

REPORT TO: FINANCE COMMITTEE - 13 DECEMBER 2004

REPORT ON: THE PRUDENTIAL CODE - REVIEW OF INDICATORS

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 808-2004

1 PURPOSE OF REPORT

- 1.1 To provide elected members with a review of the Prudential Indicators for 2004/05, as previously approved at Finance Committee, 12 January 2004 (Report 53-2004 refers), based on the latest Capital Monitoring position.

2 RECOMMENDATIONS

- 2.1 The Policy and Resources Committee is requested to:
- 1 approve the revised Prudential Indicators for the financial year 2004/05 which are detailed in Appendix 1 to this report, based on the latest Capital Monitoring position.
 - 2 instruct the Depute Chief Executive (Finance) to continually review the Council's level of borrowing, to ensure the borrowing limits are not breached.

3 FINANCIAL IMPLICATIONS

None.

4 LOCAL AGENDA 21 IMPLICATIONS

None.

5 EQUAL OPPORTUNITIES IMPLICATIONS

None.

6 BACKGROUND

6.1 Legislation

The Prudential Code has been developed as a professional code of practice to support local authorities in taking decisions on capital investment. Local authorities are required by Regulation, from 1 April 2004, to comply with the Prudential Code under Part 7 of the Local Government in Scotland Act 2003.

6.2 Scope

The Prudential Code applies to all local authorities, including Police, Fire and other authorities, as defined in Part 7 of the 2003 Act. The Code applies both to General Fund Departments, such as Education and Social Work etc and to the Housing Revenue Account.

7 PRUDENTIAL INDICATORS

7.1 The Prudential Code required the Depute Chief Executive (Finance) to prepare a set of indicators which demonstrate that the Council's Capital Plan is affordable, prudent and sustainable. The Prudential Code also requires that the Depute Chief Executive (Finance) review the indicators and report any changes back to Committee.

7.2 The Prudential indicators required fall into two categories:

- Capital Expenditure Indicators
- Treasury Management Indicators

The actual indicators, which have been reviewed based on the latest capital monitoring position, are set out in Appendix 1 to this report. The reasons behind the use of these indicators are set out below.

7.3 **Capital Expenditure Indicators**

7.3.1 Level of Capital Expenditure to be met from Borrowing

This indicator measures affordability and provides the most basic control on the Council's planned capital expenditure. The 2003/04 figures have changed to reflect the actual outturn for 2003/04. The Non-HRA estimated level of borrowing for 2004/05 has increased, in the main, due to Economic Development expenditure of £2.3m.

7.3.2 Ratio of Financing Costs to Net Revenue Stream

This is another measure of affordability. The measure of financing costs used will include both current commitments and future commitments based on the capital plan and shows the percentage of revenue expenditure directed towards the financing costs of capital expenditure. The figures used in the original calculation were based on the provisional 3 year revenue budget 2004-2007, whereas the revised figures reflect the final revenue budget.

7.3.3 Estimate of Incremental Impact of Capital Investment Decisions on Council Tax and Rents

This is a key measure of affordability. It shows the actual impact of capital investment decisions on the Council Tax and Housing Rents. This indicator takes into consideration the effects of self financing capital projects and the effects of government support. It also reflects the revenue impact of capital schemes other than financing costs, so facilitating the consideration of revenue intensive vis-a-vis capital intensive options. Based on the latest capital monitoring position, there is no incremental impact of capital investment decisions on Council Tax/ Rent levels.

7.4 **Treasury Management Indicators**

7.4.1 Adoption of CIPFA Code of Practice for Treasury Management

This is the main means of ensuring good professional practice. This has been adopted by the Council since 11 March 2002 when it was approved by the Finance Committee and the Council will continue to comply with the requirements of this Code.

7.4.2 Upper Limit for Borrowing that is at Variable Rate

This is an indicator of prudence. It has been set at the same level as in the Council's Treasury Management Strategy. Variable rate may be regarded as slightly more risky than fixed as the rates are liable to change and therefore not certain into the future. Based on the latest capital monitoring position, there is no change in the upper limit for borrowing that is at Variable Rate. The Council would therefore wish to limit its exposure to this whilst recognising there are also potential benefits if rates are anticipated to move down.

