Prudential Indicators and MRP Statement 2014-15

1. Prudential Indicators 2014-15

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

(a) Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows. Further detail is provided in Council's Budget Spending Plans will be reported to the February 2014 Cabinet.

Capital Expenditure and Financing	**2013/14 Original £m**	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Capital Expenditure	**10.156**	**10.437**	**7.690**	**2.739**	**2.440**	**2.507**	**2.085**
Financed By:							
Capital Receipts	8.251	6.750	2.655	1.137	0.966	1.207	0.893
Government Grants	0.730	0.895	0.678	0.781	0.528	0.528	0
Other contributions	1.005	0.859	1.402	0.272	0.471	0.316	0.721
Reserves	0.043	1.783	2.426	0.026	0.025	0.006	0.121
Revenue	0.127	0.150	0.529	0.523	0.450	0.450	0.350
Total Financing	**10.156**	**10.437**	**7.690**	**2.739**	**2.440**	**2.507**	**2.085**

(b) Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purposes.

Capital Financing Requirement	**31.03.13 Actual £m**	**31.03.14 Revised £m**	**31.03.15 Estimate £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**
CFR	**-1.297**	**-1.440**	**-1.440**	**-1.440**	**-1.440**	**-1.440**	**-1.440**

The CFR is forecast is not expected to change over the next five years as capital expenditure is anticipated to be financed by the Council's capital resources.

In principle the CFR should equal zero, as the Council has fully funded its capital investment programme since becoming debt free following its Large Scale Voluntary Transfer (LSVT) of its housing stock in 2001, however a negative balance post LSVT is relatively common. To bring the CFR back to a more meaningful figure i.e. zero, there is the option to leave part of capital expenditure unfinanced or effectively financed from internal borrowing which will increase the CFR to zero. In the Council's Annual Statement of Accounts for 2012-13, £143,000 of capital expenditure was left unfinanced increasing the CFR from a negative balance of £1.440m to its current year-end balance of -£1.297m. In the 2013-14 accounts this situation has been "corrected" in order to bring the CFR back to the negative £1.440 position.

(c) Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.14 Revised £m**	**31.03.15 Estimate £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**
Borrowing (Operational Boundary only)	5	**5**	5	5	5	5
Finance leases	0	**0**	0	0	0	0
Total Debt	**5**	**5**	**5**	**5**	**5**	**5**

Total debt is actually expected to remain at zero, as the no borrowing is anticipated except if required under the operational boundary limit, and is the reason for this being higher than the CFR during the forecast period.

(d) Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	5	**5**	5	5	5	5
Other long-term liabilities	0	**0**	0	0	0	0
Total Debt	**5**	**5**	**5**	**5**	**5**	**5**

(e) Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	10	**10**	10	10	10	10
Other long-term liabilities	0	**0**	0	0	0	0
Total Debt	**10**	**10**	**10**	**10**	**10**	**10**

(f) Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	-3.99	**-3.20**	-2.35	-2.21	-2.11	-2.03

The estimates of financing costs reflect the assumptions within the Financial Strategy reported to Cabinet on 3rd December 2013, and will be updated to reflect the Council's spending plans, when they are considered by Cabinet in February 2014. These indicators have been updated to reflect the current phasing of the capital programme and the effect on the cash flow forecasts for investments.

The fact that the percentages remain negative shows that the investment interest remains an income source to the Comprehensive Income and Expenditure Account, although this is diminishing year on year due to the extent of the capital investment reducing the amount of funds available to invest, and it should be noted that the investment interest is used to fund one off projects/capital spending rather than balance the revenue budget.

(g) Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed to Cabinet in February as part of the Council's spending plans.

Incremental Impact of Capital Investment Decisions	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual band D Council Tax	**-0.41**	-4.08	-0.92	-2.58	-2.31

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2012.

Annual Minimum Revenue Provision Statement 2014/15

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance

> As the Council expects that its General Fund Capital Financing Requirement will be negative on 31st March 2014 and in line with the CLG Guidance it will therefore charge no MRP in 2014/15.

The Council's MRP policy for all borrowing after 31st March 2008 is based on the asset life method.

> *For new borrowing whether supported by the Government or not, MRP provision will be made over the estimated life of the asset for which the borrowing is undertaken. This will be done on a straight line basis in-line with the asset life determined for depreciation purposes and the MRP provision will commence in the financial year following the one in which the asset becomes operational.*

MRP is payable in the financial year following that in which the capital expenditure was incurred. The guidance allows for an important exception to this rule. In the case of expenditure on a new asset, MRP would not have to be charged until the financial year following the year in which the asset became operational. In respect of major schemes, this would enable an "MRP Holiday" delaying the on-set of the revenue charge for possibly up to 2 or 3 years.

Based on the Council's estimate of its Capital Financing Requirement on 31st March 2014, the budget for MRP has been set is set as zero for 2014-15.