Appendix 3

Prudential Indicators Statement 2016/17

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 may be summarised as follows.

Capital Expenditure and Financing	**2015/16 Revised £000's**	**2016/17 Estimate £000's**	**2017/18 Estimate £000's**	**2018/19 Estimate £000's**
Gross Expenditure	1,995	445,455	406	406

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	**31.03.16 Revised £000's**	**31.03.17 Estimate £000's**	**31.03.18 Estimate £000's**	**31.03.19 Estimate £000's**
Total CFR	0	442,000	442,000	442,000

The CFR is forecast to increase during 2016/17 as any significant capital expenditure on replacement Council accommodation and other asset acquisitions will be financed by debt.

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	**31.03.16 Revised £000's**	**31.03.17 Estimate £000's**	**31.03.18 Estimate £000's**	**31.03.19 Estimate £000's**
Total Debt	0	442,000	442,000	442,000

Total debt is expected to increase in line with the CFR requirement in 2016/17 and maintain at that level in future years.

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	**2015/16 Revised £000's**	**2016/17 Estimate £000's**	**2017/18 Estimate £000's**	**2018/19 Estimate £000's**
Total Debt	4,000	500,000	442,000	442,000

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	**2015/16 Revised £000's**	**2016/17 Estimate £000's**	**2017/18 Estimate £000's**	**2018/19 Estimate £000's**
Total Debt	12,000	550,000	500,000	500,000

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	**2015/16 Revised %**	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**
General Fund	(4.64)	(8.43)	(11.04)	(10.77)

The ratios for Spelthorne are currently negative because the Council's investment income exceeds the cost of borrowing. This position is expected to improve further in the Council's favour in future years, due to interest rates for borrowing being at historically low levels and the significant levels of capital receipts the Council is expecting in 2016/17. These will be re-invested and are expected to provide an annual return of around 4%.

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 looks at the loss of interest which could be generated on the funds being used to finance the proposed capital programme.

Incremental Impact of Capital Investment Decisions	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**
Proposed Capital Programme	445,455,000	406,200	406,200
Estimated Interest earned on short term investments	0.50%	0.50%	0.50%
Estimated Tax Base	38,308	38,691	39,078
Incremental Impact on Band D Council Tax	58.14	0.05	0.05

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 at its meeting on 24th January 2012.

<u>Annual Minimum Revenue Provision Statement 2015/16</u>

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 a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

The Council expects that its Capital Financing Requirement will be nil on 31st March 2016 and in line with the CLG Guidance it will therefore charge no MRP in 2016/17.

Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18. It is proposed that the annuity method – one of the ready-made options in the guidance – is the most prudent and appropriate approach to be taken.

The annuity method makes provision for an annual charge to the General Fund which takes account of the time value of money (whereby paying £100 in 10 years' time is less of a burden than paying £100 now). The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the annual charges when they fall due.

The annuity method also matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. the method reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). This re-profiling of MRP therefore conforms to the DCLG "Meaning of Prudent Provision" which provide that "debt [should be] repaid over a period that is reasonably commensurate with that which the capital expenditure provides benefits".