The Capital Prudential Indicators 2012/13 to 2014/15

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, and reflects the outcome of the Council's underlying capital appraisal systems.
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 2012/13 to 2014/15 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);
    - 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 will be dependent on the recovery of the property market.
7. The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

	2011/12 Original £000	2011/12 Q2 Forecast £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Capital Expenditure	**14,400**	**12,347**	**3,119**	**1,841**	**1,811**
Financed by:					
Capital Receipts	397	397	0	0	0
Capital Grants	12,578	10,395	2,863	1,841	1,811
Capital Reserves	0	0	0	0	0
Contributions	1033	1,033	0	0	0
Revenue	0	0	0	0	0
Net financing need for the year	**392**	**522**	**256**	**0**	**0**

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

8. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total 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.

Approval is sought for the CFR projections below:

	2011/12 Q2 Forecast	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
CFR	**26,980**	**26,324**	**22,380**	**21,280**
Movement in CFR	(656)	(3,944)	(1,100)	(1,100)

Movement in CFR Represented by				
Net financing need for the year (from table at 7)	522	256	0	0
MRP	(1,178)	(1,200)	(1,100)	(1,100)
Applied Usable Capital Receipts Reserves[1]	0	(3,000)	0	0
Movement in CFR	**(656)**	**(3,944)**	**(1,100)**	**(1,100)**

[1] Estimate made in the Capital Programme that £3m of capital receipts will be generated in 2012/13 through asset sales and used to reduce the Capital Financing Requirement.

9. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP).

10. CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the following MRP Statement:

    a) For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure (SCE(R)), the MRP Policy will be to follow the existing practice outlined in former CLG Regulations

    b) For all unsupported borrowing the MRP Policy will be to follow the Asset Life Method i.e. MRP will be based on the estimated life of the assets.

Affordability Prudential Indicators

11. 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:

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, i.e. total revenue income.

	2011/12 Original Estimate	2011/12 Q2 Forecast	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Ratio	6.57%	6.27%	6.29%	6.35%	6.00%

The estimates of financing costs include current commitments and the proposals in this budget report.

12. **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 the 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.

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

	Projection 2012/13	Projection 2013/14	Projection 2014/15
Council Tax - Band D	0.06%	0.10%	0.05%