Appendix C

Prudential Indicators and MRP Statement 2016/17

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities (2011 Edition)* (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 Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Council's planned capital expenditure and financing can be summarised as follows.

Capital Expenditure and Financing	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
General Fund	104.9	105.4	92.2	68.8
HRA	20.6	11.3	19.3	16.3
Total Expenditure	**125.5**	**116.7**	**111.5**	**85.1**
Capital Receipts	(3.0)	(10.5)	(9.5)	(7.5)
Grants and Contributions	(49.5)	(55.4)	(58.5)	(34.4)
Revenue	(1.4)	-	-	-
Borrowing	(51.0)	(39.5)	(24.2)	(26.9)
General Fund sub-total	**(104.9)**	**(105.4)**	**(92.2)**	**(68.8)**
Capital Receipts	(3.6)	(4.0)	(4.0)	(4.2)
Grants and Contributions	-	-	(1.4)	-
Reserves	(11.7)	(2.2)	(11.5)	(10.1)
Revenue	(5.3)	(5.1)	(2.4)	(2.0)
HRA sub-total	**(20.6)**	**(11.3)**	**(19.3)**	**(16.3)**
Total Financing	**(125.5)**	**(116.7)**	**(111.5)**	**(85.1)**

Estimates of Capital Financing Requirement

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

Capital Financing Requirement	**31/03/16 Estimate £m**	**31/03/17 Estimate £m**	**31/03/18 Estimate £m**	**31/03/19 Estimate £m**
General Fund	324.8	355.9	370.1	385.9
HRA	165.0	165.0	163.5	162.0
Total CFR	**489.8**	**520.9**	**533.6**	**547.9**

The CFR is forecast to rise by £58.1m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

Debt	**31/03/16 Estimate £m**	**31/03/17 Estimate £m**	**31/03/18 Estimate £m**	**31/03/19 Estimate £m**
Borrowing	363.7	403.1	427.3	454.2
PFI liabilities	15.7	15.3	14.6	13.6
Total Debt	**379.4**	**418.4**	**441.9**	**467.8**

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

Operational Boundary for External Debt

The Operational Boundary is based on a prudent estimate for external debt. It links directly to the Council's estimates of capital expenditure, the CFR and cash flow requirements, and is a management tool for in-year monitoring. Other long-term liabilities comprise finance leases, Private Finance Initiative (PFI) and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	502.2	530.7	544.5	560.2
Other long-term liabilities	18.7	15.8	15.1	14.1
Total Debt	**520.9**	**546.5**	**559.6**	**574.3**

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 Council can legally owe at any given point during each financial year. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements. More specifically, the Authorised Limit for External Debt is a total of £10.5m higher in each financial year from 2016/17 when compared to the Operational Boundary figure, being £10.0m higher on the 'Borrowing' line and £0.5m higher on the 'Other long-term liabilities' line.

Authorised Limit	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	512.2	540.7	554.5	570.2
Other long-term liabilities	21.2	16.3	15.6	14.6
Total Debt	**533.4**	**557.0**	**570.1**	**584.8**

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	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	7.5	7.5	7.5	9.0
HRA	13.8	13.8	13.8	14.5

It measures the proportion of the net revenue budget that is required to meet the ongoing financing costs of past capital expenditure which was funded from borrowing. Future year estimates incorporate the additional financing costs of planned capital expenditure to be funded from borrowing. It is important that the total capital investment of the Council remains within sustainable limits. However, the level of capital investment that can be supported will be a matter for local decision.

The prudential indicators are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparable performance indicators. Nonetheless, it is interesting to note that Central Bedfordshire's Ratio of Financing Costs to Net Revenue Stream (General Fund) is currently broadly consistent with its nearest local authority neighbours:

	2015/16
Milton Keynes	11.2%
Cambridgeshire	10.2%
Luton	9.9%
Northamptonshire	9.2%
Central Bedfordshire	**7.5%**
Bedford Borough	5.6%
Buckinghamshire	5.5%
Hertfordshire	1.3%

Central Bedfordshire's ratio is expected to increase relative to its peers given the Council's significant commitment to capital investment over the next few years.

Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the incremental impact of new capital investment decisions on Council Tax and housing rent 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	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**
General Fund - increase in annual band D Council Tax	14.91	30.87	50.12
HRA - increase in average weekly rents	0.11	0.17	0.15

Adoption of the CIPFA Treasury Management Code

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice (2011 Edition)* at its Council meeting on 29th November 2012.

Housing Revenue Account (HRA) Debt

The purpose of this limit is to report the level of debt imposed on the Council at the time of the implementation of self-financing by the Department for Communities and Local Government (CLG).

	2015/16 Estimate £	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**
HRA Debt Cap (as prescribed by the DCLG)	165.0	165.0	165.0	165.0
HRA CFR	165.0	165.0	163.5	162.0
Difference	**0.0**	**0.0**	**1.5**	**3.0**

Annual Minimum Revenue Provision Statement 2016/17

Where the Council 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 Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG 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 CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends four options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

The method used by the Council for the Medium Term Financial Plan (MTFP) period is to spread MRP over 10 years, 30 years or 50 years depending on the approximate useful economic life of the asset upon which expenditure is being incurred. MRP is spread over the useful economic life on an annuity basis. The annuity method enables MRP financing of the Draft Capital Programme to be minimised over the medium term, with higher MRP costs in future years beyond the current MTFP period.

At a more detailed level, for capital expenditure incurred before 1st April 2008 MRP will be based on 4% of the CFR in accordance with the former regulations that applied on 31st March 2008 incorporating an 'Adjustment A' as defined in the former regulations. For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure on an annuity basis and spreading the provision across the approximate useful economic life of the asset, starting in the year after the asset becomes operational. For example, capital expenditure incurred during 2016/17 will not be subject to an MRP charge until 2017/18.

For assets acquired by finance leases or the Private Finance Initiative, the MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability. No MRP will be charged in respect of assets held within the Housing Revenue Account.

The calculation is reviewed annually by the Council's external auditors as part of the audit of the Statement of Accounts.