

## Prudential Indicators for Capital Programme Proposals 2016/2020

Local Authorities determine their own programmes for capital investment in fixed assets. The Prudential Code is the code of practice supporting local authorities in taking decisions and underpins the system of capital finance. The key objectives of the Prudential Code are to ensure, within the Prudential Framework, that capital investment plans of the Authority are affordable, prudent and sustainable.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. These indicators are reported below based on actual, current and planned capital budget proposals as in the proposed 2016/2020 capital medium term financial plan.

Importantly, it should be noted that the proposed supported and unsupported borrowing results from the current and future capital budget proposals:

Borrowing budgeted in the capital budget proposals 2016/17 to 2019/20 is as follows: The 2016/17 figures are inclusive of slippage from 2015/16 as identified and reported as part of the month 6 capital monitoring process.

- General Unsupported borrowing of £1,000,000 2016/17 to 2019/20.
- 21<sup>st</sup> Century Schools – budgeted unsupported borrowing of £18,596,000 (including slippage) in 2016/17
- £2,420,000 of supported borrowing in 2016/17 to 2019/20 which assists in financing the core capital programme and is funded through Revenue Support grant from the Welsh Government.

### Capital Expenditure

The actual capital expenditure and financing (excluding vehicle leasing) that was incurred in 2014/15 and the estimates of capital expenditure and financing for the current year and future years that are recommended for approval are:

|                     | 2014/15<br>Actual<br>£000 | 2015/16<br>Estimate<br>£000 | 2016/17<br>Estimate<br>£000 | 2017/18<br>Estimate<br>£000 | 2018/19<br>Estimate<br>£000 | 2019/20<br>Estimate<br>£000 |
|---------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Capital Expenditure | 13,772                    | 24,756                      | 42,274                      | 29,567                      | 8,192                       | 5,391                       |

The estimate of capital expenditure for the 2015/16 and 2016/17 financial years includes allowance for slippage of expenditure from the 2015/16 capital programme that was forecast at month 6 capital monitoring.

As stated in the Capital programme budget proposals the medium term programme has been drafted, and a programme constructed for the next four years. There will be opportunity for the programme to be reviewed annually.

### Ratio of financing costs to net revenue stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2014/15 are:

|  | <b>2014/15<br/>Actual<br/>%</b> | <b>2015/16<br/>Estimate<br/>%</b> | <b>2016/17<br/>Estimate<br/>%</b> | <b>2017/18<br/>Estimate<br/>%</b> | <b>2018/19<br/>Estimate<br/>%</b> | <b>2019/20<br/>Estimate<br/>%</b> |
|--|---------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Ratio of financing costs to net revenue stream | 6.23                            | 6.53                              | 4.78                              | 6.31                              | 6.54                              | 6.49                              |

The estimates of financing costs include current commitments and the proposals in this budget report and are based on the actual and anticipated borrowing, net of investments.

### Capital Financing Requirement

Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2015 are:

|                               | <b>2014/15<br/>Actual<br/>£000</b> | <b>2015/16<br/>Estimate<br/>£000</b> | <b>2016/17<br/>Estimate<br/>£000</b> | <b>2017/18<br/>Estimate<br/>£000</b> | <b>2018/19<br/>Estimate<br/>£000</b> | <b>2019/20<br/>Estimate<br/>£000</b> |
|-------------------------------|------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Capital Financing Requirement | 122.9                              | 113.3                                | 124.8                                | 121.1                                | 118.0                                | 116.0                                |

The Capital Financing Requirement measures the authority's underlying need to borrow for capital purposes. In accordance with best professional practice, Monmouthshire County Council does not associate borrowing with particular items or types of expenditure, other than under its current policy for determining its Minimum Revenue Provision. The authority has an integrated treasury management strategy (last

approved on 26<sup>th</sup> February 2015 by Council) and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

The Council manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be drawn between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the authority's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes a key indicator of prudence where Gross External Borrowing does not, except in the short term exceed the total of Capital Financing Requirement. This is the case for the preceding year plus the estimates of any Capital Financing Requirement for the current and next two financial years.

Net external borrowing is the borrowing budgeted to finance the capital programme (Gross External borrowing) offset by the levels of cash and investments.

|                               | <b>2014/15<br/>Actual<br/>£000</b> | <b>2015/16<br/>Estimate<br/>£000</b> | <b>2016/17<br/>Estimate<br/>£000</b> | <b>2017/18<br/>Estimate<br/>£000</b> | <b>2018/19<br/>Estimate<br/>£000</b> | <b>2019/20<br/>Estimate<br/>£000</b> |
|-------------------------------|------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Net External borrowing        | 76.2                               | 95.0                                 | 95.0                                 | 106.3                                | 108.0                                | 106.0                                |
| Gross External borrowing      | 100.6                              | 100.0                                | 105.0                                | 116.3                                | 118.0                                | 116.0                                |
| Capital Financing Requirement | 122.9                              | 113.3                                | 124.8                                | 121.1                                | 118.0                                | 116.0                                |

