Renfrewshire Council

To: Council

On: 21 December 2017

Report by: Director of Finance & Resources

Heading: A Prudential Framework for Capital Finance – Progress Report

1. Summary

1.1 The Local Authority (Capital Finance and Accouting) (Scotland) Regulations 2016 require the Council to have regard to the Prudential Code for Capital Finance (the Prudential Code) when deciding capital spending limits. The Prudential Code was developed to support and assist local authorities in their capital investment decisions.

1.2 The Council set its prudential indicators for 2017/18 on 16th February 2017. The purpose of this report is to consider the indicators as they stand at 13th October 2017, approximately halfway through the financial year, and revise them as appropriate

2. Recommendations

2.1 It is recommended that members consider this report and approve the changes to the prudential indicators as detailed in the report.

3. Background

3.1 The Prudential Code was last updated alongside the Treasury Management Code in 2011. CIPFA have recently undertaken consultations for both codes with a view to issuing amended versions in early 2018. This could involve changes to the format, content and structure of the capital plan and associated indicators which will be reviewed upon release of the updated Code.

3.2 The key objectives of the Prudential Code are to ensure that:

- capital investment plans are affordable, prudent and sustainable
- treasury management decisions are taken in accordance with good professional practice and support affordability, prudence and sustainability.
- capital investment decisions are consistent with, and support, local strategic planning, local asset management planning and proper option appraisal.

3.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios. These are for the Council to set itself.

The prudential indicators required by the Code are designed to support and record local decision making. The system is specifically designed to support such local decision making in a manner that is publicly accountable.

4 CAPITAL EXPENDITURE INDICATORS

4.1 The Council has a duty to determine and keep under review the maximum amount which it can afford to allocate to capital expenditure.

4.2 The Council is required to make estimates of the capital expenditure it plans to incur for the forthcoming financial year and at least the following two years. Separate estimates should be made for Housing and Non Housing services. The Capital Investment Programmes for Housing and Non Housing Capital Investment Programme were approved by Council on the 16th February 2017, the resulting indicators were updated to reflect the approved programme incorporating the decisions taken by the council at the budget meeting.

4.3 Council approved the following as an indicator for capital expenditure:-

CAPITAL EXPENDITURE

	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Non Housing*	75,987	57,833	81,338
Housing	19,895	24,133	21,073
Total	**95,882**	**81,966**	**102,411**

*The 2017/18 Non Housing estimate excludes the estimated expenditure in relation to the Private Sector Housing Grant.

4.4 Total capital expenditure to 13th October 2017 is £29.134m, of which £25.017m relates to Non Housing and £4.117m relates to Housing.

4.5 A review of the updated capital spending plan for 2017/18 suggests that the indicators need to be revised as follows for the current year. Indicators for 2018/19 and 2019/20 will be reviewed in February 2018 alongside the budget proposals.

CAPITAL EXPENDITURE

	2017/18 Probable £'000
Non Housing	73,330
Housing	11,247
Total	**84,577**

4.6 The net decrease of **£2.657m** in the planned Non Housing capital expenditure during 2016/17 is mainly attributable to the net effect of the following factors:

(i) The carry forward of programmed expenditure from 2016/17 totalling £16.827m.

(ii) The addition of £3.559m funding for projects approved during 2017/18.

(iii) The change in the cash flow profile of a number of programmes resulting in a net adjustment of £20.543m from 2017/18 into 2018/19 and future years as reported to relevant policy boards.

(iv) Reflection of anticipated under-spend on completing programmes.

4.7 The decrease of **£8.648m** in the planned Housing capital expenditure during 2017/18 arises from the net effect of:-

(i) The carry forward of programmed expenditure from 2016/17 totalling £2.112m.

(ii) The change in cash flow profile of programmes resulting in a net adjustment of £10.760m from 2017/18 into 2018/19 and future years as reported throughout the year to the Communities, Housing and Planning Policy Board.

5 CAPITAL FINANCING REQUIREMENT INDICATOR

5.1 *Capital Financing Requirement*: The Council has available to it a number of ways of financing traditionally procured capital investment. The term “financing” does not refer to the payment of cash, but the resources that are applied to ensure that any underlying amount arising from capital payments is dealt with absolutely, whether at the point of spend or over the longer term. A number of financing options involve resourcing the investment at the time that it is incurred. These are:

- Application of useable capital receipts
- A direct charge to revenue for capital expenditure

- The application of capital grants
- Up-front contributions from project partners

5.2 Capital expenditure which is not financed up front by one of the above methods will increase the Capital Financing Requirement of the Council.

