

APPENDIX 3

THE PRUDENTIAL CODE For Capital Finance in Local Authorities 2013/14 to 2015/16

From 1 April 2004, Councils are required by Regulation to have regard to the Prudential Code (the Code) when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003.

In setting the revenue and capital budgets, members will be aware that under the Prudential Code, the level of capital investment is determined locally. Therefore, these indicators will be reviewed on an ongoing basis to ensure that the Council does not breach the indicators it sets.

The key objectives of the Code are to ensure:-

- The Council's capital programmes are affordable, prudent and sustainable.
- Treasury management decisions are taken in accordance with good professional practice.

The Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

In setting the indicators, cognisance should be paid to the level of capital investment looking ahead for a three year period, for both the housing and non-housing capital programmes that the Council wishes to embark upon. For the purposes of this report, the underlying requirement to finance the 3R's project has been ignored on the basis that it is anticipated that the contract will continue to run as normal.

The Code requires the following Prudential Indicators are set for the Council:-

	Capital Expenditure				
	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000	£'000
	Actual	Estimate	Estimate	Estimate	Estimate
Non HRA	27,638	31,496	59,682	78,922	74,911
HRA	42,023	40,860	41,533	34,805	33,583

	Ratio of Financing Costs to Net Revenue Stream				
	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Estimate	Estimate	Estimate	Estimate
Non HRA	7.7%	6.7%	7.2%	7.3%	7.2%
HRA	15.5%	15.5%	16.7%	18.0%	19.1%

	Capital Financing Requirement				
	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000	£'000
	Actual	Estimate	Estimate	Estimate	Estimate
Non HRA	510,806	505,209	498,631	491,539	483,547
HRA	218,917	238,341	252,355	259,583	263,881
Total	729,723	743,550	750,986	751,122	747,428

The Prudential Code states:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.” For example, the 2013/14 total authorised limit for external debt (£673.009 million per table below) should not exceed the total capital financing requirement as at 2015/16 (£749.428 million per table above).

The Head of Finance reports that the Council can meet this requirement in 2012/13, and it is expected to do so for the future years, as outlined, taking into account current commitments, existing plans, and the assumptions in this report.

	Authorised Limit for External Debt			
	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000
Borrowing	634,069	658,205	674,646	686,859
Other Long Term Liabilities	15,201	14,804	14,407	14,011
Total	649,270	673,009	689,053	700,870

	Operational Boundary for External Debt			
	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000
Borrowing	638,123	651,112	656,802	658,791
Other Long Term Liabilities	0	0	0	0
Total	638,123	651,112	656,802	658,791

The estimate of the incremental impact of capital investment decisions proposed in this report, over and above capital investment decisions that have previously been taken by the Council are:

(a) for the Band D Council Tax

2013/14	2014/15	2015/16
£0	£0 (Prov)	£0 (Prov)

(b) for average weekly housing rents (assuming that increased capital investment is financed by way of cfc and borrowing)

2013/14	2014/15	2015/16
£1.27	£0 (Prov)	£0 (Prov)