Agenda Item

Report

4

Report to:	**Finance and Information Technology Resources Committee (Special)**
Date of Meeting:	**12 February 2009**
Report by:	**Executive Director (Finance and Information Technology Resources)**

Subject:	**Prudential Code Indicators 2009/2010 - 2011/2012**

1. Purpose of Report

1.1. The purpose of the report is to:-

- Provide members with the Prudential Code indicators based on the Capital programme for the years 2009/10 to 2011/12.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

(1) that the Prudential Code indicators based on the capital programme to 2011/12 are approved.

3. Background

3.1. The Prudential Framework for local authority capital investment was introduced through the Local Government (Scotland) Act 2003 with the aim of supporting strategic planning for capital investment at a local level.

3.2. The key objectives of the Code are to ensure, within a clear framework, that Local Authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that strategic planning is supported through asset management planning and proper option appraisals.

3.3. It was through the introduction of the Code that councils are now able to take responsibility for deciding an affordable level of borrowing to fund capital expenditure. This moves away from the previous regime through which central government gave councils consent to borrow defined amounts for capital expenditure.

3.4. To meet the objectives of the Code we are required to report a number of indicators, use those to demonstrate the affordability and sustainability of our capital plans and to show that good treasury management practice is adhered to.

3.5. The Prudential Code and the resulting indicators focus on the following main areas:

- Capital Expenditure Plans and Asset Management
- Treasury Management Practices

4. Capital Expenditure and Asset Management

4.1. The General Fund programme allows for investment across priorities consistent with the Council Plan including:

- School modernisation
- Developing services to older people
- Improving the quality of the physical environment
- Improving the road network
- Improving the quality and availability of housing

4.2. Housing capital expenditure will result in a significant improvement to the quality of our social housing stock, contributing to all council houses being brought up to the Scottish Housing Quality Standard before the target date of 2015.

4.3. The level of capital expenditure that we choose to fund through borrowing has a direct impact on the treasury activities of the Council. The majority of funding for the Primary School Investment Programme is to be funded from borrowing. Borrowing is also required to fund the Housing Investment Programme. This is a change in this programme due to the decrease in Council house sales resulting from the economic climate. The Prudential Indicators show the level of borrowing required.

4.4. The Prudential Code also recognises that in making capital investment decisions the authority should be informed through sound asset management planning and options appraisal.

4.5. A framework for asset management within South Lanarkshire, and a timetable for the production and updating of Corporate and Resource Asset Management Plans was approved by the Executive Committee in November 2005. The 2008 update to the Corporate Asset Management Plan was approved by the Executive Committee on the 28 January 2009.

4.6. When considering potential capital investment, the Council ensures that the objectives of capital investment fit within the Council strategic plans and that the investment is informed through the asset management planning process. Options appraisal is required to derive the best method for meeting the objectives of the capital investment.

5. Treasury Management Practices

5.1. South Lanarkshire Council adopts the CIPFA Treasury Management in Public Services Code of Practice (CIPFA TM Code). This is a requirement of the Prudential Code.

5.2. By requiring the adoption of the CIPFA TM code, assurance is given that the Council has formal treasury objectives, policies and practices; that priority is given to identifying and controlling risk; and that proper reporting arrangements are established.

6. Prudential Indicators

6.1. Based on the capital programme to 2010/11 approved by Committee on 14 February 2008 the Prudential Indicators for 2009/10 to 2011/2012 are shown at Appendix 1 along with explanations for each indicator. An updated position for 2008/09 is also included.

6.2. The indicators are split into 3 categories :

1. Capital Expenditure and Borrowing Requirement indicators
2. Affordability indicators
3. Treasury Management Indicators

6.3. Through these Prudential Indicators we are demonstrating our expectations for the coming year, and setting limits based on these expectations. A report will be presented to Committee later this year showing actual achievement against the 2008/09 indicators.

7. Employee Implications

7.1. None

8. Financial Implications

8.1. There are no direct funding implications arising from the production of the Prudential Indicators.

9. Other Implications

9.1. Not Applicable

10. Equality Impact Assessment and Consultation Arrangements

10.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.

10.2. There is no requirement to undertake any consultation in terms of the information contained in this report.

Linda Hardie
Executive Director (Finance and Information Technology Resources)

2 February 2009

Link(s) to Council Values and Objectives

- Value: Accountable, Effective and Efficient

Previous References

None

List of Background Papers

- Report to the Finance and IT Resources Committee 14 February 2008

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Appendix 1

Prudential Indicators 2009/10 – 2011/12

The Prudential Indicators are shown below and are split into 3 categories :

1. Capital Expenditure and Borrowing Requirement indicators
2. Affordability Indicators
3. Treasury Management Indicators

Indicators 1 to 6 show statements of the expected borrowing requirement for the years 2008/09 to 2011/12 and attributes limits to the external borrowing that is affordable. The financial impact of the expected borrowing is also stated. Indicators 7 to 10 are set at levels to control the risk that we are exposed to when managing how we borrow the funds we need.

After year end, the actual position for the indicators will be reported to this Committee.

1. Capital Expenditure and Borrowing Requirement Indicators

Indicator 1 – Capital Expenditure

1.1 This indicator states the capital expenditure plans for the years 2008/09 through to 2011/12, and the corresponding funding package to meet that expenditure.

