THIS PAPER RELATES TO ITEM 04 ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to: **Special Council**

Date: **24th February 2015**

Subject: **Prudential Indicators 2015/16 to 2019/20**

Report by: **Depute Chief Executive**

1.0 Purpose

1.1. The 2015/16 to 2019/20 capital budgets have been prepared by Clackmannanshire Council under the self regulating Prudential Code. Local authorities are required by regulation to comply with the Prudential Code in terms of meeting their statutory duty under Section 35(1) of the Local Government in Scotland Act 2003 to *'determine and keep under review the maximum amount which it can afford to allocate to capital expenditure'.*

1.2. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable, as well as being consistent with local asset management planning. To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out 8 indicators that must be considered covering 3 distinct areas - capital expenditure, external debt and treasury management; affordability; and prudence.

1.3. The purpose of this report is to update and revise the indicators approved by Council last year in the context of the Council's latest spending plans over the period 2015/16 to 2019/20. The report describes the purpose of each of the indicators and the implications of the proposed levels, values and parameters for Clackmannanshire Council.

2.0 Recommendations

It is recommended that Council:

2.1. Approves the prudential indicators set out in this report for the years 2015/16 to 2019/20 in compliance with the Prudential Code requirements.

3.0 Considerations

3.1. The Council is advised that the Prudential Indicators shown in Sections 4 to 6 below have been determined based on the budget proposals contained in the General Services Revenue and Capital Budgets 2015/16 to 2017/18 and 2015/16 to 2019/20 report and Housing Revenue Budget 2015/16 and Capital Programme 2015/16 to 2019/20 report.

3.2. A number of the indicators presented in this report are calculated for seven financial years in total - the 2013/14 actual year end position, latest estimate for 2014/15 and estimates for the 5 years 2015/16 to 2019/20. The code requires a minimum of 3 future years to be approved but a further two years are shown to provide a longer term view.

3.3. As noted, there are 8 Prudential Indicators set out in the Code covering a number of areas - capital expenditure, affordability, prudence, external debt and treasury management. Arguably those indicators relating to affordability, which measures the bottom line impact of the Council's capital expenditure proposals, are the most significant. It is important however to view the indicators in sections 4 to 6 of this report as a comprehensive and inter-related package which is intended to demonstrate that the Council's capital investment plans are prudent, affordable and sustainable.

4.0 CAPITAL EXPENDITURE, EXTERNAL DEBT AND TREASURY MANAGEMENT INDICATORS

The Prudential Code has 5 indicators relating to these areas.

4.1 CAPITAL EXPENDITURE

Purpose of the Indicator

The Prudential Code requires the Council to make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and the following two financial years. The Code also requires this information to be split between General Fund Services and Housing Revenue Account (HRA).

To provide a longer term view, the estimates of gross capital expenditure to be incurred for the next five years together with the projection for the current year and actual for 2013/14 are as follows:

Gross Capital Expenditure

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000	£000	£000
	Actual	Projection	Estimate	Estimate	Estimate	Estimate	Estimate
General Fund Services	16,954	11,282	9,475	10,458	10,069	8,880	10,860
Housing Revenue Account	7,789	9,173	13,080	7,981	8,365	6,800	7,004
Total	**24,743**	**20,455**	**22,555**	**18,439**	**18,434**	**15,680**	**17,864**

Implications

The above figures are shown net of any income and are consistent with the capital programme proposals for General Services and Housing contained in the previous agenda items. These capital plans take full account of the requirements of the Prudential Code. Levels of expenditure across the years reflect the funding envelope available consistent with the Council's Borrowing and Investment strategy to minimise increases in external borrowing. The planned spending figure of £22.555m for 2015/16 will be kept under review through the capital monitoring process and reported to Resources and Audit Committee quarterly.

4.2 CAPITAL FINANCING REQUIREMENT

Purpose of the Indicator

Capital expenditure that is not financed upfront by the use of capital receipts, capital grants or directly from revenue will increase the capital financing requirement of the Council. The calculation of the Capital Financing Requirement is therefore intended to reflect the Council's underlying need to borrow for a capital purpose and it is used as a key measure in treasury management decisions for this reason.

