Renfrewshire Council

To: Council

On: 15 December 2016

Report by: Director of Finance & Resources

Heading: A Prudential Framework for Capital Finance – Progress Report

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1. Summary

1.1 The Local Government in Scotland Act 2003 abolished centrally determined capital spending limits (section 94 consents) and in its place, locally determined capital spending limits from 1st April 2004 were introduced. The 2003 Act also imposes a duty on the Council to have regard to 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 2016/17 on 3rd March 2016. The purpose of this report is to consider the indicators as they stand at 14th October 2016, approximately halfway through the financial year, and revise them as appropriate.

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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.

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3. Background

3.1 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.

3.2 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.

CAPITAL EXPENDITURE INDICATORS

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

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 25th February 2016 and the 3rd March 2016 respectively, the resulting indicators where updated to reflect the approved programme incorporating the decisions taken by the council at the budget meeting.

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

CAPITAL EXPENDITURE	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Non Housing*	78,417	30,341	39,477
Housing	14,230	21,090	16,770
Total	**92,647**	**51,432**	**56,247**

*The 2016/17 Non Housing estimate excludes the estimated expenditure in relation to the Private Sector Housing Grant.

Total capital expenditure to 14th October 2016 is £25.452m, of which £22.750m relates to Non Housing and £3.307m relates to Housing.

A review of the updated capital spending plan for 2016/17 suggests that the indicators need to be revised as follows for the current year. Indicators for 2017/18 and 2018/19 will be reviewed in February 2017 alongside the budget proposals:

CAPITAL EXPENDITURE	2016/17 Probable £'000
Non Housing	74,190
Housing	9,950
Total	**84,140**

The net decrease of **£4.227m** 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 2015/16 totaling £14.615m.

(ii) The addition of £4.254m funding for projects approved in 2016/17

(iii) The change in the cash flow profile of a number of programmes resulting in a net adjustment of £18.993m from 2016/17 into 2017/18 and future years, as reported throughout the year to relevant policy boards.

(iv) Reflection of anticipated under-spend on completing programmed for redirection for future capital investment decisions.

The decrease of **£4.280m** in the planned Housing capital expenditure during 2016/17 arises from the net effect of:-

(i) The carry forward of programmed expenditure from 2015/16 totalling £1.165m.

(ii) The change in cash flow profile of programmes resulting in a net adjustment of £5.445m from 2016/17 into 2017/18 and future years, as reported throughout the year to The Housing and Community Safety 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 usable capital receipts
- A direct charge to revenue for the 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 3 March 2016:

CAPITAL FINANCING REQUIREMENT			
	31/03/2017 Estimate £m	**31/03/2018 Estimate £m**	**31/03/2019 Estimate £m**
Non Housing	228	234	229
Housing	150	157	159
Total	**378**	**391**	**388**

5.4 The revised projected capital financing requirement for 2016/17, based on the position at 14th October 2016 is noted in the table below. The 2017/18 & 2018/19 requirements will be reviewed in February 2017 alongside the budget proposals;

CAPITAL FINANCING REQUIREMENT	
	31/03/2017 Probable £m
Non Housing	240
Housing	143
Total	**383**

5.5 The increase in the probable Capital Financing Requirement at 31st March 2017 in Non Housing services arises from a lower requirement for prudential borrowing in 2016/17 as a result of the programmes re-profiled from 2016-17 into 2017-18 described in paragraph 4.6(iii); and also a revision of the debt smoothing strategy.

5.6 The decrease of £7 million in the probable Capital Financing Requirement at 31st March 2017 in Housing services also arises due to a reduction in the estimated requirement for prudential borrowing in 2016-17. This is a result of income from the Right to Buy scheme being higher than originally estimated and the programmes re-profile from 2016-17 into 2017-18 described in paragraph 4.7(ii).

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

	31/03/2017 Estimate £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m
Borrowing	298	314	314
Other long-term liabiliites	80	77	74
Total	**378**	**391**	**388**

6.5 The probable outturn for the current financial year is anticipated at £382 million, an increase in the Operational Boundary of £4 million. This is mainly as a result of a combination of a lower borrowing requirement in 2016-17 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 14th October which have required action. The 2017/18 and 2018/19 operational boundary will be reviewed in February 2017 alongside the budget proposals.

OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

	31/03/2017 Probable £m
Borrowing	302
Other long-term liabilities	80
Total	**382**

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	31/03/2017 Estimate £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m
Borrowing	312	328	328
Other long-term liabiliites	80	77	74
Total	**392**	**405**	**402**

6.8 The revised anticipated authorised limit for this financial year is projected at £397 million, an increase of £5 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	31/03/2017 Probable £m
Borrowing	317
Other long-term liabilities	80
Total	**397**

7 TREASURY MANAGEMENT INDICATORS

7.1 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").

7.2 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 9th November 2016.

8 INDICATORS FOR AFFORDABILITY.

8.1 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.

8.2 As reported to Council on 3rd March 2016 the ratios for the next 3 years are shown in the table below:

RATIO OF FINANCING COSTS TO NET REVENUE STREAM			
	2016/17	**2017/18**	**2018/19**
	Estimate	**Estimate**	**Estimate**
Non Housing	7.78%	5.94%	6.46%
Housing	48.66%	49.58%	53.87%

8.3 There is no material change to the above ratios or to other estimates of affordability for 2016/17.

8.4 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 Council on 25th February 2016 & 3rd March 2016 and reported to the Council's Policy Boards on a regular basis.

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

3. **Community 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

List of Background Papers

a) Non-Housing Capital Investment Programme 2016/17 – 2018/19, Appendix 6: Prudential Framework for Capital Finance 2016/17 – 2018/19 (estimates) and Treasury Management Strategy Statement 2016-17. Council, 3rd March 2016.

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