Appendix D - Prudential Indicators 2015/16

1. Background

The Local Government Act 2003 requires the Authority 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. 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 Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2. Estimates of Capital Expenditure

The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	**2014/15 Revised £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**
Total Capital Expenditure	**41,337**	**36,064**	**24,203**	**14,681**
Capital Receipts	1,866	1,461	230	835
Government Grants	21,323	12,727	8,372	3,961
Revenue	7,487	10,188	2,502	2,500
Supported Borrowing	4,122	4,126	4,126	4,126
Prudential borrowing	6,539	7,562	8,973	3,259
Total Financing	**41,337**	**36,064**	**24,203**	**14,681**

3. Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	**31.03.15 Revised £'000**	**31.03.16 Estimate £'000**	**31.03.17 Estimate £'000**	**31.03.18 Estimate £'000**
Total CFR	175,228	179,510	185,052	185,069

The CFR is forecast to rise by £9.841m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

4. 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	**31.03.15 Revised £'000**	**31.03.16 Estimate £'000**	**31.03.17 Estimate £'000**	**31.03.18 Estimate £'000**
Borrowing	110,758	110,559	108,584	106,034
Finance leases	0	0	0	0
PFI	0	0	0	0
Total Debt	**110,758**	**110,559**	**108,584**	**106,034**

Total debt is expected to remain below the CFR during the forecast period.

5. Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case, scenario for external debt. It links directly to the Authority'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	**2014/15 Revised £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**
Borrowing	185,000	185,000	190,000	190,000
Other long-term liabilities	0	0	0	0
Total Debt	**185,000**	**185,000**	**190,000**	**190,000**

6. 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 Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2014/15 Revised £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**
Borrowing	195,000	195,000	200,000	200,000
Other long-term liabilities	0	0	0	0
Total Debt	**195,000**	**195,000**	**200,000**	**200,000**

7. 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	**2014/15 Revised %**	**2015/16 Estimate %**	**2016/17 Estimate %**	**2017/18 Estimate %**
General Fund	**5.54**	**5.68**	**5.81**	**5.73**

8. 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.

Incremental Impact of Capital Investment Decisions	**2015/16 Estimate £**	**2016/17 Estimate £**	**2017/18 Estimate £**
General Fund - increase in annual band D Council Tax	**0**	**0**	**0**

9. 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* at its full Council meeting on 3rd March 2011.

Appendix DD – Annual Minimum Revenue Provision Statement 2015/16

Where the Authority 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 Authority to have regard to the Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) most recently issued in 2010.

The broad aim of the WG 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 WG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

> For capital expenditure incurred before 1st April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31st March 2008.
>
> For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
>
> For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
>
> Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.
>
> Capital expenditure incurred during 2015/16 will not be subject to a MRP charge until 2016/17.

Based on the Authority's estimate of its Capital Financing Requirement on 31st March 2015, the budget for MRP has been set at £7.41m.