Prudential Indicators and MRP Statement 2016-17

1. Prudential Indicators 2016-17

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.

(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 9 February 2016, and to be considered by Council on 1 March 2016.

Capital Expenditure and Financing	2015/16 Original £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Capital Expenditure	**11.287**	**11.338**	**7.909**	**4.379**	**1.832**	**1.591**	**1.283**
Financed By:							
Capital Receipts	6.043	3.246	6.290	2.822	0.725	0.053	0.053
Government Grants	0.781	0.995	0.528	0.528	0.528	0.528	0.528
Other contributions	0.631	0.752	0.035	0.003	-	-	-
Reserves	3.307	5.870	0.619	0.470	0.161	0.802	0.702
Revenue	0.525	0.475	0.437	0.556	0.418	0.208	-
Total Financing	**11.287**	**11.338**	**7.909**	**4.379**	**1.832**	**1.591**	**1.283**

(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	31.03.15 Actual £m	31.03.16 Revised £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
CFR	**-1.32**	**-1.34**	**-1.37**	**-1.40**	**-1.43**	**-1.44**	**-1.44**

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: 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	**31.03.16 Revised £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 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	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 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	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 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	**2015/16 Revised %**	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**
General Fund	-2.55	-2.16	-3.22	-3.37	-3.70	-4.00

The estimates of financing costs reflect the Budget Spending Plans for 2016-17 to be reported to Cabinet on 9 February 2016 and considered by Council on 1 March 2016. 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. To date investment interest has been 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 and Council as part of the Council's spending plans.

Incremental Impact of Capital Investment Decisions	**2015/16 Estimate £**	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**	**2020/21 Estimate £**
General Fund - increase in annual band D Council Tax	-6.32	-2.60	-3.09	-3.06	-3.03	-3.00

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 2016-17

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 on 31st March 2016, so if the CLG Guidance is adhered to there should be no MRP charge in 2016-17. 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 £26,000 will be required in 2016-17 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 2016, the budget for MRP has been set is set at £26,000 for 2016-17 due to the MRP required for the MFD finance lease.