Appendix C – Prudential Indicators 2014/15

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* (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	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
General Fund	94.6	89.6	112.0	73.0
HRA	8.6	17.2	12.1	12.2
Total Expenditure	**103.2**	**106.8**	**124.1**	**85.2**
Capital Receipts	4.2	8.2	11.9	9.5
Government Grants	49.5	35.7	59.5	37.5
Revenue	8.4	16.5	11.4	11.5
Borrowing	41.1	46.5	41.4	26.6
Total Financing	**103.2**	**106.8**	**124.1**	**85.2**

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	**31.03.14 Revised £m**	**31.03.15 Estimate £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**
General Fund	269.5	308.1	341.4	359.7
HRA	163.9	165.0	165.0	165.0
Total CFR	**433.4**	**474.1**	**506.4**	**524.7**

The CFR is forecast to rise by £91.3m 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: 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 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	**31.03.14 Revised £m**	**31.03.15 Estimate £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**
Borrowing	308.0	338.1	370.0	390.0
PFI liabilities	16.8	16.3	15.7	15.3
Total Debt	**324.8**	**354.4**	**385.7**	**405.3**

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

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Council'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 Council's debt.

Operational Boundary	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Borrowing	442.4	483.3	510.2	529.3
Other long-term liabilities	19.8	19.3	18.8	18.3
Total Debt	**462.2**	**502.6**	**528.9**	**547.6**

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

Authorised Limit	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	452.4	493.3	520.2	539.3
Other long-term liabilities	22.3	21.78	21.3	20.8
Total Debt	**474.7**	**515.1**	**541.4**	**560.1**

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	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	6.6	**7.2**	8.2	9.2
HRA	13.9	**13.9**	13.6	13.3

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of 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	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
General Fund - increase in annual band D Council Tax	**39.3**	41.7	34.6
HRA - increase in average weekly rents	**0.3**	0.3	0.3

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* in 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.

	2013/14 Estimate £M's	2014/15 Estimate £M's	2015/16 Estimate £M's	2016/17 Estimate £M's
HRA	**165**	**165**	**165**	**165**

Annual Minimum Revenue Provision Statement 2014/15

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. In summary these are:

Option 1 - For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" as defined in the former regulations.

Option 2 - For capital expenditure incurred before 1st April 2008 MRP will be determined as 4% of the Capital Financing Requirement in respect of that expenditure.

Option 3 - For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant, on an equal sum or annuity basis, starting in the year after the asset becomes operational.

Option 4 - For capital expenditure incurred after 31st March 2008, MRP will be determined as being equal to the accounting charge for depreciation.

The Council utilises a combination of options 1 and 3 from the guidance, which involves the use of 4% for certain assets and spreading the provision across the useful economic life of others. The calculation is reviewed annually by the Council's external auditors as part of the audit of the Statement of Accounts.