7.4.3 Upper Limit for Borrowing that is at Fixed Rate

This is an indicator of prudence. It has been set to allow all the Council's borrowing to be at fixed rate if required. This ensures that all future liabilities are certain. However, there is a potential to lose if interest rates fall and the Council is unable to take immediate advantage. Based on the latest capital monitoring position, there is no change in the upper limit for borrowing that is at Variable Rate.

7.4.4 Limit for Fixed Rate Borrowing Maturing in Each Period

This is another indicator of prudence. It is prudent for the Council to manage its Loan repayment profile to ensure that an undue amount of repayments do not fall due at the same time as this may lead to difficulty in re-financing. The limits have been set in light of the current maturity profile and with a view to being appropriate over the very long term. Based on the latest capital monitoring position, there is no change in the upper limit for borrowing that is at Variable Rate.

7.4.5 Upper Limit for Sums invested for Longer than 364 days

Again this is a measure of prudence. However, Dundee City Council's policy is that sums would not be lent for as long as this.

7.4.6 Authorised Limit for External Debt and Other Long Term Liabilities

When the original authorised limits and operational boundaries were set, they were based on long term borrowing from external institutions. However, funds obtained from non-Council sources such as the Superannuation Fund and Common Good Fund were not included. Technically these are classed as external debt and accordingly the limits have been increased to take account of this. The limits have been increased by £15m which reflects these balances at 1 April 2004 plus an allowance for very short-term borrowing.

7.4.7 Operational Boundary for External Debt and Other Long Term Liabilities

When the original authorised limits and operational boundaries were set, they were based on long term borrowing from external institutions. However, funds obtained from non-Council sources such as the Superannuation Fund and Common Good Fund were not included. Technically these are classed as external debt and accordingly the limits have been increased to take account of this. The limits have been increased by £15m which reflects these balances at 1 April 2004 plus an allowance for very short-term borrowing.

7.4.8 Estimates of Capital Finance Requirement

The Capital Financing Requirements have changed to reflect the actual borrowing in 2003/04 and the latest monitoring position for 2004/05. This has reduced the HRA figures by £2m and increased the Non-HRA figures by £2m. In addition there has been a small technical adjustment to Non-HRA to fully align capital financing requirements with underlying outstanding Loans Funds balances.

8 BACKGROUND PAPERS

None.

**DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE)**

6 DECEMBER 2004

DUNDEE CITY COUNCIL
CAPITAL PLAN 2003-2007
ORIGINAL

APPENDIX 1

REVISED

1 Prudential Indicators - Capital Expenditure

1.1 Level of Capital Expenditure to be met from Borrowing

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---------|----------|----------|----------|----------|----------|
| Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Non-HRA | 9,184 | 10,294 | 18,477 | 18,062 | 16,100 |
| HRA | 5,660 | 8,545 | 11,348 | 11,436 | 8,435 |

1.2 Ratio Financing Costs to Net Revenue Stream

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---------|----------|----------|----------|----------|----------|
| Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| % | % | % | % | % | % |
| Non-HRA | 7.5 | 7.8 | 7.4 | 7.5 | 7.8 |
| HRA | 29.2 | 29.6 | 30.5 | 31.8 | 33.8 |

1.3 Estimate Incremental Impact of Capital Investment Decisions on Council Tax/Rents

For Band D Council Tax

| 2004/05 | 2005/06 | 2006/07 |
|---------|---------|---------|
| nil | nil | nil |

Average Weekly Housing Rents

| 2004/05 | 2005/06 | 2006/07 |
|---------|---------|---------|
| nil | nil | nil |

2 Prudential Indicators - Treasury Management

2.1 Adoption of CIPFA Code of Practice for Treasury Management

YES

2.2 Upper Limit for borrowing that is at variable rates less investments that are variable rate investments

| 2004/05 | 2005/06 | 2006/07 |
|---------|---------|---------|
| 30 | 30 | 30 |

2.3 Upper Limit for borrowing that is at fixed rates less investments that are fixed rate investments

| 2004/05 | 2005/06 | 2006/07 |
|---------|---------|---------|
| 100 | 100 | 100 |

1 Prudential Indicators - Capital Expenditure

1.1 Level of Capital Expenditure to be met from Borrowing

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---------|----------|----------|----------|----------|----------|
| Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Non-HRA | 9,184 | 10,951 | 20,241 | 18,062 | 16,100 |
| HRA | 5,660 | 7,291 | 11,436 | 11,436 | 8,435 |

