

## Appendix B

### Prudential Indicators and MRP Statement 2016/17

#### Prudential Indicators 2016/17

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.

**Estimates of Capital Expenditure:** The Authority's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the capital programme report within the budget setting report.

<b>Capital Expenditure and Financing</b>	<b>2015/16 Revised £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
General Fund	9.291	5.252	5.247	0.747
<b>Total Expenditure</b>	<b>9.291</b>	<b>5.252</b>	<b>5.247</b>	<b>0.747</b>
Capital Receipts	7.294	3.755	2.250	0.250
Government Grants	0.497	0.497	0.497	0.497
Reserves	0	0	0	0
Revenue	0	0	0	0
Borrowing (internal)	1.500	1.000	1.000	0
Borrowing (external)	0	0	1.500	0
Leasing and PFI	0	0	0	0
<b>Total Financing</b>	<b>9.291</b>	<b>5.252</b>	<b>5.247</b>	<b>0.747</b>

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

<b>Capital Financing Requirement</b>	<b>31.03.16 Revised £m</b>	<b>31.03.17 Estimate £m</b>	<b>31.03.18 Estimate £m</b>	<b>31.03.19 Estimate £m</b>
General Fund	1.500	1.000	2.500	0.000
<b>Total CFR</b>	<b>1.500</b>	<b>2.500</b>	<b>5.000</b>	<b>5.000</b>

The CFR is forecast to rise by £5m 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 Authority should ensure that external 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.

<b>Debt</b>	<b>31.03.16 Revised £m</b>	<b>31.03.17 Estimate £m</b>	<b>31.03.18 Estimate £m</b>	<b>31.03.19 Estimate £m</b>
Borrowing	0	0	1.500	0
Finance leases	0	0	0	0
PFI liabilities	0	0	0	0
<b>Total Debt</b>	<b>0.000</b>	<b>0.000</b>	<b>1.500</b>	<b>1.500</b>

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 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.

<b>Operational Boundary</b>	<b>2015/16 Revised £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
Borrowing	2.000	5.000	5.000	5.000
Other long-term liabilities	0	0	0	0
<b>Total Debt</b>	<b>2.000</b>	<b>5.000</b>	<b>5.000</b>	<b>5.000</b>

**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.

<b>Authorised Limit</b>	<b>2015/16 Revised £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
Borrowing	5.000	7.500	10.000	10.000
Other long-term liabilities	0	0	0	0
<b>Total Debt</b>	<b>5.000</b>	<b>7.500</b>	<b>10.000</b>	<b>10.000</b>

**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.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2015/16 Revised %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>
General Fund	-1.41	<b>-0.85</b>	-0.4	1.3

*For the next 3 periods there is a negative ratio as investment income is higher than borrowing costs and impact of the MRP. It is not until 2018/19 that MRP impact is high enough that borrowing becomes a proportion of the revenue budget.*

**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 [earlier in this report].

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2016/17 Estimate £</b>	<b>2017/18 Estimate £</b>	<b>2018/19 Estimate £</b>
General Fund - increase in annual band D Council Tax	0.63	1.89	1.89

## Annual Minimum Revenue Provision Statement 2016/17

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 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 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 only incorporates options recommended in the Guidance.

*Select from and amend as many of the following paragraphs as appropriate:*

For unsupported capital expenditure incurred after 31<sup>st</sup> March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments *or* as the principal repayment on an annuity with an annual interest rate, 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. *(Option 3 in England and Wales)*

Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31<sup>st</sup> March 2016, the budget for MRP has been set as follows:

	<b>31.03.2016 Estimated CFR £m</b>	<b>2016/17 Estimated MRP £m</b>
Unsupported capital expenditure after 31.03.2008	<b>1.500</b>	0.040
<b>Total General Fund</b>	<b>1.500</b>	<b>0.040</b>