
Report to Special Council

Date of Meeting: 10 February 2011

Subject: Prudential Indicators 2011/12 to 2013/14

Report by: Accountancy Manager

1.0 Purpose

- 1.1 The 2011/12 capital budget has been prepared 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 set out 8 indicators that must be considered covering 3 distinct areas - capital expenditure, external debt and treasury management; affordability; 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 2011/12 to 2013/14. The report describes the purpose of each of the indicators and the implications of the proposed levels, values and parameters for Clackmannanshire Council.
- 1.4 This report is prepared recognising that in the current review of public sector spending there is the risk that the Government at any future point could withdraw the prudential borrowing facility and impose a cap on borrowing. Such a move would have an impact on the capital expenditure plans of all Councils, and we should be mindful that our capital programme and associated borrowing needs to be flexible to adapt to this eventuality should it arise.

2.0 Recommendations

- 2.1 It is recommended that the Council approves the prudential indicators set out in this report for the years 2011/12 to 2013/14 in compliance with the Prudential Code requirements.

3.0 Considerations

CAPITAL EXPENDITURE, EXTERNAL DEBT AND TREASURY MANAGEMENT INDICATORS

3.1 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).

The estimates of gross capital expenditure to be incurred for the current and future years are as follows:

	Capital Expenditure			
	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
	Projection	Estimate	Estimate	Estimate
General Fund Services	6,631	8,256	7,864	5,508
Housing Revenue Account	4,504	6,628	4,668	4,911
Total	11,135	15,154	12,532	10,419

Implications

The above figures are consistent with capital programme proposals for General Services and Housing (see separate papers on agenda). These capital plans take full account of the requirements of the Prudential Code. The above figures show some movements between years. Reduction in planned spend on some projects in the current year will now be completed in 2011/12. Levels of expenditure in both 2012/13 and 2013/14 show steady reductions in line with our strategy to reduce capital spend and associated borrowing. The planned spending figure of £15.154m for 2011/12 will be kept under review via the capital monitoring process.

3.2 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 are:

	Capital Financing Requirement			
	31/03/11	31/03/12	31/03/13	31/03/14
	£000	£000	£000	£000
	Projection	Estimate	Estimate	Estimate
General Fund	94,861	93,414	91,304	86,838
Housing Revenue Account	33,493	35,639	38,087	38,923
Total	128,354	129,053	129,391	125,761

Implications

The capital financing requirement records an overall reduction of c£2.6m from the level estimated at the end of March 2011. This is in line with our strategy to reduce levels of debt over the current spending period. General Fund services delivers a steady reduction in financing requirement as the capital programme is now benefiting from higher levels of government grant. On the other hand the Housing programme currently requires higher levels of capital finance to maintain delivery of the approved housing business plan against a backdrop of reduced income from sale of assets.

3.3 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 covenant repayments and 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			
	2010/11	2011/12	2012/13	2013/14
	£000	£000	£000	£000
Borrowing	141,000	143,000	141,000	140,000
Other long term liabilities	2,000	2,000	2,000	2,000
Total	143,000	145,000	143,000	142,000

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 will be reviewed on an on-going basis during the year. If the authorised limit is liable to be breached at any time, the Director of Finance and Corporate Services

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

3.4 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				
	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Borrowing	128,000	129,000	127,000	126,000
Other long term liabilities	1,000	1,000	1,000	1,000
Total	129,000	130,000	128,000	127,000

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.

3.5 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 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.

4.0 Affordability Indicators

4.1 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			
	2010/11	2011/12	2012/13	2013/14
	Projection	Estimate	Estimate	Estimate
General Fund	7.97%	8.63%	8.69%	8.69%
Housing Revenue Account	23.35%	22.68%	23.06%	23.16%

Implications

The above figures show that for the General Fund the proportion of the budget allocated to loan charges increases to a level of 8.76% over the next three years. There is a marked increase from the current year compared to 2011/12 which reflects the reduction in our revenue stream of c£2.5m. Whilst similar reductions in grant income is forecast for the following years, reductions in capital financing requirement over the same period, allows the ratio to be stabilised at the 8.69% level.

Capital investment in Housing is in accordance with the Business Plan to achieve the Scottish Housing Quality Standard together with our own Clackmannanshire Standard. The present economic downturn has had a major impact on the capital income received from council house sales. Balancing the mix of borrowing and use of reserves to fund the programme is kept under review in the light of changes in interest rates and volume of house sales. The ratio of capital financing costs to rental income stands at a level of around 23% over the next three year. Whilst rental income records a steady increase over this period, the higher level of borrowings as a result of the reduction in capital receipts maintains the ratio at this level.

4.2 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:	2010/11	2011/12	2012/13	2013/14
Council Tax (Band D)	£nil	£nil	£nil	£nil
Average Weekly House Rents	£nil	£nil	£nil	£nil

Implications

The capital financing cost consequences of the general services capital proposals for the years 2010/11 to 2013/14 have been assessed against the plans approved last year. With levels of borrowing reducing in each of these years compared to our previous plan, these new proposals will be contained within current indicative capital financing costs budgeted over this period, and thus not have an incremental impact on council tax.

The HRA capital investment plans in 2010/11 records slippage in programmed spend. This underspend has been re-profiled over the following three years. Therefore, although there are fluctuations in capital financing requirement in each of the years, the overall impact is unchanged from the programme approved last year and thus this assessment indicates there is no incremental impact on house rents during this period.

5.0 Financial Prudence Indicator

5.1 NET EXTERNAL BORROWING AND THE CAPITAL FINANCING REQUIREMENT

Purpose of the Indicator

This indicator records the extent that net external borrowing (gross external borrowing less investments) is less than the capital financing requirement (indicator 3.2 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.

£,000	2010/11 Projection	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Net External Borrowing	123,422	123,316	124,202	122,317
Capital Financing Requirement	128,354	129,053	129,391	125,761
Under Limit by	4,932	5,737	5,189	3,444

Implications

The above figures confirm that for the next three years net external borrowing in Clackmannanshire will be prudently contained within the capital financing requirement.

7.0 Sustainability Implications

7.1 Not applicable to this report

8.0 Resource Implications

8.1 Financial Details

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

8.2 Finance has been consulted and have agreed the financial implications as set out in the report

Yes

8.2 Staffing

There are no direct implications to staffing arising from this report

9.0 Exempt Reports

Is this report exempt? Yes (please detail the reasons for exemptions below) No

10.0 Declarations

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

(1) Our Priorities 2008 - 2011 (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)

11.0 Equalities Impact

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

Yes No

12.0 Legality

12.1 In adopting the recommendations contained in this report,
the Council is acting within its legal powers Yes No

13.0 Appendices

No appendices attached to this report

14.0 Background Papers

14.1 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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