1.2 Ratio Financing Costs to Net Revenue Stream

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|---------|----------|----------|----------|----------|----------|
| Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| % | % | % | % | % | % |
| Non-HRA | 7.5 | 7.4 | 7.4 | 7.5 | 7.8 |
| HRA | 29.2 | 29.3 | 29.5 | 29.8 | 30.7 |

1.3 Estimate Incremental Impact of Capital Investment Decisions on Council Tax/Rents

For Band D Council Tax

| 2004/05 | 2005/06 | 2006/07 |
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| nil | nil | nil |

Average Weekly Housing Rents

| 2004/05 | 2005/06 | 2006/07 |
|---------|---------|---------|
| nil | nil | nil |

2 Prudential Indicators - Treasury Management

2.1 Adoption of CIPFA Code of Practice for Treasury Management

YES

2.2 Upper Limit for borrowing that is at variable rates less investments that are variable rate investments

| 2004/05 | 2005/06 | 2006/07 |
|---------|---------|---------|
| 30 | 30 | 30 |

2.3 Upper Limit for borrowing that is at fixed rates less investments that are fixed rate investments

| 2004/05 | 2005/06 | 2006/07 |
|---------|---------|---------|
| 100 | 100 | 100 |

| | | | |
|--|----------------|------------|------------|
| 2.4 Limit for 2004/05 for amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed at the start of the period | | | |
| Where the periods are:- | | | |
| Under 12 months | Lower % | Upper % | |
| 12 months & within 24 months | 0 | 10 | |
| 24 months & within 5 years | 0 | 15 | |
| 5 years & within 10 years | 0 | 25 | |
| 10 years + | 0 | 25 | |
| | 50 | 95 | |
| 2.5 Upper limit for sums invested for periods longer than 364 days | | | |
| N/A | | | |
| 2.6 Authorised Limit for external debt with limit for borrowing and other long term liabilities separately identified | | | |
| | Borrowing £000 | Other £000 | Total £000 |
| 2004/05 | 330,000 | 5,000 | 335,000 |
| 2005/06 | 350,000 | 5,000 | 355,000 |
| 2006/07 | 367,000 | 5,000 | 372,000 |
| 2.7 Operational Boundary for external debt with limit for borrowing and other long term liabilities separately identified | | | |
| | Borrowing £000 | Other £000 | Total £000 |
| 2004/05 | 305,000 | 1,000 | 306,000 |
| 2005/06 | 325,000 | 1,000 | 326,000 |
| 2006/07 | 342,000 | 1,000 | 343,000 |
| 2.8 Estimates of Capital Financing Requirement | | | |
| | non-HRA £000 | HRA £000 | Total £000 |
| 2004/05 | 197,000 | 123,000 | 320,000 |
| 2005/06 | 205,000 | 130,000 | 335,000 |
| 2006/07 | 212,000 | 135,000 | 347,000 |

| | | | |
|--|----------------|------------|------------|
| 2.4 Limit for 2004/05 for amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed at the start of the period | | | |
| Where the periods are:- | | | |
| Under 12 months | Lower % | Upper % | |
| 12 months & within 24 months | 0 | 10 | |
| 24 months & within 5 years | 0 | 15 | |
| 5 years & within 10 years | 0 | 25 | |
| 10 years + | 0 | 25 | |
| | 50 | 95 | |
| 2.5 Upper limit for sums invested for periods longer than 364 days | | | |
| N/A | | | |
| 2.6 Authorised Limit for external debt with limit for borrowing and other long term liabilities separately identified | | | |
| | Borrowing £000 | Other £000 | Total £000 |
| 2004/05 | 315,000 | 5,000 | 320,000 |
| 2005/06 | 335,000 | 5,000 | 340,000 |
| 2006/07 | 352,000 | 5,000 | 357,000 |
| 2.7 Operational Boundary for external debt with limit for borrowing and other long term liabilities separately identified | | | |
| | Borrowing £000 | Other £000 | Total £000 |
| 2004/05 | 290,000 | 1,000 | 291,000 |
| 2005/06 | 310,000 | 1,000 | 311,000 |
| 2006/07 | 327,000 | 1,000 | 328,000 |
| 2.8 Estimates of Capital Financing Requirement | | | |
| | non-HRA £000 | HRA £000 | Total £000 |
| 2004/05 | 190,000 | 125,000 | 315,000 |
| 2005/06 | 200,000 | 132,000 | 332,000 |
| 2006/07 | 207,000 | 137,000 | 344,000 |