Appendix A

PRUDENTIAL INDICATORS

THE CAPITAL PRUDENTIAL INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

CAPITAL EXPENDITURE

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Total	1,875	1,480	841	801	701

The table below summarises the above capital expenditure plans and how these plans are being financed. Any shortfall of resources results in a funding borrowing need.

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2012/13 Actual £000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**
Total	**1,875**	**1,480**	**841**	**801**	**701**
Financed by:					
Capital receipts	1,025	1,055	100	100	
Capital grants	745	178	186	239	239
Revenue Reserves	63				
New Homes Bonus		205	555	462	462
Net borrowing need for the year	**42**	**42**	**Nil**	**Nil**	**Nil**

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic 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. Any capital expenditure in the table above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset life.

Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has none of these such schemes within the CFR.

£m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Capital Financing Requirement					
Total CFR	1,838	1,838	1,838	1,796	1,754
Movement in CFR	0	0	(42)	(42)	(42)
Movement in CFR represented by					
Net financing need for the year (above)	42	42	0	0	0
Less MRP/VRP and other financing movements	(42)	(42)	(42)	(42)	(42)
Movement in CFR	0	0	(42)	(42)	(42)

*The Head of Finance and Audit recommends that for 2014/15 that the Minimum Revenue Provision (MRP) is not used to help fund the capital programme but to accumulate in the General Fund for the repayment of the principal amount of the loan.

MRP Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

CLG regulations have been issued which require the 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:

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

- **Based on CFR** – MRP will be based on the CFR (option 2);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

Core Funds and Expected Investment Balances

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 year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Fund balances / reserves	(1,812)	(1,480)	(2,000)	(2,000)	(2,000)
Capital receipts	(1,055)	(1,055)	(500)	(500)	(500)
Total core funds	**(2,867)**	**(2,535)**	**(2,500)**	**(2,500)**	**(2,500)**
Working capital*	**340**	**340**	**500**	**500**	**500**
Under/over borrowing	(262)	(262)	(262)	(262)	(262)
Expected investments	**(2,789)**	**(2,457)**	**(2,262)**	**(2,262)**	**(2,262)**

*Working capital balances shown are estimated year end; these may be higher mid year

AFFORDABILITY PRUDENTIAL INDICATORS

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.

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. It is calculated by dividing investment income and interest received by the Council's Net Budget.

	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Ratio of net investment income to net revenue stream (surplus).	1.3%	1.7%	1.5%	1.6%	1.6%

The estimates of financing costs include current commitments and the proposals in this budget report.

Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period. This is a notional cost only and reflects the notional impact of spending capital resources. The Council is not undertaking any new borrowing to fund its Capital Programme from 2014/15 onwards.

Incremental impact of capital investment decisions on the band D council tax (notional cost as explained above)

	2012/13 Actual £	2013/14 Actual £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Future incremental impact of capital investment decisions on the band D council tax (Notional cost)	0.07	0.13	0.03	TBA	TBA