

# EAST AYRSHIRE COUNCIL

CABINET - 11 FEBRUARY 2009

## PERFORMANCE MANAGEMENT – PRUDENTIAL INDICATORS

Report by Executive Head of Finance and Asset Management

### 1. PURPOSE OF REPORT

To seek approval of Prudential Indicators relating to capital investment and treasury management which are designed to demonstrate that the proposed capital programmes and treasury management decisions are affordable, prudent and sustainable.

### 2. BACKGROUND

The Local Government in Scotland Act 2003 includes a requirement for Councils to comply with the Prudential Code for Capital Finance in Local Authorities (the Code). The Code sets out a range of indicators covering both capital investment and treasury management. Prudential Indicators require to be set in advance of the forthcoming financial year and are intended to support strategic planning decisions in relation to capital investment.

The key objective of the Prudential Code is to ensure that the capital investment plans of the Council are affordable, prudent and sustainable and that they support local strategic planning. This report relates specifically to the prudential indicators themselves however capital investment is also supported by a number of other activities within the Council including asset management planning, option appraisal, service planning and project management all of which are elements of good practice in this area.

### 3. PRUDENTIAL INDICATORS

#### **Affordability**

The overriding objective in the consideration of the Council's proposed levels of capital investment is to ensure that these are sustainable in terms of the impact upon Council Tax and Housing rents. Prudential Indicators No. 1 to No. 8 are key measures of affordability.

- i) **Indicator 1 – Capital Expenditure** – This requires the Council to estimate total capital expenditure on a prudential basis and to monitor out-turn. The detailed capital investment programme is considered elsewhere on the agenda for this meeting. The following table summarises the level of planned investment for the current and next 3 years, together with the estimated borrowing required to support this.

	2008/09 Projected £M	2009/10 Estimated £M	2010/11 Estimated £M	2011/12 Estimated £M
<b>Capital Expenditure</b>				
General Fund	28.889	13.504	56.004	50.210
HRA	15.935	15.616	15.026	15.026
<b>Gross Capital Expenditure</b>	<b>44.824</b>	<b>29.120</b>	<b>71.030</b>	<b>65.236</b>
<b>Financed By:</b>				
Capital Receipts	-2.700	-4.888	-3.640	-1.917
Grants & Partnership Funding	-5.036	-4.324	-4.860	-4.860
Revenue (CFCR)	-6.769	-5.561	-5.561	-5.561
Capital Fund – Appropriation	-1.973	-1.000	-2.500	-2.500
<b>Total Financing</b>	<b>-16.478</b>	<b>-15.773</b>	<b>-16.561</b>	<b>-14.838</b>
<b>Net Financing – Borrowing Requirement in Year</b>	<b>28.346</b>	<b>13.347</b>	<b>54.469</b>	<b>50.398</b>

- ii) **Indicator 2 – Ratio of Financing Costs to Net Revenue Stream** – This indicator focuses on the extent to which the Council's net budget and Housing rents are used to service the cost of capital debt.

	2008/09 Projected £M	2009/10 Estimated £M	2010/11 Estimated £M	2011/12 Estimated £M
<b>Ratio of financing costs to net revenue stream:</b>				
General Fund	6.08%	6.35%	7.33%	7.43%
HRA	12.58%	14.33%	15.18%	15.84%

- iii) **Indicator 3 – Incremental Impact on Council Tax** – This indicator quantifies the impact of capital investment decisions on Council Tax levels taking account of any changes in the level of support for loan charge within overall government grant levels. It is expected that the Council will approve a Council tax in line with 2008/09 levels. If this is the case there would be no impact on council tax arising from capital investment decisions in 2009/10. Indicative levels for 2010/11 and 2011/12 are shown for information only and these will be reviewed annually.

	2009/10 Estimated £M	2010/11 Estimated £M	2011/12 Estimated £M
<b>Band D Council Tax Impact</b>	£-	£18.12	£38.67

- iv) **Indicator 4 – Incremental Impact on Rents** – This indicator illustrates the impact of changes to the HRA investment programme expressed in terms of equivalent weekly rent. The proposed investment level for 2009/10 and 2010/11 are in line with previous estimates and as a result there is no additional impact. The level of capital investment proposed for 2011/12 would result in an incremental cost of £1.87 per rent week.

	2009/10 Estimated £M	2010/11 Estimated £M	2011/12 Estimated £M
<b>Weekly Housing Rent Impact</b>	£-	£-	£1.86

- v) **Indicator 5 – Capital Financing Requirement** – Capital expenditure is funded from a number of sources. These include capital receipts, capital grants and contributions from other parties, revenue contributions (CFCR). Expenditure not funded from any of these sources is financed by borrowing from external sources or from internal reserves and day to day cash management balances. This indicator shows the cumulative amount that the Council will need to borrow to fund the capital programme at the end of each year.

