Appendix C

Prudential Indicators 2016/17

Background

1. Through the Local Government Act 2003, the Government relaxed its detailed control of local authority capital expenditure and replaced it with a requirement that Councils should have regard to CIPFA's **Prudential Code for Capital Finance in Local Authorities**. This Code of Practice is intended to ensure that local authorities' capital expenditure plans are **affordable, prudent and sustainable**.

2. The Code of Practice also requires that the Council's treasury management decisions are taken in accordance with professional good practice. More details of this will feature in the Treasury Management Strategy for 2016/17 which will be presented to the Executive and Council for approval in March 2016 The format of the Prudential Indicators below is as outlined in the national code of practice.

Indicators of Affordability

3. Prudential indicators of affordability are based on the mix of capital and revenue expenditure in the Council's budget and the effect that the spending plans will have on the Council Tax.

The Ratio of Financing Costs to the Council's Net Revenue Stream

4. The first indicator is the ratio of financing costs to the Council's "net revenue stream". The net revenue stream is the amount that the Council receives in council tax and formula grant from the government. The indicators for 2015/16 to 2018/19 are shown in Table 1 below:-

Table 1: Ratio of Financing Costs to Net Revenue Stream

	Estimate 2015/16 %	Estimate 2016/17 %	Estimate 2017/18 %	Estimate 2018/19 %
2016/17 Indicators	**7.30%**	**7.70%**	**10.00%**	**10.58%**
2015/16 Indicators	**7.50%**	**9.76%**	**11.55%**	**n/a**
2014/15 Indicators	**9.58%**	**10.57%**	**n/a**	**n/a**

5. Councillors will note that the indicator is increasing year on year reflecting rising borrowing costs as a result of the annual increase in the Council's underlying indebtedness combined with a reducing net revenue stream as government grant funding declines.

6. To the extent that this additional cost is factored in the General Fund Revenue Budget and is therefore considered affordable, it does not present a problem in the short term although the pressures on the Revenue budget may result in this position being unsustainable over the longer term.

The Incremental Effect of the Proposed Programme of Capital Expenditure on the Council Tax

7. The second indicator of affordability is the incremental effect of this year's proposals in the capital rollforward on the Council Tax. The indicator isolates the cost of the programme and shows it as an amount per Band D Council Tax payment. The proposed programme would produce the following increases in Council Tax at Band D:-

Table 2: Incremental Change in Band D Council Tax

	Estimate 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £
Additional Cost 2016/17	**11.91**	**24.65**	**25.82**
Additional Cost 2015/16	**20.85**	**22.49**	**n/a**
Additional Cost 2014/15	**26.38**	**n/a**	**n/a**

8. It should be remembered that the additional spending is being seen in isolation in these indicators. The year on year increase in the cost of the programme is accentuated by the fact that no account is taken of older schemes, the borrowing costs of which reduce over a period through the payment of the minimum revenue provision.

Indicators of Prudence

Capital Financing Requirement

9. The Capital Financing Requirement is intended to reflect the Council's underlying need to borrow. It is a notional estimate of the need to borrow and should not be confused with actual cash borrowing.

10. It is a requirement that over the medium term net borrowing will only be for a capital purpose. In order to ensure this remains the case, the Council should ensure that gross debt does not exceed the total capital financing requirement for the previous year plus the estimate of any additional Capital Financing Requirement for the current and next two financial years. The Capital Financing Requirement for the years 2015/16 to 2018/19 is estimated as follows:

Table 3: Capital Financing Requirement (CFR)

	In Year Amount (net) £m	Balance at 31st March Total £m	Gross External Debt £m
CFR Balance at 31st March 2015		14.286	14.359
2015/16	0.863	15.149	15.359
2016/17	6.682	21.831	18.859
2017/18	(0.124)	21.707	20.359
2018/19	(0.138)	21.569	20.359

11. As the table indicates, gross external debt on the basis of current estimates is not expected to exceed the sum of the capital financing requirement (CFR) for the current year plus the incremental change in the projected CFR for the following two years.

The Total Estimated Capital Spend for the Next Three Years

12. The Code requires that the Council estimates the total capital spend for the next three years. These figures are shown below and are as provided at **Appendix B** in this report.

Table 4: Capital Expenditure

	Estimate 2016/17 £m	**Estimate 2017/18 £m**	**Estimate 2018/19 £m**
General Fund (excluding slippage) 2016/17	**1.31**	**1.05**	**1.02**
General Fund (excluding slippage) 2015/16	**2.26**	**1.05**	**0.97**
General Fund (excluding slippage) 2014/15	1.3	1.3	n/a

13. It should be noted that these figures may include capital expenditure to be incurred by the Council but funded through external sources.