APPENDIX 7

THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

1. CAPITAL EXPENDITURE AND CAPITAL FINANCING REQUIREMENT

1.1 Each year the Council approves a programme of capital expenditure. Some of this expenditure will be supported by grants and contributions from the Government and other organisations; the remainder will need to be financed from the Council's own resources. If this expenditure cannot be financed from resources such as capital receipts, capital reserves or from direct revenue contribution there will be an impact on the Council's underlying need to borrow.

1.2 This underlying need to borrow is called the Capital Financing Requirement (CFR).

1.3 The revenue consequences of capital expenditure funded by borrowing will need to be paid for from the Council's revenue resources. This is called the Minimum Revenue Provision (MRP).

1.4 The three year proposed programme is largely funded from existing resources and is therefore only subject to a low level of risk if Government grants and other external contributions turn out to be less than has been estimated.

1.5 In 2012/13 the Council borrowed £142.7m to meet the requirements of the HRA reform. The first principal instalment repayment of £4.1m is due in 2017/18.

2. CAPITAL EXPENDITURE

2.1 The capital expenditure projections and the CFR are shown below. A more detailed schedule for these projections is included in the main budget report on this agenda.

This is the first prudential indicator and the Council is asked to approve the summary capital expenditure projections below.

Capital Expenditure	2015/16 Revised £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Non-HRA	5,495	4,133	3,166	2,079
HRA	12,733	16,536	10,403	8,150
Total Expenditure	**18,228**	**20,669**	**13,569**	**10,229**
Financed by:				
Capital receipts	1,326	1,276	1,276	1,276
Capital grants	1,829	1,614	765	1,253
Capital reserves	912	2,495	1,071	0
Developers Contributions	1,216	859	40	0
Revenue	11,683	13,667	8,383	7,150
Net capital financing requirement (CFR)	**1,262**	**758**	**2,034**	**550**

3. CAPITAL FINANCING REQUIREMENT

3.1 Capital expenditure will impact directly on the overall CFR if there is a borrowing requirement (see 2.1 above). Generally any borrowing required to meet the Council's capital expenditure is met by using cash held in reserves, rather than raising loans. This action is the expressed preference of Members and is assumed for the continuing future.

3.2 The CFR is reduced by the amount of any provision that is made to repay loan in the future. This provision is known as the MRP.

3.4 The cumulative net projections for the CFR at each year-end are shown below. This is the second prudential indicator.

3.5 The Cabinet is asked to note the CFR projections below.

Capital Financing Requirement (CFR)	**2015/16 Revised £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**
CFR - Non Housing	3,899	3,508	4,393	3,794
CFR - Housing	1,897	1,897	1,897	1,897
HRA Settlement	142,704	142,704	138,604	134,504
Total CFR at year end	148,500	148,109	144,894	140,195
Movement in CFR from one year to the next		**(391)**	**(3,215)**	**(4,699)**
For each year the movement in CFR is represented by				
Net Financing Need (The amount of capital expenditure financed by loan)	1,262	758	2,034	550
HRA Settlement	0	0	(4,100)	(4,100)
MRP provision - (The amount by which any loan requirement is reduced)	(1,052)	(1,149)	(1,149)	(1,149)
Movement in CFR	**210**	**(391)**	**(3,215)**	**(4,699)**

4. MINIMUM REVENUE PROVISION

4.1 Where General Fund (excluding Council Housing) capital spend has been financed by loan, and has increased the CFR, the Council is required to make a provision to repay a proportion of the accumulated amount each year. This amount is charged to revenue and is called the Minimum Revenue Provision (MRP). This charge reduces the CFR each year.

CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each financial year. The Council is recommended to approve the following MRP Statement:

"For capital expenditure that has been incurred, and which has given rise to a CFR, the MRP Policy shall be to charge to revenue an amount equal to the depreciation of any asset financed by loan".

For Council Housing the Council has approved currently a Housing Business Plan that will charge amounts to revenue to ensure that any borrowings are reduced in accordance with the maturity of the debt outstanding.

5. THE COUNCIL'S RESOURCES

5.1 The use of reserves to finance capital expenditure will have an impact on investments unless resources are supplemented each year from sources such as asset sales. The following table shows estimates of year end balances for each resource.

Estimated Year End Resources	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Receipts	5.7	5.4	5.2	4.9
Earmarked Reserves	23.8	21.0	20.5	21.1
Total Core Funds	**29.5**	**26.4**	**25.7**	**26.0**

6. AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the prudential indicators for capital expenditure and borrowing. This section assesses the affordability of the capital investment plans. These provide an indication of the impact of the capital programme on the Council's overall finances.

The Council is asked to approve the following indicators:

6.1 Ratio of financing costs to net revenue stream

6.1.1 The net revenue stream for the General Fund is the amount of revenue expenditure which is met from government grant and council tax.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream.

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

6.1.2 The net revenue stream for the Housing Revenue Account is the amount of revenue expenditure, arising from the capital programme, which is met by rents.

6.1.3 The following table shows the cumulative incremental effect of the estimated financing cost, against the estimated net revenue stream. This assesses the increase in the cost of borrowing to the revenue account.

An example is set out below: 2016/17

General Fund Financing cost	£122,000	= 0.6%
General Fund Net Revenue Stream	£19,724,000	

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

	2015/16 Revised	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
Non - HRA	0%	0.6%	0.2%	0.1%
HRA (inclusive of settlement)	0%	0%	(0.5%)	(0.5%)

For the HRA the reduction in 2017/18 reflects the reduction in interest costs due to the first instalment of loan repayment relating to the 2012/13 HRA settlement.

6.2 Estimates of the incremental impact of capital investment decisions on the Band D Council Tax

6.2.1 This indicator shows 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 indicator shows the impact on the Council Tax of the revenue implications of the capital programme in isolation from any other expenditure that may generate a revenue charge.

	Proposed Budget 2016/17	**Forward Projection 2017/18**	**Forward Projection 2018/19**
Change to Council Tax - Band D	1.59%	0.94%	1.01%
Change to Council Tax cost year on year	£2.47	£1.49	£1.62

6.3 Estimates of the incremental impact of capital investment decisions on housing rent levels

6.3.1 The Council has adopted the Government's rent policy/guidance. As such the capital programme has no impact on rent levels.

6.3.2 The indicator below shows the cost of proposed changes in the housing capital programme, as recommended elsewhere on this agenda, expressed as a change in weekly rent levels if the Government's rent policy/guidance had not been adopted.

	Proposed Budget 2016/17	**Forward Projection 2017/18**	**Forward Projection 2018/19**
Change to Weekly Housing Rent levels	£7.63	(£20.07)	(£4.63)

6.3.3 The reduction in 2017/18 reflects the current proposed reduced capital programme as resources are switched to finance the first HRA settlement loan repayment.