Appendix 4

Capital Prudential Indicators and MRP Statement 2017-18

1. Capital Prudential Indicators 2017-18

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, if necessary. 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.

The prudential indicators in this report are supplemented by the Council's operational boundary and authorised limit for external debt (table 3 and 4 of the Council's Treasury Strategy).

(a) Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows. Further detail will be provided in the Council's Budget Spending Plans to be reported to Cabinet on the 7 February 2017 and to be considered by Council on 7 March 2017.

Capital Expenditure and Financing	2016/17 Original £m	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Expenditure	**9.239**	**7.885**	**12.587**	**5.628**	**4.314**	**5.637**	**3.250**
Financed By:							
Capital Receipts	6.434	1.452	0.053	2.463	0.935	0.817	0.500
Government Grants	0.528	1.198	0.878	0.878	0.878	0.878	0.665
Other contributions	0.080	0.371	1.118	1.160	1.181	2.425	0.930
Reserves	1.772	4.516	10.168	0.778	0.971	1.162	1.155
Revenue	0.425	0.348	0.370	0.349	0.349	0.355	-
Total Financing	**9.239**	**7.885**	**12.587**	**5.628**	**4.314**	**5.637**	**3.250**

(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	31.03.16 Actual	31.03.17 Revised	31.03.18 Estimate	31.03.19 Estimate	31.03.20 Estimate	31.03.21 Estimate	31.03.22 Estimate

	£m	£m	£m	£m	£m	£m	£m
CFR	**-1.38**	**-1.41**	**-1.44**	**-1.47**	**-1.48**	**-1.48**	**-1.48**

The CFR is not expected to change significantly over the next five years as capital expenditure is anticipated to be financed by the Council's available capital and revenue resources. The movement in CFR above reflects the impact of MRP set aside in respect of a finance lease for Multi-function devices acquired in 2014/15.

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.

(c) Gross Debt and the Capital Financing Requirement: Now included within TMPS

(d) Operational Boundary for External Debt: Now included within TMPS

(e) Authorised Limit for External Debt: Now included within TMPS

(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	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
General Fund	-2.18	-1.65	-1.00	-1.60	-1.65	-1.59

The estimates of financing costs reflect the Budget Spending Plans for 2017-18 to be reported to Cabinet on 7 February 2017 and considered by Council on 7 March 2017. 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 Council. To date investment interest has been used to fund one off projects/capital spending rather than balance the revenue budget. With effect from 2017-18 the investment return earned on the council's property investments (projected at circa £400,000 per annum) will be applied as part of the deficit reduction plan considered by Cabinet in December 2016 and recommended for approval by full Council.

(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 and Council as part of the Council's spending plans.

Incremental Impact of Capital Investment Decisions	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**	**2020/21 Estimate £**	**2021/22 Estimate £**
General Fund - increase in annual band D Council Tax	-2.60	-3.5	-3.56	-4.94	-4.49	-4.84

(h) Adoption of the CIPFA Treasury Management Code: Now included within TMPS

Annual Minimum Revenue Provision Statement 2017-18

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 only incorporates options recommended in the Guidance:

> Whilst the Council's General Fund Capital Financing Requirement is expected to remain negative as at 31st March 2017, if the CLG Guidance is adhered to there should be no MRP charge in 2017-18. However, as identified whilst preparing the 2014-15 statutory accounts a finance lease for the Multi-functional devices was identified which adjusted the negative CFR position, and as such an MRP charge of £29k will be required in 2017-18 in accordance with the Council's MRP policy.

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 2017, the budget for MRP has been set is set at £29k for 2017-18 due to the MRP required for the MFD finance lease.