	2008/09 Projected £M	2009/10 Estimated £M	2010/11 Estimated £M	2011/12 Estimated £M
<b>Capital Financing Requirement</b>				
General Fund	164.385	163.901	202.843	235.104
HRA	63.725	67.799	72.276	78.207
<b>Total CFR</b>	<b>228.110</b>	<b>231.700</b>	<b>275.119</b>	<b>313.310</b>
<b>Movement in CFR</b>	<b>20.073</b>	<b>3.590</b>	<b>43.419</b>	<b>38.192</b>
<b>Represented By:</b>				
Net Financing need for year	28.346	13.347	54.469	50.398
Principal Repayments	-8.273	-9.757	-11.050	-12.206
	<b>20.072</b>	<b>3.590</b>	<b>43.419</b>	<b>38.192</b>

- vi) **Indicator 6 & 7 Limits to borrowing Activity** –

- **The Operational Boundary for External Debt** is based upon the expected maximum external debt that could be faced in the course of the year. It is set at a level that provides a realistic pattern of day to day treasury management.
- **The Authorised Limit for External Debt** represents a limit beyond which external debt is prohibited. It represents the level of external debt which can be afforded in the short term, but is not sustainable over a longer period.

	2009/10 Estimated £M	2010/11 Estimated £M	2011/12 Estimated £M
<b>Operational Boundary for External Debt</b>	299.000	399.000	428.000
<b>Authorised Limit for External Debt</b>	314.000	419.000	449.000

## Prudence

- vii) **Indicator 8 – Net External Borrowing** – This indicator excludes other long term borrowing and is a key test of prudence. The amount of net borrowing should be less than the capital financing requirement in the preceding financial year plus estimates of additional CFR for the current and next 2 years. The primary purpose is to ensure that the Council over the medium term borrows only for capital purposes and is not financing revenue activities from borrowing.

	2008/09 Projected £M	2009/10 Estimated £M	2010/11 Estimated £M	2011/12 Estimated £M
<b>Total Borrowing</b>	<b>201.830</b>	<b>221.903</b>	<b>225.493</b>	<b>268.912</b>
<b>Investments</b>	<b>-25.000</b>	<b>-20.000</b>	<b>-20.000</b>	<b>-20.000</b>
<b>Net Debt</b>	<b>176.830</b>	<b>201.903</b>	<b>205.493</b>	<b>248.912</b>
<b>CFR Comparator</b>	<b>289.071</b>	<b>295.191</b>	<b>355.433</b>	<b>389.694</b>
<b>Debt/CFR Ratio</b>	<b>61%</b>	<b>68%</b>	<b>58%</b>	<b>64%</b>

### Treasury Management Indicators

These indicators relate specifically to Treasury Management activity, which is the subject of separate reporting arrangements to Cabinet twice yearly. They provide an assurance that the Council is not exposed to undue risk from its borrowing or lending practices.

- viii) **Indicator 9 – Maturity Structure of Borrowing** – This indicator reflects the external debt portfolio at a fixed point in time and provides baseline information in respect of indicator 12.

Maturity Period	Approved Limits		Debt Maturity Projected at 31 March 2009	
	Upper	Lower	£M	%
Under 12 Months	10%	0%	0.026	0.01%
12 Months to 2 Years	10%	0%	0.029	0.01%
2 Years to 5 Years	10%	0%	0.106	0.05%
5 Years to 10 Years	25%	0%	7.895	3.91%
Over 10 Years	100%	0%	193.772	96.01%

- ix) **Indicator 10 – Code of Practice for Treasury Management** – The Prudential Code seeks assurance that the Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector. The Council formally adopted this on 2 May 2002 and has in place a treasury management strategy and a policy and practices statement to monitor compliance.
- x) **Indicator 11 - Interest Rate Exposure** – This indicator, along with the information presented in Indicator 10 identifies the Council's exposure to external debt which has a variable rate of interest.

	2009/10 Upper Limit	2010/11 Upper Limit	2011/12 Upper Limit
Debt – variable interest rate	50%	50%	50%
Debt – fixed rate interest	100%	100%	100%

- xi) **Indicator 12 - Limits for Principal sums invested for longer than 364 days** – These limits are set to reduce the need to redeem debt prematurely, which could result in loss of interest and/or penalty charges. The use of investments greater than 364 days is not yet permitted in Scotland although it is expected that the Scottish Government will publish revised investment guidance during financial year 2009/10. As a result the internal limits proposed are at this stage only indicative.

<b>Investment Period</b>	<b>Upper Limit</b>
Under 12 Months	<b>100%</b>
12 Months to 2 Years	<b>40%</b>
2 Years to 5 Years	<b>10%</b>
5 Years to 10 Years	<b>5%</b>
Over 10 Years	<b>5%</b>

#### **4. LEGAL/POLICY IMPLICATIONS**

The Council is required by Part 7 of the Local Government in Scotland Act to comply with the Prudential Code.

#### **5. RECOMMENDATION**

It is recommended that Cabinet

- i) recommend to the Council that the Prudential Indicators set out in section 3 of the report are approved
- ii) otherwise note the contents of the report

Alex McPhee

**Executive Head of Finance and Asset Management**

5 February 2009

#### **LIST OF BACKGROUND PAPERS NIL**

Members wishing further information should contact  
Robin Baker, Financial Controller, Telephone (01563) 576331