

The Capital Prudential Indicators 2011/12 – 2013/14

Introduction

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2013/14.
2. Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy for 2011/12 to 2013/14 is included as Appendix B to complement these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

The Capital Expenditure Plans

3. The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:
 - Service objectives (e.g. strategic planning);
 - Stewardship of assets (e.g. asset management planning);
 - Value for money (e.g. option appraisal);
 - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
 - Affordability (e.g. implications for the council tax and rents);
 - Practicality (e.g. the achievability of the forward plan).
4. The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.
5. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.
6. The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to the poor condition of the property market.

7. The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

Capital Expenditure	2010/11 Original £000	2010/11 Revised £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Non-HRA	6,019	5,612	2,073	286	288
HRA	1,325	1,315	1,207	1,647	1,676
Total	7,344	6,927	3,280	1,933	1,964
Financed by:					
Capital receipts	83	213	260	73	74
Capital grants	281	408	235	95	95
Capital reserves	3,866	4,317	1,503	0	0
Revenue	1,160	1,066	1,282	1,765	1,795
Net financing need for the year	1,954	923	0	0	0

8. Other long term liabilities – The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

9. The Council's Borrowing Need (the Capital Financing Requirement)

10. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

11. Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for this scheme. At present, the Council currently has no such schemes in the CFR.

12. The Council is asked to approve the CFR projections below:

	2010/11 Original £000	2010/11 Revised £000	2011/12 Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000
Capital Financing Requirement					
CFR – Non Housing	7,037	5,646	5,406	5,180	4,976
CFR - Housing	4,296	4,296	4,282	4,268	4,253
Total CFR	11,333	9,942	9,688	9,448	9,229
Movement in CFR	1,682	661	-254	-240	-219

Movement in CFR represented by					
Net financing need for the year (above)	1,954	923	0	0	0
Less MRP/VRP and other financing movements	-272	-262	-254	-240	-219
Movement in CFR	1,682	661	-254	-240	-219

13. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP). No revenue charge is required for the HRA.
14. CLG Regulations have been issued which require full Council to approve an **MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:
15. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will continue to be:
- **Based on CFR** – MRP will be based on the CFR

This option provide for an approximate 4% reduction in the borrowing need (CFR) each year.

16. From 1 April 2008 for all unsupported borrowing (including PFI and Finance Leases) the MRP policy will be :
- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

This option provides for a reduction in the borrowing need over approximately the asset's life.

Affordability Prudential Indicators

17. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:
18. **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2010/11 Original %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Non-HRA	6.66	5.61	6.78	7.23	7.16
HRA	2.97	2.78	2.71	2.63	2.53

19. The estimates of financing costs include current commitments and the proposals in this budget report.
20. **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with **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 assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

21. Incremental impact of capital investment decisions on the Band D Council Tax

	2010/11 Original %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Council Tax - Band D	0.00	0.00	-0.69	-9.28	0.00

22. Estimates of the incremental impact of capital investment decisions on Housing Rent levels – Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

23. Incremental impact of capital investment decisions Housing Rent levels

	2010/11 Original £	2010/11 Revised £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Weekly Housing Rent levels	0.00	0.00	0.00	0.00	0.00

24. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.