

## **EAST AYRSHIRE COUNCIL**

### **POLICY AND RESOURCES COMMITTEE – 8 FEBRUARY 2006**

#### **PERFORMANCE MANAGEMENT - PRUDENTIAL INDICATORS 2006/2007**

##### **Report by Executive Head of Finance**

### **1. PURPOSE OF REPORT**

- 1.1** To seek Members approval of the prudential indicators relating to capital expenditure plans, borrowing levels and affordability – which are required to be set and approved by the Council in advance of the new financial year and are designed to ensure effective performance management in this area.

### **2. BACKGROUND INFORMATION**

- 2.1** The Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Council must approve, revise and monitor a range of prudential indicators covering the forthcoming three years. The Local Government in Scotland Act 2003 (via regulation) requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. This report revises the indicators for 2005/06, 2006/07 and 2007/08, introduces new indicators for 2008/09 and shows the 2004/05 actuals. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital appraisal systems.
- 2.2** Within the overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. The treasury management strategy for 2006/07 and the prudential indicators relating to the treasury activity will be the subject of a report to this committee prior to the commencement of the new financial year.

### **3 CAPITAL EXPENDITURE PLANS & THE CAPITAL FINANCING REQUIREMENT (CFR)**

- 3.1** The proposed General Services capital programme is the subject of a separate report to this meeting. The level of Housing capital spend for 2006/07 was approved by the Housing Committee at its meeting on 27 January 2006. These capital expenditure plans are summarised in the table at paragraph 3.5 below and this forms the first of the prudential indicators. The total expenditure is partially funded by external resources including capital receipts and capital grants. Any remaining expenditure which cannot be immediately funded from other resources will form a borrowing need.

- 3.2** The Scottish Executive provides direct loan charge support based upon a notional level of capital investment. Expenditure above this level is effectively unsupported and is met from the Council's own resources.
- 3.3** There are two main limiting factors which may impact on the Council's ability to undertake capital expenditure:
- Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs.
  - The Government may use a long stop control to limit either the total of all councils' plans, or in the event of an assessment by Central Government that local plans are unaffordable at a specific council, it may implement a local control to limit its capital expenditure plans. There has been no indication that limits will be imposed for the coming year.
- 3.4** The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change and that some of estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.
- 3.5** In order to meet the requirements of the prudential code members are asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

	2005/06 Actual £M	2006/07 Revised £M	2007/08 Estimated £M	2008/09 Estimated £M
General Fund	22.259	40.208	20.201	15.440
Housing Revenue Account (HRA)	12.569	13.660	15.027	15.027
<b>Total Gross Capital Expenditure</b>	<b>34.828</b>	<b>53.868</b>	<b>35.228</b>	<b>30.467</b>
<b>Financed By :</b>				
Capital Receipts	9.820	8.000	8.000	8.000
Grants & Partnership Funding	11.469	12.531	4.356	0.440
Revenue (CFCR)	3.561	3.561	3.561	3.561
Slippage & B/Fwd Funding		10.516	0.625	
<b>Total Financing</b>	<b>24.850</b>	<b>34.608</b>	<b>16.542</b>	<b>12.001</b>
<b>Net Financing need for the year</b>	<b>9.978</b>	<b>19.260</b>	<b>18.686</b>	<b>18.466</b>

- 3.6** The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The net capital financing need above will impact directly on the CFR. The Council is asked to approve the CFR projections below:

	2005/06 Revised £M	2006/07 Estimated £M	2007/08 Estimated £M	2008/09 Estimated £M
CFR - General Fund	131.147	153.511	162.809	170.448
CFR - HRA	61.260	62.163	64.308	66.296
<b>Total CFR</b>	<b>192.407</b>	<b>215.674</b>	<b>227.117</b>	<b>236.744</b>
<b>Movement in CFR</b>	<b>3.511</b>	<b>23.267</b>	<b>11.443</b>	<b>9.627</b>
<b>Represented by :</b>				
Slippage and Brought Forward funding	0.000	10.516	0.625	0.000
Net Financing need for the year (above)	9.978	19.260	18.686	18.466
Less : Principal Repayments - Loans Fund	(6.467)	(6.509)	(7.868)	(8.839)
	<b>3.511</b>	<b>23.267</b>	<b>11.443</b>	<b>9.627</b>

#### 4 LIMITS TO BORROWING ACTIVITY

- 4.1 The Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2006/07 and next two financial years. This allows some flexibility for limited early borrowing for future years.