	2008/09 Estimate £ m	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m
General Fund Capital Expenditure	124.773	169.091	128.598	104.492
Funded by:				
Borrowing	71.180	105.020	92.885	93.242
Capital receipts and grants	45.327	40.042	32.975	11.250
Revenue contributions	8.266	24.029	2.738	0.000
Total Funding	**124.773**	**169.091**	**128.598**	**104.492**
HRA Capital Expenditure	38.543	35.500	35.500	23.684
Funded by:				
Borrowing	3.193	18.555	20.412	10.440
Capital receipts and grants	13.438	5.870	5.670	5.170
Revenue contributions	21.912	11.075	9.418	8.074
Total Funding	**38.543**	**35.500**	**35.500**	**23.684**

Indicator 2 – Council's Borrowing Need (the Capital Financing Requirement)

2.1 The Council's Capital Financial Requirement (CFR) is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow for past and present capital expenditure.

2.2 The Council is required to pay off an element of the accumulated balance of borrowing every year through a charge to the revenue account.

2.3 This indicator sets out the expected CFR based on the capital plans shown at Indicator 1. Actual CFR for 2008/09 will be presented to committee following year end.

	2008/09 Estimate £ m	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m
General Fund Capital Financing Requirement	465.464	548.678	618.003	686.055
HRA Capital Financing Requirement	132.649	150.792	169.507	176.976
Total Capital Financing Requirement	598.113	699.470	787.510	863.031

Indicator 3 – Limits to Borrowing

3.1 The **Operational Boundary for external debt** is based on the expected maximum external debt that could be faced in the course of the year. It is set to accommodate the borrowing requirements as detailed at Indicator 1, and also includes sufficient scope to allow for changes to the capital programme throughout the year. This limit may be breached during the year, and this will be reported in the Prudential Report presented to Committee after year end.

3.2 The **Authorised Limit for External Debt** represents a limit beyond which external debt is prohibited. It represents the level of external debt which could be afforded in the very short term, but is not sustainable in the longer term without consideration to revenue budgets. This limit would not be breached without Finance and IT Resources Committee being advised.

	2008/09 Estimate £ m	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m
Operational Limit for external debt	630.000	710.000	800.000	880.000
Authorised Limit for external debt	650.000	730.000	820.000	900.000

2. Affordability Indicators

Indicator 4 – Ratio of Financing Costs to Net Revenue Stream

4.1 This indicator focuses on the extent to which the Council's net revenue budget is used for servicing debt. This is shown for both General Fund and HRA.

	2008/09 Estimate £ m	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m
General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	7.36%	7.76%	8.19%	8.82%
HRA General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	12.09%	11.05%	13.22%	15.65%

Indicator 5 – Estimates of the Incremental impact of General Fund Capital Investment on Council Tax

5.1 This indicator shows the likely impact of new General Fund capital investment and the subsequent servicing of additional borrowing will have on the Council Tax. As it is assumed there is no increase in Council Tax 2009/10, no impact has been shown.

	2008/09 Estimate £ m	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m
Incremental impact on council tax band D	£0.00	£0.00	£11.01	£11.39

Indicator 6 – Estimates of the Incremental Impact of HRA Capital Investment on Council House rents.

6.1. It has been possible to fund the costs of HRA borrowing in 08/09 to 11/12 from within the planned council house rent increases. No additional increase in rents is proposed to pay for borrowing costs.

	2008/09 Estimate £ m	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m
Incremental impact on council house rents	£0.00	£0.00	£0.00	£0.00

3. Treasury Management Indicators

Indicator 7 – Adherence to the CIPFA Treasury Code of Practice

7.1 South Lanarkshire Council adopts the CIPFA TM code through which assurance is given that the council has formal treasury objectives, policies and practices; that priority is given to identifying and controlling risk, and that proper reporting arrangements are established.

Indicator 8 – Upper Limit on fixed and variable rate exposure

8.1 This indicator identifies a limit for exposure to fixed and variable rates of interest for our invested funds. The purpose of this indicator is to provide a measure of stability against the adverse effects of market fluctuations.

	2008/09 Estimate £ m	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m
Upper limit of fixed rate exposures	180%	180%	180%	180%
Upper limit of variable rate exposures	10%	10%	10%	10%

The actual fixed rate exposure will be assessed by comparing the amount of Net Debt (which is borrowing less investments) we hold at a fixed rate to the Total Net Debt (both fixed and variable) of the Council. The same will be calculated for variable rate exposure.

To illustrate, the 2006/07 year end position is show below.

	£m		**£m**
Total Debt	535.3		
Total Investments	(103.7)		
Total Net Debt	**431.6**		
Fixed Net Debt		**Variable Net Debt**	
Fixed Debt	526.4	Variable Debt	8.9
Fixed Investments	(0)	Variable Investments	(103.7)
Fixed Net Debt	**526.4**	**Variable Net Debt**	**(94.8)**
Exposure	**122%**	**Exposure**	**(22%)**
(Fixed Net Debt / Total Net debt)		(Variable Net Debt / Total Net debt)	

Indicator 9 – Maturity Structure of Borrowing

9.1 The purpose of this indicator is to limit exposure to large concentrations of fixed rate debt needing to be replaced at the same time in the future at currently unknown rates. This effectively places a limit on exposure to longer term interest rate movement.

Maturity structure of borrowings 2008 - 2012		
	Upper Limit	**Lower Limit**
Under 12 months	20%	0%
12 months and 24 months	20%	0%
24 months and 5 years	50%	0%
5 years and 10 years	75%	0%
10 years and above	90%	25%

Indicator 10 – Total principle sums invested greater than 364 days.

10.1 This indicator is designed to set limits on amounts that can be invested for more than 1 year. This is to protect against potential loss that we would suffer if we required to get our money back earlier than the full term of the investment. As we currently have no statutory powers to invest for periods longer than 364 days, this indicator shows a nil value.