Appendix D

The Capital Prudential Indicators 2016/17 – 2019/20 and Minimum Revenue Provision Policy

Introduction

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity. This report updates currently approved indicators to 2019/20.

2. Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity. The treasury management strategy for 2017/18 is included elsewhere on this agenda, and that strategy includes any indicators relating specifically to the treasury activity.

The Capital Expenditure Plans

3. The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. These need to be affordable, sustainable and prudent. The revenue consequences of this will need to be paid for from the Council's own resources.

4. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual expenditure will add to the Council's borrowing need.

5. The key risks to the plans are that the level of Government support has been estimated and may be subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.

6. The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

Indicator 1 Capital Expenditure £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	10.930	17.542	1.405	1.185
Financed by:				
Capital receipts	6.6770	13.676	0.605	0.385
CIL & Section 106	3.041	3.066	0.000	0.000
Grant receipts	1.212	0.800	0.800	0.800
Revenue Development Reserve (RDR)	0.000	0.000	0.000	0.000

Net financing need for the year	**0.000**	**0.000**	**0.000**	**0.000**

Figures above are for Capital Expenditure only and consequently differ from the Major Projects Programme.

These figures are based on a draft capital programme as at December 2016. A revised capital programme will be approved in February 2017 by Council and this will alter the capital expenditure and funding figures presented within this report.

The Council's Borrowing Need (the Capital Financing Requirement)

7. 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 the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

8. The Council is asked to approve the CFR projections below:

Indicator 2 £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
CAPITAL FINANCING REQUIREMENT				
CFR at year end	7.270	6.352	5.498	4.973
Movement in CFR	**-0.918**	**-0.918**	**-0.854**	**-0.525**

Breakdown of Movement in CFR				
Net financing need for the year (above)	0.000	0.000	0.000	0.000
MRP/VRP and other financing movements	-0.918	-0.918	-0.854	-0.525
Movement in CFR	**-0.918**	**-0.918**	**-0.854**	**-0.525**

9. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision MRP), although it is also allowed to undertake additional voluntary payments (VRP). The figures above assume only the MRP will be made.

10. CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement :

11. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported capital Expenditure, the MRP policy will be:

- **Existing practice -** MRP will follow the existing practice outlined in former CLG Regulations.

12. From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the regulations.

The Use of the Council's resources and the Investment Position

13. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the available year end balances for each resource together with working capital.

Indicator 3 Year End Resources £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Fund balances				
Capital receipts Reserve	15.1	4.3	5.7	7.3
Revenue reserves	53.2	53.8	53.4	51.6
Total Core Funds	**46.3**	**36.1**	**37.1**	**36.9**
Working Capital*	5.0	5.0	5.0	5.0
Borrowing net of CFR	-7.3	-6.4	-5.5	-5.0
Expected Investments	**44.0**	**34.7**	**36.6**	**36.9**

***** Working capital balances shown are estimated year end; these may be higher at certain points during the year.

Affordability Prudential Indicators

14. 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 Council's overall finances. The Council is asked to approve the following indicators:

15. **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Indicator 4 %	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Ratio	3.61	4.40	4.02	1.10

Financing Costs (£m's)	0.550	0.618	0.545	0.145
Net Revenue Stream (£m's)	15.238	14.035	13.563	13.227

16. The estimates of financing costs include current commitments and the proposals in this budget report. The financing costs include MRP, interest on finance leases (Waste Contract). The net revenue stream takes account of all government funding used to support the General Fund (RSG, Business Rates funding, Section 31 Grants and New Homes Bonus) as well as Council Tax income.

17. **Estimates of the incremental impact of capital investment decisions on the Council Tax (Indicator 5)** – This indicator identifies the revenue costs associated with proposed changes in the major projects programme (capital expenditure only) recommended in the budget report compared to the Council's existing approved commitments and current plans. The Council's financial strategy is based on the premise that capital financing decisions have no impact on the revenue budget. Any surplus income is transferred to capital funds, and expenditure on the major projects programme is designed to ensure that it results in no capital financing costs that would impact on council tax levels.

Limits to Borrowing Activity

19. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits

20. For the first of these **(Indicator 6)** 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 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years.

21. The Chief Financial Officer reports that the Council complies with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

22. The Operational Boundary for external debt – This indicator is not a limit but represents a possible level of debt that may be reached during the year. It allows for overdrafts and any temporary borrowing that may be necessary pending asset sales.

Indicator 7 Operational Boundary £m	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Borrowing	10.0	10.0	10.0	10.0

Other long term liabilities	8.0	8.0	8.0	8.0
Total	18.0	18.0	18.0	18.0

23. The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. 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. It includes any bank overdraft and temporary borrowing which may be necessary to manage cash flow and pending asset sales. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

24. The Council is asked to approve the following Authorised Limit:

Indicator 8 Authorised limit £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	10.0	10.0	10.0	10.0
Other long term liabilities	9.0	9.0	9.0	9.0
Total	19.0	19.0	19.0	19.0