	2005/06 Revised £M	2006/07 Estimated £M	2007/08 Estimated £M	2008/09 Estimated £M
<b>Level of External Debt :</b>				
Gross External Debt	191.823	215.090	226.533	236.160
Investments	(40.000)	(20.000)	(20.000)	(20.000)
<b>Net External Debt</b>	<b>151.823</b>	<b>195.090</b>	<b>206.533</b>	<b>216.160</b>
<b>Total CFR</b>	<b>192.407</b>	<b>215.674</b>	<b>227.117</b>	<b>236.744</b>

- 4.2 This target will be complied with in the current year and it is not anticipated that there will be any difficulty with compliance in the future financial years. This view takes account of current commitments, existing capital plans and the proposals included within the proposed 3 year capital plan.

4.3 A further two Prudential Indicators control the overall level of borrowing which can be reached. These are:

- (a) **The authorised limit** – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by members. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
- (b) **The operational boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure the authorised limit is not breached.

4.4 Council approval of the following authorised and operational limits is required:

	2005/06 Revised £M	2006/07 Estimated £M	2007/08 Estimated £M	2008/09 Estimated £M
Authorised limit for external debt	219.311	239.068	253.420	264.477
Operational boundary for external debt	214.515	234.272	248.042	258.813

## 5 AFFORDABILITY PRUDENTIAL INDICATORS

5.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:

5.2 **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the general services and HRA revenue estimates.

	2004/05 Actual £M	2005/06 Revised £M	2006/07 Estimated £M	2007/08 Estimated £M	2008/09 Estimated £M
Ratio of financing costs to net revenue stream :					
General Fund	6.039%	6.138%	6.033%	6.318%	6.625%
HRA	16.367%	16.670%	16.295%	16.919%	17.569%

- 5.3 Estimates of the incremental impact of capital investment decisions on the Band 'D' Council Tax** – This indicator identifies the trend in the cost of proposed changes in the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some elements which are estimated over the three year period.

	2006/07 Estimated £M	2007/08 Estimated £M	2008/09 Estimated £M
Incremental Impact - Band D Council Tax	£1.31	£5.35	£16.73

Band D Council Tax levels proposed in the budget consultation take these values into account. The figure for 2006/07 is proposed at £1170.99.

- 5.4 Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. The fact that no changes were made to the previously agreed levels of capital investment for housing in 2006/07 or 2007/08 results in no additional impact on rent levels for those years.

	2006/07 Estimated £M	2007/08 Estimated £M	2008/09 Estimated £M
Incremental Impact – Weekly Housing Rent	£0.00	£0.00	£0.14

## 6 FINANCIAL IMPLICATIONS

- 6.1** The financial implications have been included within the respective estimates for the General Fund and the Housing Revenue Account for 2006/07.

## 10 POLICY/LEGAL IMPLICATIONS

- 10.1** The Treasury Management Strategy, Policies and Practices will be updated as appropriate to reflect the above.

## 11 RECOMMENDATIONS

It is recommended that Members: -

**11.1** recommended to the Council that the Prudential Indicators set out in paragraphs 3.5; 3.6; 3.7; 4.1; 4.4; 5.2; 5.3 and 5.4 are approved;

**11.3** otherwise, note the content of the report.

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18 January 2006

### LIST OF BACKGROUND PAPERS NIL

Further information on this report is available from Lorna Service, Exchequer Manager,  
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