Estimates of the end of year Capital Financing Requirement for the Council for the current and future years together with the actual position last year are:

Capital Financing Requirement as at:

	31/03/14	31/03/15	31/03/16	31/03/17	31/03/18	31/03/19	31/03/20
	£000	£000	£000	£000	£000	£000	£000
	Actual	Projection	Estimate	Estimate	Estimate	Estimate	Estimate
General Fund Services	134,346	131,653	127,683	124,937	123,019	120,006	118,714
Housing Revenue Account	32,074	31,020	34,576	35,405	35,604	34,574	33,270
Total	**166,420**	**162,673**	**162,259**	**160,342**	**158,623**	**154,580**	**151,984**

Implications

The capital financing requirement is estimated to reduce over the next five years to £152m by the end of March 2020. This indicates that there is no requirement for the Council to increase long term borrowing over the next five years which is in line with the approved financial strategy of minimising long term borrowing.

The financing requirement for General Fund services steadily reduces in line with the strategy of keeping the capital programme at a level that does not incur any net additional borrowing.

The Housing programme currently requires modest increases in capital finance over the years 2015/16 to 2017/18 in order to maintain delivery of the current approved housing business plan.

4.3 AUTHORISED LIMIT FOR EXTERNAL DEBT

Purpose of the Indicator

The authorised limit for external debt is required to separately identify external borrowing (gross of investments) and other long term liabilities such as finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year.

Authorised limit for external debt

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000	£000
Borrowing	136,000	126,000	126,000	125,000	122,000	121,000
Other long term liabilities including PFI	51,000	49,000	48,000	47,000	46,000	45,000
Total	**187,000**	**175,000**	**174,000**	**172,000**	**168,000**	**166,000**

Implications

The authorised limit set out above is consistent with approved capital investment plans and Treasury Management policy and practice but allows sufficient headroom for unanticipated cash movements. The limit has been reduced over the next five years in line with reductions in actual external borrowing. The limit will be reviewed on an on-going basis during the year. If the authorised limit is liable to be breached at any time, the Depute Chief

Executive will report to the Resources and Audit Committee. It will then be open to Committee to raise the authorised limit or to take measures to ensure the limit is not breached.

4.4 OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

Purpose of the Indicator

This is a key management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point in the year. In comparison, the authorised limit is the maximum allowable level of borrowing.

Operational Boundary for external debt

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000	£000
Borrowing	129,000	121,000	121,000	120,000	117,000	116,000
Other long term liabilities	46,000	44,000	43,000	42,000	41,000	40,000
Total	**175,000**	**165,000**	**164,000**	**162,000**	**158,000**	**156,000**

Implications

This indicator is consistent with the Council's plans for capital expenditure and financing with Treasury Management policy and practice. It is sufficient to facilitate appropriate borrowing during the financial year and will be reviewed on an on-going basis.

4.5 TREASURY MANAGEMENT INDICATOR

The prudential indicator in respect of treasury management is that the local authority has adopted the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes. This revised code (2009 version) was formally adopted by Council at its meeting on 16th December 2010.

Purpose of the Indicator

The aim of this indicator is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, and a recognition of the pre-existing structure of the Council's borrowing and investment portfolios.

5.0 AFFORDABILITY INDICATORS

The Prudential Code has 2 indicators relating to affordability.

5.1 RATIO OF FINANCING COSTS TO NET REVENUE STREAM

Purpose of the Indicator

The Prudential Code requires the Council to make estimates of the ratio of capital financing costs to its net revenue stream.

The indicator is intended to measure the percentage of the Council's total income that it is estimated will be committed towards meeting the costs of borrowing used to fund capital expenditure. For the General Fund this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers. For the HRA the indicator is the ratio of financing costs to gross rental income.

Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

Ratio of financing costs to net revenue stream

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000	£000	£000
	Actual	Projection	Estimate	Estimate	Estimate	Estimate	Estimate
General Fund	8.10%	8.04%	8.16%	8.50%	8.89%	8.88%	8.88%
Housing Revenue Account	18.05%	16.91%	18.31%	19.16%	18.83%	18.24%	17.71%

Implications

The above figures show that for the General Fund, over the next five years, the proportion of the budget allocated to loan charges shows a modest increase which is a positive outcome over this period against a backdrop of broadly reducing levels of government grant funding, stable levels of council tax and increasing annual PPP costs. This demonstrates that capital financing costs are being controlled through the effective implementation of the Council's borrowing and investment strategy

Capital investment in Housing is in accordance with the revised Business Plan to achieve the Scottish Housing Quality Standard together with our own Clackmannanshire Standard. The ratio of capital financing costs to rental income is projected to reduce in 2014/15 as a result of reduced borrowing due to the approved Business Plan reducing the level of reserves held from £3m to 4% of net income approx. £700k. The ratio then increases in the short term over the next two years to reflect additional investment to bring properties upto the required standard and meet the demands for Social Housing.

