Agenda Item

Report

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Report to:	**Finance and Information Technology Resources Committee (Special)**
Date of Meeting:	**10 February 2011**
Report by:	**Chief Executive**

Subject:	**Prudential Code Indicators 2011/2012 - 2013/2014**

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 2011/12 to 2013/14.

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 2013/14 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. 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; 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.

3.4. 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 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.

3.6. 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:

- School Modernisation
- Developing services to older people
- Improving the road network.

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. 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 2010 update to the Corporate Asset Management Plan was approved by the Executive Committee on 22 September 2010.

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; that priority is given to identifying and controlling risk; and that proper reporting arrangements are established.

6. Prudential Indicators

6.1. A capital programme covering years 2011/12 to 2013/14 will be presented to Executive Committee on 10 February 2011 for approval. Based on this, and the previously approved Schools and Roads programmes, the Prudential Indicators for 2011/12 to 2013/2014 are shown at Appendix 1 along with explanations for each indicator. An updated position for 2010/11 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 laying out what our 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 2010/11 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. South Lanarkshire Council recognises that any treasury management activity will carry an element of risk. It is important that risk is identified and controls put in place to limit those risks.

9.2. The preparation and approval of Prudential Indicators sets a framework for treasury management activities in order to mitigate risks.

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.

Archibald Strang
Chief Executive

4 February 2011

Link(s) to Council Values/Improvement Themes/Objectives

- Accountable, efficient and effective

Previous References
None

List of Background Papers
- Report to the Finance and IT Resources Committee 11 February 2010

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 2010/11 to 2013/14 and attributes limits for the external borrowing that is affordable. The financial impact of the expected borrowing is also stated. Indicator 7 is to give assurance is 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 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 2010/11 through to 2013/14, and the corresponding funding package to meet that expenditure.

	2010/11 Estimate £ m	2011/12 Estimate £ m	2012/13 Estimate £ m	2013/14 Estimate £ m
General Fund Capital Expenditure	136.794	165.484	130.539	120.668
Funded by:				
Borrowing	105.914	104.293	122.753	113.407
Capital receipts and grants	23.175	42.505	7.034	7.034
Revenue contributions	7.705	18.686	0.752	0.227
Total Funding	**136.794**	**165.484**	**130.539**	**120.668**
HRA Capital Expenditure	40.975	39.949	37.412	27.662
Funded by:				
Borrowing	21.421	21.339	20.824	10.986
Capital receipts and grants	9.827	5.555	5.555	5.055
Revenue contributions	9.727	13.055	11.033	11.621
Total Funding	**40.975**	**39.949**	**37.412**	**27.662**

Indicator 2 – Councils 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 2010/11 will be presented to committee following year end.

	2010/11 Estimate £ m	2011/12 Estimate £ m	2012/13 Estimate £ m	2013/14 Estimate £ m
General Fund Capital Financing Requirement	907.753	984.428	1,077.341	1,158.379
HRA Capital Financing Requirement	169.769	188.992	207.190	215.091
Total Capital Financing Requirement	1,077.522	1,173.420	1,284.531	1,373.470

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 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.

	2010/11 Estimate £ m	2011/12 Estimate £ m	2012/13 Estimate £ m	2013/14 Estimate £ m
Operational Limit for external debt	1,090.000	1,190.000	1,300.000	1,390.000
Authorised Limit for external debt	1,110.000	1,210.000	1,320.000	1,410.000

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.

	2010/11 Estimate £ m	2011/12 Estimate £ m	2012/13 Estimate £ m	2013/14 Estimate £ m
General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	8.99%	9.26%	9.91%	10.54%
HRA Ratio of Financing Costs to Net Revenue Stream (expressed as %)	10.85%	11.90%	13.24%	14.64%

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 2011/12, no impact has been shown.

	2010/11 Estimate £ m	2011/12 Estimate £ m	2012/13 Estimate £ m	2013/14 Estimate £ m
Incremental impact on council tax band D	£0.00	£0.00	£11.01	£11.39

5.2 If council tax was increased and the previous strategy of using 1% of the increase to fund capital investment was resumed, the impact would be as shown above.

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 will have on the Council House Rents. It is estimated that an additional 1% increase will be required to meet the additional borrowing costs.

	2010/11 Estimate £ m	2011/12 Estimate £ m	2012/13 Estimate £ m	2013/14 Estimate £ m
Incremental impact on council house rents	1%	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.