SOUTH LANARKSHIRE COUNCIL

Report

Agenda Item

4

Report to:	**Finance and Information Technology Resources Committee (Special)**
Date of Meeting:	**11 February 2010**
Report by:	**Executive Director (Finance and Information Technology Resources)**

Subject:	**Prudential Code Indicators 2010/2011 to 2012/2013**

1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ Provide the Prudential Code indicators based on the Capital programme for the years 2010/2011 to 2012/2013.

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 2012/2013 be 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. CIPFA undertook a review of the Prudential Code in early 2008 and issued a revised code in November 2009.

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

3.4. 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.

3.5. To meet the objectives of the Code, the Council is 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.

3.6. 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:

- Raising educational attainment for all
- Developing services to older people
- Improving health and increasing physical activity
- Improving the quality of the physical environment
- Improving the road network and public transport

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 the Council choose to fund through borrowing has a direct impact on the treasury activities of the Council. The majority of funding for the Primary School Modernisation Programme is to be funded from borrowing. Borrowing is also required to fund the Housing Investment Programme. The Prudential Indicators show the level of borrowing required.

4.4. The Prudential Code also recognises that, in making capital investment decisions the Council 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 2009 update to the Corporate Asset Management Plan was approved by the Executive Committee on 11 December 2009.

4.6. When considering potential capital investment, the Council ensures that the objectives of capital investment fits 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 adopting the CIPFA TM code, assurance is given that:-

- the Council has formal treasury objectives, policies and practices;
- priority is given to identifying and controlling risk;
- proper reporting arrangements are established.

6. Prudential Indicators

6.1. Based on the capital programme to 2010/2011 approved by Committee on 14 February 2008 and subsequent adjustments, the Prudential Indicators for 2010/2011 to 2012/2013 are shown at Appendix 1 along with explanations for each indicator. An updated position for 2009/2010 is also included.

6.2. The indicators are split into 3 categories:-

- Capital Expenditure and Borrowing Requirement indicators
- Affordability indicators
- Treasury Management Indicators

6.3. Through these Prudential Indicators, the Council is laying out what its expectations are 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 2009/2010 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. None

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)

4 February 2010

Link(s) to Council Values and Objectives

- Value: Accountable, effective and efficient

Previous References

- Report to the 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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Appendix 1

Prudential Indicators 2010/11 – 2012/13

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 2009/10 to 2012/13 and attribute limits for the external borrowing that is affordable. The financial impact of the expected borrowing is also stated. Indicator 7 is to give assurance 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.

After year end, the actual position for the Indicators will be reported to the Finance and Information Technology Resources Committee.

1. Capital Expenditure and Borrowing Requirement Indicators

Indicator 1 – Capital Expenditure

1.1 This indicator states the capital expenditure plans for the years 2009/10 through to 2011/12, and the corresponding funding package to meet that expenditure.

	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m	2012/13 Estimate £ m
General Fund Capital Expenditure	152.375	170.842	110.025	98.856
Funded by:				
Borrowing	92.198	115.385	98.775	92.856
Capital receipts and grants	56.926	29.681	11.250	6.000
Revenue contributions	3.251	25.776	0.000	0.000
Total Funding	**152.375**	**170.842**	**110.025**	**98.856**
HRA Capital Expenditure	42.087	40.508	36.593	36.871
Funded by:				
Borrowing	21.534	25.090	22.745	26.874
Capital receipts and grants	9.478	5.670	5.670	5.670
Revenue contributions	11.075	9.748	8.178	4.327
Total Funding	**42.087**	**170.842**	**110.025**	**98.856**

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 2009/10 will be presented to Committee following year end.

	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m	2012/13 Estimate £ m
General Fund Capital Financing Requirement	990.532	1,082.146	1,155.389	1,220.719
HRA Capital Financing Requirement	151.281	175.069	195.733	220.066
Total Capital Financing Requirement	1,141.813	1,257.215	1,351.122	1,440.785

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 the Finance and IT Resources Committee being advised.

3.3 It must be noted that the future for public sector funding remains uncertain and that this is a position which will require continual review.

	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m	2012/13 Estimate £ m
Operational Limit for external debt	1,100.000	1,270.000	1,370.000	1,460.000
Authorised Limit for external debt	1,120.000	1,290.000	1,390.000	1,480.000

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.

	2009/10 Estimate £ m	2010/11 Estimate £ m	2011/12 Estimate £ m	2012/13 Estimate £ m

General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	7.42%	8.10%	9.15%	10.00%
HRA General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	9.81%	12.31%	14.48%	15.89%

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 on the Council Tax. As it is assumed there is no increase in Council Tax 2010/11, no impact has been shown.

	2009/10 Estimate £ m	**2010/11 Estimate £ m**	**2011/12 Estimate £ m**	**2012/13 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. This indicator shows the likely impact of new HRA capital investment and the subsequent servicing of additional borrowing on the Council House Rents. It is estimated that an additional 1% increase will be required to meet the additional borrowing costs.

	2009/10 Estimate £ m	**2010/11 Estimate £ m**	**2011/12 Estimate £ m**	**2012/13 Estimate £ m**
Incremental impact on council house rents	0%	1%	1%	1%

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.