

THE CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2017/18

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 review 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.

Capital Expenditure	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Total	490	841	451	651	651

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

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	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Total	490	841	451	651	651
Financed by:					
Capital receipts	311	100			
Capital grants	179	186	239	239	239
Reserves					
New Homes Bonus		555	212	412	412
Net financing (borrowing) need for the year	Nil	Nil	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.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst these increase 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 does not have any of this type of scheme within the CFR.

	2013/14 Actual £000	2014/15* Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Capital Financing Requirement (CFR)					
Total CFR	1,842	1,800	1,758	1,716	1,674
Movement in CFR	(42)	(42)	(42)	(42)	(42)
Movement in CFR represented by					
Net financing need for the year (above)	0	0	0	0	0
Less MRP and other financing movements	(42)	(42)	(42)	(42)	(42)
Movement in CFR	(42)	(42)	(42)	(42)	(42)

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.

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. **The Council is asked to approve the following indicators:**

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.

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Ratio of net investment income to net revenue stream. (surplus)	1.6%	1.5%	1.2%	1.6%	1.3%

Estimates of the incremental impact of capital investment decisions on council tax

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources. The Council is not undertaking any new borrowing to fund its Capital Programme from 2015/16 onwards.

	2013/14 Actual £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Future incremental impact of capital investment decisions on the band D council tax (Notional cost)	0.13	0.03	0.07	0.26	0.36