CABINET – 01/02/2017

CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

1. Introduction

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 be financed from the Council's own resources. If the expenditure cannot be financed from resources such as capital receipts, reserves or from direct revenue contribution, there will be an impact on the Council's underlying need to borrow.

1.2 The 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 Councils revenue resources. This is called the Minimum Revenue Provision (MRP) and is explained further in section 4.

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

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

2. Capital Expenditure

2.1 The summary capital expenditure projections and CFR are shown in the table below. A more detailed schedule of these projections is included within the two budget reports included on the Cabinet Agenda.

* **This is the first prudential indicator** and the Council is asked to approve the summary projections as demonstrated in the following table:

Capital Expenditure and Financing	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Non-HRA	6,406	5,976	5,403	9,283
HRA	13,436	15,290	21,300	12,367
Total Expenditure	**19,842**	**21,266**	**26,703**	**21,650**
Financed By:				
Capital receipts	3,002	3,002	3,002	3,002
Government grants and contributions	2,825	3,861	3,714	6,690
Reserves	1,992	3,661	9,409	476
Revenue	10,636	9,091	9,091	9,091
Net Capital Financing Requirement	**1,387**	**1,651**	**1,487**	**2,391**

3. Capital Financing Requirement

3.1 Capital expenditure will impact directly on the overall CFR if there is a borrowing requirement. 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 known as internal borrowing and is assumed for the continuing future.

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

3.3 The cumulative net projections for the CFR at each yearend are shown below.

* **This is the second prudential indicator** and the Cabinet is asked to note the projections as below:

Capital Financing Requirement	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
CFR - Non Housing	3,394	3,906	4,393	5,784
CFR - Housing	1,897	1,897	1,897	1,897
HRA settlement	142,704	138,604	134,504	130,404
Total CFR at year end	147,995	144,407	140,794	138,085
Movement in CFR from one year to next		**-3,588**	**-3,613**	**-2,709**
For each year the movement in CFR is represented by				
Net Financing Need (Cap ex. Financed by Loan)	1,387	1,651	1,487	2,391
HRA Settlement	0	-4,100	-4,100	-4,100
MRP Provision	-1,149	-1,139	-1,000	-1,000
Movement in CFR	**238**	**-3,588**	**-3,613**	**-2,709**

4. Minimum Revenue Provision

4.1 Where General Fund capital spend has been financed by loan (internal borrowing), 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, and is based on the expected economic use period related to the capital expenditure.

4.2 Full Council is required 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 revenue an amount equal to the depreciation of any asset financed by loan."***

4.3 For Council Housing the Council has currently approved a 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 investment returns unless resources are supplemented each year from sources such as asset sales. The following table shows estimates of yearend balances for each resource:

Estimated Year End Resources	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital Receipts	7,170	6,968	6,766	6,564
Capital Programme	8,761	8,499	8,499	8,499
Earmarked Reserves	19,931	16,532	7,123	7,123
Total Core Funds	**35,862**	**31,999**	**22,388**	**22,186**

5.2 The reduction forecast in 2017/18 from 2016/17 is due to the commencement of repayment of the HRA settlement loan. The further reduction from 18/19 in comparison to 17/18 is principally due to the increased planned housing acquisition and development programme.

6. Affordability Prudential Indicators

6.1 The previous sections cover the prudential indicators for capital expenditure and financing. This section assesses the affordability of the capital expenditure 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**:

6.2 **Ratio of financing costs to net revenue stream**:

6.2.1 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 the current commitments and the proposals in this budget report on this agenda.

6.2.2 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.

6.2.3 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.

	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non – HRA	0.8%	0.0%	(0.7%)	0.1%
HRA (inclusive of settlement)	0.0%	0.0%	(0.2%)	(0.3%)

For Non-HRA the reduction in 2018/19 reflects a reduction in V&P Expenditure to tie in with a lower MRP figure, as part of the forecast Asset Maintenance and Replacement Programme.

6.3 **Estimates of the incremental impact of capital investment decisions on the Band D Council Tax**:

6.3.1 This indicator shows the revenue costs associated with the 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 2017/18	Forward Projection 2018/19	Forward Projection 2019/20
Change to Council Tax – Band D	0.61%	(0.42%)	0.98%
Change to Council Tax cost year on year	£0.97	(£0.69)	£1.65

6.4 **Estimates of the incremental impact of capital investment decisions on housing rent levels**:

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

6.4.2 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 policy/guidance has not been adopted.

	Proposed Budget 2017/18	Forward Projection 2018/19	Forward Projection 2019/20
Change to Weekly Housing Rent Levels	(£5.76)	£0.26	£0.24