

EAST RENFREWSHIRE COUNCIL

13 February 2014

Report by Director of Finance

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 2013/14-2015/16 at its meeting on 7 February 2013.

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 2012/13 together with the revised indicators for 2013/14-2016/17 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 2015/16 includes an accounting entry of £13.2m 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. In particular it takes account of the level of support for capital expenditure provided by the Scottish Government - both capital grant support and ongoing loan charge support. It is current practice only to incur capital expenditure in excess of the supported level provided the additional borrowing costs can be covered in full by corresponding revenue savings. On this basis there is no impact on council tax each year from 2014/15 to 2016/17.

Indicator 4 - Incremental Impact on Rents

This indicator calculates the impact on council house rents of the planned capital investment. Approved revenue savings will continue to be applied in order 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.

The HRA element of the capital financing requirement for 2014/15 has increased by £2.5m above the indicative level reported to Council on 7 February 2013. This increase represents additional borrowing being undertaken during 2014/15 to support the HRA capital programme and meet Scottish Housing Quality Standard by 2015.

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 Director of Finance/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 Director of Finance 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 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 2014/15 to 2016/17

Key words: Prudential Indicators, Capital, Investment Plans

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

PP

29 January, 2014

PRUDENTIAL INDICATORS 2012/13 – 2016/17

INDICATOR 1		<i>CAPITAL EXPENDITURE</i>				
	2012/13 ACTUAL £000	2013/14 PROBABLE £000	2014/15 ESTIMATE £000	2015/16 ESTIMATE £000	2016/17 ESTIMATE £000	
General Fund	26,898	21,723	22,221	33,873	16,981	
HRA	4,308	3,439	5,239	3,211	2,835	
TOTAL	31,206	25,162	27,460	37,084	19,816	
This indicator requires the Council to estimate capital expenditure on a prudential basis and to monitor out-turn.						

INDICATOR 2		<i>RATIO OF FINANCING COSTS TO NET REVENUE STREAM</i>				
	2012/13 ACTUAL	2013/14 PROBABLE	2014/15 ESTIMATE	2015/16 ESTIMATE	2016/17 ESTIMATE	
General Fund	9.3%	9.9%	9.9%	9.5%	9.4%	
HRA	32.0%	35.4%	36.6%	39.1%	40.4%	
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		<i>INCREMENTAL IMPACT ON COUNCIL TAX</i>		
		2014/15 ESTIMATE	2015/16 ESTIMATE	2016/17 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 and loan charge support.				

INDICATOR 4		INCREMENTAL IMPACT ON RENTS		
		2014/15 ESTIMATE	2015/16 ESTIMATE	2016/17 ESTIMATE
Incremental Impact On Weekly Rents (52 weeks)		£1.72	£2.19	£1.50
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			
	2012/13 ACTUAL £000	2013/14 PROBABLE £000	2014/15 ESTIMATE £000	2015/16 ESTIMATE £000	2016/17 ESTIMATE £000
General Fund	176,660	171,059	162,520	166,301	163,264
HRA	27,740	28,403	30,464	29,400	28,182
TOTAL	204,400	199,462	192,984	195,701	191,446
This indicator measures the investment made in Fixed Assets and reflects the underlying need to borrow.					

INDICATOR 6		OPERATIONAL BOUNDARY FOR EXTERNAL DEBT		
		2014/15 £000	2015/16 £000	2016/17 £000
Borrowing		96,034	93,093	85,614
Other Long Term Liabilities		84,892	94,886	92,083
Total		180,926	187,979	177,697
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		
	2014/15 £000	2015/16 £000	2016/17 £000
Borrowing	110,439	107,057	98,456
Other Long Term Liabilities	84,892	94,886	92,083
Total	195,331	201,943	190,539
<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				
	31.03.13 ACTUAL £000	31.03.14 PROBABLE £000	31.03.15 ESTIMATE £000	31.03.16 ESTIMATE £000	31.03.17 ESTIMATE £000
Net Borrowing	79,769	70,882	93,093	85,614	83,532
Other Long Term Liabilities	87,878	84,892	81,665	92,083	88,720
Total	167,647	155,774	174,758	177,697	172,252
<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 three 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>	