5.2 ESTIMATES OF INCREMENTAL IMPACT OF NEW CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX AND HOUSE RENTS

Purpose of the Indicator

This indicator is intended to measure the incremental impact on the Council Tax and Housing Rents which would arise from changes to the Council's existing capital budget.

Incremental impact of capital spending on:

	2015/16	2016/17	2017/18	2018/19	2019/20
Council Tax (Band D)	NIL	NIL	NIL	NIL	NIL
Average Weekly House Rents (per week)	£12.11	(£4.31)	NIL	(£4.82)	(£5.22)

Implications

The capital financing cost consequences of the General Services capital proposals for the years 2015/16 to 2019/20 have been assessed against the plans approved last year. The Council's approved Finance Strategy determines that the funding envelope for new capital investment is restricted to the sum of capital grants and current levels of loan repayment provision. This policy is unchanged in the current capital plans and therefore the General Services Capital programme are considered to be affordable without requiring any specific additional Council Tax in these years

The HRA capital investment plans record a significant increase in planned net borrowing requirement in 2015/16 compared to the previous year. This is due to previously planned spend in 2016/17 being brought forward into 2015/16 which has resulted in a reduction in the incremental impact in 2016/17.

6.0 FINANCIAL PRUDENCE INDICATOR

The Prudential Code has one indicator relating to prudence

6.1 GROSS EXTERNAL BORROWING AND THE CAPITAL FINANCING REQUIREMENT

Purpose of the Indicator

In December 2012, CIPFA issued an amendment to the Prudential Code to replace the prudential indicator for net debt with an indicator for gross debt to be compared with the capital financing requirement. The requirement is now for gross debt to be kept below the CFR, except in the short term i.e. in the preceding year plus estimates of any additional capital financing requirement in the current and next two financial years

This indicator records the extent that gross external borrowing is less than the capital financing requirement (indicator 4.2 above). This is a key indicator of prudence and is designed to ensure that, over the medium term, external borrowing is only for a capital purpose. The values are measured at the end of the financial year.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000	£000	£000
	Actual	Projection	Estimate	Estimate	Estimate	Estimate	Estimate
Gross External Borrowing	161,969	163,665	154,246	153,555	157,262	153,645	150,475
Capital Financing Requirement	166,420	162,673	162,259	160,342	158,623	154,580	151,984
(Over)/ Under Limit by	**4,451**	**(992)**	**8,013**	**6,787**	**1,361**	**935**	**1,509**

Implications

At the end of 2014/15 the Council is projected to be above the gross limit due to an unexpected grant of £4m being received in the latter part of the financial year once the Council was already committed to borrowing. However, as an under borrowed position is maintained over the medium term in the preceding and future years the Council meets the requirement of the indicator.

The Council's gross borrowing has reduced in 2013/14 due to debt repayments and the use of cash balances to fund capital expenditure in place of new debt. However, in order to maintain sufficient cash balances in future years, capital expenditure is assumed to be funded by new debt within the parameters of the capital financing requirement and the Council's strategy to reduce long term borrowing.

7.0 CONCLUSION

7.1 The Prudential Indicators laid out in Sections 4 to 6 above are considered to provide the Council with a robust framework for moving forward under the Prudential Code and reflect a capital investment strategy which is prudent, affordable and sustainable.

8.0 Sustainability Implications

8.1 None

9.0 Resource Implications

9.1 *Financial Details*

9.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate.

Yes ☑

9.3 Finance have been consulted and have agreed the financial implications as set out in the report. Yes ☐

9.4 *Staffing*

9.5 None

10.0 Exempt Reports

10.1 Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☑

11.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities (**Please tick ☑)

The area has a positive image and attracts people and businesses ☐
Our communities are more cohesive and inclusive ☐
People are better skilled, trained and ready for learning and employment ☐
Our communities are safer ☐

Vulnerable people and families are supported ☐
Substance misuse and its effects are reduced ☐
Health is improving and health inequalities are reducing ☐
The environment is protected and enhanced for all ☐
The Council is effective, efficient and recognised for excellence ☑

(2) Council Policies (Please detail)

Treasury Management Policy Statement and Practices

12.0 Equalities Impact

12.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes ☐ No ☐

13.0 Legality

13.1 In adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☑

14.0 Appendices

14.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

None

15.0 Background Papers

15.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes (please list the documents below) No ☑

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