Agenda Item

Report

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Report to:	**Finance and Information Technology Resources Committee**
Date of Meeting:	**19 January 2010**
Report by:	**Executive Director (Finance and Information Technology Resources)**

Subject:	**Prudential Indicators - Update to Capital Financing Requirement and Borrowing Limits**

1. Purpose of Report

1.1. The purpose of the report is to:-

- Advise of the requirement to update the Prudential Indicator for External Borrowing Limit following changes to accounting practice brought about through the introduction of International Financial Reporting Standards (IFRS).

2. Recommendation(s)

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

(1) that they approve the revised External Borrowing Prudential Indicators.

3. Background

3.1. By 2010/11 Local Authorities will be required to prepare their accounts on an IFRS basis. As part of the transition towards compliance there is a requirement to review the current accounting treatment of our PPP school assets in 2009/10.

3.2. Under previous accounting guidance the PPP schools were treated “off balance sheet” which reflected that fact that the assets were not reported on the Council’s Balance Sheet. This reflected the risks and rewards of the PPP contract that was met by the PPP provider.

3.3. Under IFRS, there is a different accounting treatment required for the PPP schools. Rather than focusing on risks and rewards, consideration is given to who controls the running of the assets as part of a process to decide whether the school assets should appear on the Council’s balance sheet. It is likely that the schools will appear on the Council’s balance sheet.

3.4. A similar approach will require to be taken with any finance leases the council enters into.

4. Impact on Prudential Indicators

4.1. If the PPP assets and any finance lease assets require to be recorded on SLC's balance sheet, there will be a corresponding entry on the balance sheet reflecting the liability of future rentals which will be paid. These liabilities are effectively classed as a form of external borrowing.

4.2. Three Prudential Indicators are affected by external borrowing. These are :-

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.

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 of the Council 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.

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.

4.3. As the liability for the PPP and finance lease should be classed as external borrowing we now require to increase the CFR and the Limits for External Debt to accommodate the change in accounting practice. Current estimates for the liability is approximately £400m (which reflects the capital expenditure incurred in building the PPP schools).

4.4. The exercise to identify any finance leases is still ongoing, therefore an estimate of value of liability has been made at £50m.

4.5. It should be noted that there is no requirement to borrow these amounts of liability. Through classifying the liability as external debt does not increase the amount of money the Council is paying on the PPP contract, or in borrowing costs. Therefore there will be no impact on the revenue budgets.

4.6. To reflect these changes the prudential indicators should be updated as shown below

	Current 09/10 Limit	Revised 09/10 Limit
Capital Financing Requirement	£699.470m	£1,149.470m
Operational Limit for External Debt	£710m	£1,160m
Authorised Limit for External Debt	£730m	£1,180m

5. Employee Implications

5.1. None

6. Financial Implications

6.1. Changes to the accounting treatment of PPP schools and finance leases will have an impact on the councils income and expenditure account. However, The Scottish Government have indicated they will provide regulation to negate any impact on the Councils bottom line.

7. Other Implications

7.1. None

8. Equality Impact Assessment and Consultation Arrangements

8.1. 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.

8.2. 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)

8 December 2009

Link(s) to Council Values and Objectives

- Value: Accountable, effective and efficient

Previous References

- Finance and IT Resources Committee, 12 February 2009

List of Background Papers

None

Contact for Further Information

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

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