Council over the medium term borrows for capital purposes only and not for revenue purposes. The Head of Accountancy/Chief Financial Officer confirms that the Council is in compliance with this criterion and that no difficulties are anticipated in meeting this requirement in future years.

Treasury Management

Indicator 9 - Code of Practice for Treasury Management

The indicator in respect of treasury management is that the Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This provides reassurance that the Council is not exposed to undue risk as a result of its lending or borrowing practices.

MONITORING ARRANGEMENTS

9. Indicators 5, 6 and 7 for capital financing requirement, operational boundary and authorised limit for external debt will be the subject of quarterly monitoring reports to the Head of Accountancy/Chief Financial Officer.

10. A report on all 9 indicators will be submitted to the Council each year prior to the announcement of council tax and rent increases. These reports will provide comment on the operation of limits, revise indicators where appropriate and provide new indicators under the three year rolling programme. A separate report will be submitted to Council in early summer, comparing outturn expenditure information with estimated figures.

RECOMMENDATION

11. It is recommended that the Council:-

- (a) approves the prudential indicators contained in this report; and
- (b) approves the monitoring arrangements described in paragraphs 9 and 10 of this report

KEY WORDS

A report setting the Prudential Indicators for the years 2015/16 to 2017/18

Key words: Prudential Indicators, Capital, Investment Plans

Further information is available from Paul Parsons, Principal Accountant (Capital) telephone 0141 577 3123.

PP

29 January, 2015

PRUDENTIAL INDICATORS 2013/14 – 2017/18

INDICATOR 1	CAPITAL EXPENDITURE				
	2013/14 ACTUAL £000	2014/15 PROBABLE £000	2015/16 ESTIMATE £000	2016/17 ESTIMATE £000	2017/18 ESTIMATE £000
General Fund	18,016	18,417	26,057	54,151	14,176
HRA	3,063	4,809	5,583	3,702	3,551
TOTAL	21,079	23,226	31,640	57,853	17,727
This indicator requires the Council to estimate capital expenditure on a prudential basis and to monitor out-turn.					

INDICATOR 2	RATIO OF FINANCING COSTS TO NET REVENUE STREAM				
	2013/14 ACTUAL	2014/15 PROBABLE	2015/16 ESTIMATE	2016/17 ESTIMATE	2017/18 ESTIMATE
General Fund	9.7%	9.7%	9.0%	8.9%	9.8%
HRA	34.0%	34.8%	38.1%	40.3%	39.8%
This is an affordability indicator which highlights the effect of increase in borrowing on Council Tax and Rents. The indicator calculates how much of the Council's income is committed to repaying debt.					

INDICATOR 3	INCREMENTAL IMPACT ON COUNCIL TAX		
	2015/16 ESTIMATE	2016/17 ESTIMATE	2017/18 ESTIMATE
Incremental Impact On Band D Council Tax	Nil	Nil	Nil
This indicator quantifies the impact of capital investment decisions on Council Tax taking into account the levels of capital grant.			

INDICATOR 4		INCREMENTAL IMPACT ON RENTS		
		2015/16 ESTIMATE	2016/17 ESTIMATE	2017/18 ESTIMATE
Incremental Impact On Weekly Rents (52 weeks)		£2.12	£2.79	£0.92
This indicator quantifies the impact of capital investment decisions on Rents before taking into account savings which have been identified to mitigate the additional costs.				

INDICATOR 5		CAPITAL FINANCING REQUIREMENT			
	2013/14 ACTUAL £000	2014/15 PROBABLE £000	2015/16 ESTIMATE £000	2016/17 ESTIMATE £000	2017/18 ESTIMATE £000
General Fund	169,661	161,171	152,677	176,119	172,102
HRA	27,680	28,814	29,490	29,564	29,313
TOTAL	197,341	189,985	182,167	205,683	201,415
This indicator measures the investment made in Fixed Assets and reflects the underlying need to borrow.					

INDICATOR 6		OPERATIONAL BOUNDARY FOR EXTERNAL DEBT		
		2015/16 £000	2016/17 £000	2017/18 £000
Borrowing		98,082	97,597	95,509
Other Long Term Liabilities		81,665	93,269	90,234
Total		179,747	190,866	185,743
This indicator needs to be consistent with plans for capital expenditure and financing as well as treasury management policies. The amounts represent projections of maximum external debt.				

INDICATOR 7	AUTHORISED LIMIT FOR EXTERNAL DEBT		
	2015/16 £000	2016/17 £000	2017/18 £000
Borrowing	112,794	112,237	109,835
Other Long Term Liabilities	81,665	93,269	90,234
Total	194,459	205,506	200,069
<p>This indicator needs to be consistent with plans for capital expenditure and financing as well as treasury management policies. The limits represent prudent estimates of external debt with additional headroom to allow for operational management matters such as unusual cash movements.</p>			

INDICATOR 8	GROSS DEBT				
	31.03.14 ACTUAL £000	31.03.15 PROBABLE £000	31.03.16 ESTIMATE £000	31.03.17 ESTIMATE £000	31.03.18 ESTIMATE £000
Net Borrowing	70,882	68,082	90,597	95,509	93,754
Other Long Term Liabilities	84,892	81,665	78,862	90,234	86,619
Total	155,774	149,747	169,459	185,743	180,373
<p>This indicator reflects the actual/estimated external debt position at the financial year end. It represents borrowing repayable plus other long term liabilities identified in the Balance Sheet. This indicator should be less than the capital financing requirement for the current year plus estimates of additional capital financing required for the next two years.</p>					

INDICATOR 9	CODE OF PRACTICE FOR TREASURY MANAGEMENT
<p>The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes</p>	
<p>This indicator provides confirmation that CIPFA's code has been adopted.</p>	

BLANK PAGE