The Head of Finance, as the Authority's S151 officer, reports that the Authority had no difficulty meeting this requirement in 2014/15, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### **Authorised Limit for External Borrowing**

In respect of external debt, it is recommended that the Council approves the following Authorised Limit for its total external debt gross of investments for the next four financial years.

|                             | <b>2014/15<br/>Limit set<br/>£000</b> | <b>2015/16<br/>Limit set<br/>£000</b> | <b>2016/17<br/>Estimate<br/>£000</b> | <b>2017/18<br/>Estimate<br/>£000</b> | <b>2018/19<br/>Estimate<br/>£000</b> | <b>2019/20<br/>Estimate<br/>£000</b> |
|-----------------------------|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Borrowing                   | 134.6                                 | 137.1                                 | 134.0                                | 145.3                                | 147.0                                | 139.0                                |
| Other long term liabilities | 2.6                                   | 2.6                                   | 2.6                                  | 2.6                                  | 2.5                                  | 2.5                                  |
| <b>Total</b>                | <b>137.2</b>                          | <b>139.8</b>                          | <b>136.6</b>                         | <b>147.9</b>                         | <b>149.5</b>                         | <b>141.5</b>                         |

These limits separately identify borrowing from other long-term liabilities. The Council is asked to approve these limits and to delegate authority to the Head of Finance, within the total limit for any year, to effect movement between the separately agreed limits of borrowing and other long-term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Audit Committee or Council at the next opportunity following the change.

These limits are consistent with the authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of the most likely, prudent but not worse case scenario, with sufficient headroom over and above this to allow for operational management, for example unusual cash movements.

### **Operational Boundary for External Debt**

The Council is also asked to approve the following Operational Boundary for external debt for the same period.

|                             | <b>2014/15<br/>Limit Set<br/>£000</b> | <b>2015/16<br/>Limit Set<br/>£000</b> | <b>2016/17<br/>Estimate<br/>£000</b> | <b>2017/18<br/>Estimate<br/>£000</b> | <b>2018/19<br/>Estimate<br/>£000</b> | <b>2019/20<br/>Estimate<br/>£000</b> |
|-----------------------------|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Borrowing                   | 113.6                                 | 120.2                                 | 113.0                                | 124.3                                | 126.0                                | 118.0                                |
| Other long term liabilities | 1.1                                   | 1.1                                   | 1.1                                  | 1.1                                  | 1.0                                  | 1.0                                  |
|                             | <b>114.7</b>                          | <b>121.3</b>                          | <b>114.1</b>                         | <b>125.4</b>                         | <b>127.0</b>                         | <b>119.0</b>                         |

The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the Authorised Limit to allow, for example, for unusual cash movements and equates to the maximum of external debt projected by this estimate.

The Operational Boundary represents a key management tool for in-year monitoring by the Head of Finance. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is asked to delegate authority to the

Head of Finance, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the Authorised Limit. Any such changes will be reported to the Audit Committee or Council at the next opportunity following the change.

The Council's actual external debt at 31 March 2015 was £101.8 million, comprising £100.6 million borrowing and £1.2 million other long-term liabilities. It should be noted that the actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at one point in time.

In taking its decisions on this budget report, the Council is asked to note that the Authorised Limit determined for 2016/17 would be the statutory limit determined under section 3(1) of the local Government Act 2003.

### **Incremental impact of new capital investment decisions on Council Tax**

A key measure of affordability is the incremental impact on the Council Tax, and the Council should consider different options for its capital investment programme in relation to their differential impact on the Council Tax.

The incremental impact works on the basis that supported borrowing is funded through Revenue Support Grant. The calculation is therefore determined by establishing the revenue impact of:

- Unsupported borrowing – in terms of interest payments and the statutory Minimum Revenue Provision (MRP)
- Any revenue savings or costs that have been identified and that will result from capital schemes being delivered

The current capital budget proposals, using current information available, would have the following impact:

|                              | <b>2014/15<br/>Actual<br/>£ p</b> | <b>2015/16<br/>Estimate<br/>£ p</b> | <b>2016/17<br/>Estimate<br/>£ p</b> | <b>2017/18<br/>Estimate<br/>£ p</b> | <b>2018/19<br/>Estimate<br/>£ p</b> | <b>2019/20<br/>Estimate<br/>£ p</b> |
|------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Effect on Band D Council Tax | 12.23                             | (0.04)                              | 35.84                               | 1.67                                | (0.30)                              | 1.86                                |

The notable incremental impact in 2016/17 is due to the high level of borrowing required to fund the 21C schools programme. The credit in 2015/16 is due to the low level of borrowing applied to the capital programme.

**Joy Robson**  
Responsible Financial Officer