5.3 Members approved the following as the indicator for the Capital Financing Requirement at the end of each of the next three years at the Council meeting on 16th February 2017:

CAPITAL FINANCING REQUIREMENT	31/03/2018 Estimate £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m
Non Housing	271	307	371
Housing	142	146	149
Total	**413**	**453**	**520**

5.4 The revised projected capital financing requirement for 2017/18, based on the position at 13th October 2017 is noted in the table below. The 2018/19 & 2019/20 requirements will be reviewed in February 2018 alongside the budget proposals;

CAPITAL FINANCING REQUIREMENT	31/03/2018 Probable £m
Non Housing	253
Housing	127
Total	**380**

5.5 The decrease of £18 million in the probable Capital Financing Requirement at 31st March 2018 in Non Housing services arises from a lower requirement for prudential borrowing in 2017/18 as a result of the programmes re-profiled from 2017-18 into 2018-19 and beyond described in paragraph 4.6(iii); and also a revision of the debt smoothing strategy.

5.6 The decrease of £15 million in the probable Capital Financing Requirement at 31st March 2018 in Housing services also arises due to a reduction in the estimated requirement for prudential borrowing in 2017-18. This is a result of income from the Right to Buy scheme being higher than originally estimated and the programmes re-profile from 2017-18 into 2018-19 described in paragraph 4.7(ii); and also a revision of the debt smoothing strategy.

6 EXTERNAL DEBT INDICATORS

6.1 External debt is referred to as the sum of external borrowing and other long term liabilities (e.g. covenants). The prudential indicators for external debt are set and revised taking into account their affordability. It is through this means that the objective of ensuring that external debt is kept within sustainable prudent limits is addressed year on year.

6.2 External debt indicators are set at two levels: an *operational boundary* and an *authorised limit*. Both of these need to be consistent with the Council's plans for capital expenditure and financing and with its treasury management policy statement and practices.

6.3 *Operational Boundary:* This is the focus of day-to-day treasury management activity within the Council, and is an estimate of the most likely scenario in terms of cash flow. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the Capital Financial Requirement and estimates of cashflow requirements for **all** purposes. It is possible that this boundary could be breached occasionally and this should not be regarded as significant. However, a sustained or regular trend would require investigation and action.

6.4 The Council has set for the current financial year and following two years an Operational Boundary for its total external debt, identifying separately borrowing from other long term liabilities.

OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

	31/03/2018 Estimate £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m
Borrowing	336	380	449
Other long-term liabiliites	77	74	71
Total	**413**	**454**	**520**

6.5 The probable outturn for the current financial year is anticipated at £380 million, a decrease in the Operational Boundary of £33 million. This is mainly as a result of a combination of a lower borrowing requirement in 2017-18 and revised debt smoothing position as outlined in paragraphs 5.5 and 5.6 in relation to the Capital Financing Requirement. There have been no breaches during the period from 1st April to 13th October which have required action. The 2018/19 and 2019/20 operational boundary will be reviewed in February 2018 alongside the budget proposals.

OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

	31/03/2018 Probable £m
Borrowing	303
Other long-term liabilities	77
Total	**380**

6.6 *Authorised Limit*: This is based on the same assumptions as the Operational Boundary, with sufficient "headroom" to allow for unusual/exceptional cash movements. Headroom of approximately 5% has been added to the Operational Boundary to arrive at an authorised limit which is sufficient to allow for cash flow management without breaching the limit.

6.7 The Council has set for the forthcoming financial year and following two years an Authorised Limit for its total external debt, but identifying separately borrowing from other long term liabilities.

AUTHORISED LIMIT FOR EXTERNAL DEBT			
	31/03/2018 Estimate £m	**31/03/2019 Estimate £m**	**31/03/2020 Estimate £m**
Borrowing	353	399	471
Other long-term liabiliites	77	74	71
Total	**430**	**473**	**542**

6.8 The revised anticipated authorised limit for this financial year is projected at £395 million, a decrease of £35 million to the estimate and in line with the operational boundary reduction as outlined in 6.5. The authorised limit will be reviewed on an annual basis and any changes will require approval by Council.

AUTHORISED LIMIT FOR EXTERNAL DEBT	
	31/03/2018 Probable £m
Borrowing	318
Other long-term liabilities	77
Total	**395**

7 LOAN FUND ADVANCES

7.1 Loans fund accounting arrangements have changed from the 1 April 2016 under the provisions of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.

7.2 Repayment of loans fund advances are required to be made in line with the Scottish Government's statutory Guidance on Loans Fund Accounting.

7.3 The aim of prudent repayment is to ensure that the Council's net capital expenditure is financed over a period of years in which that expenditure is expected to provide a benefit and that the repayment each year is reasonably commensurate with the period and pattern of benefits. Housing and Non-

Housing advances and associated annual repayments are identified separately.

7.4 Members approved the 2017/18 policy on loan fund repayments on the 16th February 2017. Statutory guidance requires the policy to be approved each year and the 2018/19 policy will be reviewed in February 2018 alongside the budget proposals.

7.5 The Council's current policy is as follows:

> For pre-existing loans advances made up to 31st March 2016 and for forward capital expenditure plans made after 1 April 2016, the policy for the repayment of loan advances will be the Statutory Method (option 1), with loan fund advances being repaid by the annuity method.

The repayment of loan fund advances will therefore be equal to the annual amount determined in accordance with Schedule 3 of the Local Government (Scotland) Act 1975. The Council is permitted to use this option for a transition period only until 31st March 2021 at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile.

7.6 The Council's latest estimates of its loan fund account information are as follows:

LOAN FUND ACCOUNTING

Year	Opening Balance £m	Advances to GF £m	Advances to HRA £m	Repayment by GF £m	Repayment by HRA £m	Closing Balance £m
2016-17 actual	275	21	-	(3)	(24)	269
2017/18	269	38	9	(2)	(11)	303
2018/19 - 22/23	303	187	66	(25)	(58)	473
2023/24 - 27/28	473	-	-	(56)	(36)	381
2028/29 -32/33	381	-	-	(84)	(28)	269
2033/34 -37/38	269	-	-	(73)	(25)	171
2038/39 - 42/43	171	-	-	(54)	(33)	84
2043/44 - 47/48	84	-	-	(40)	(12)	32
2048/49 -52/53	32	-	-	(25)	(1)	6
2053/54 -57/18	6	-	-	(5)	-	1
2058/59 - 62/63	1	-	-	(1)	-	-

8 TREASURY MANAGEMENT INDICATORS

8.1 The prudential indicator in respect of treasury management is that the local authority has adopted CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (*the "Treasury Management Code").

8.2 Compliance with the Treasury Management Code requires a mid-year review of Treasury Management activity. This was reported to Finance and Resources Policy Board on 8th November 2017.

9 INDICATORS FOR AFFORDABILITY

9.1 A key measure of affordability is the incremental impact of investment decisions on the council tax or house rents. Estimates of the ratio of financing costs to net revenue stream provide an indication of how much of the Council's revenue is committed to the repayment of debt.

9.2 As reported to Council on 16th February 2017 the ratios for the next 3 years are shown in the table below:

RATIO OF FINANCING COSTS TO NET REVENUE STREAM

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non Housing	4.79%	5.57%	5.93%
Housing	43.84%	45.08%	45.06%

9.3 There is no material change to the above ratios or to other estimates of affordability for 2017/18.

9.4 The actual indicators will be reported to the Council in the annual accounts

Implications of the Report

1. **Financial** – Prudential indicators are being monitored by the Director of Finance and Resources throughout the year. They are based directly on the Council's Capital and Revenue budgets, as detailed in the other reports considered by the Council on 16th February 2017 and reported to the Council's Policy Boards on a regular basis.

2. **HR & Organisational Development** – None

3. **Community/Council Planning** – None

4. **Legal** – None

5. **Property/Assets** – None

6. **Information Technology** – None

7. **Equality & Human Rights** -

   (a) The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.

8. **Health & Safety** - None

9. **Procurement** - None

10. **Risk** - None

11. **Privacy Impact** - None

12. **Cosla Policy Position** – None

List of Background Papers

(a) Non-Housing Capital Investment Programme 2017/18 – 2019/20, Appendix 6: Prudential Framework for Capital Finance 2017-18 -2019/20 (estimates) and Treasury Management Strategy Statement 2017-18. Council, 16th February 2017.

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