REVISED PRUDENTIAL INDICATORS 2016/17 – FOR APPROVAL

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. (These are essentially the existing capital estimates amended for the £60m additional borrowing requirement detailed in the body of this report).

Capital Expenditure and Financing	2015/16 Outturn £000's	2016/17 Probable £000's	2017/18 Estimate £000's	2018/19 Estimate £000's
Gross Expenditure	2,999	24,274	61,249	976

(Note - that if any of the acquisition expenditure slips into 2017/18 or 2018/19 then this will be adjusted in the Capital Estimates and reported to Council Committees. Also note that the probable capital estimate for 2016/17 has been revised to £24,274m to reflect latest capital estimates of which £20m is for the Fund. The capital estimate for 2017/18 of £61,249 includes the £60m for the increased Fund as detailed in this report).

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	20,000	80,000	80,000

(Note - the CFR assumes that the £80m in 2017/18 is the total historic outstanding capital expenditure that has not been paid for and therefore rolls forward each year – it does not however mean a further £80m will be borrowed in 2018/19 or every year. Also this amount each year will eventually reduce for the minimum revenue provision once paid).

The CFR is forecast to increase during 2017/18 (from £20m to £80m) as any significant capital expenditure on property acquisition assets acquisitions will be financed by external borrowing / 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 External Debt	0	20,000	80,000	80,000

Total debt is thus expected to increase in line with the CFR requirement in 2017/18 and maintain at that level in future years. Existing capital expenditure requirements have been funded from sources other than external borrowing.

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.

Operational Boundary	**2015/16 Revised £000's**	**2016/17 Estimate £000's**	**2017/18 Estimate £000's**	**2018/19 Estimate £000's**
Total Debt	0	20,000	80,000	80,000

(Note – it is estimated that the maximum "estimate" for external debt will be £80m, although clearly it could be less).

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 absolute 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	5,000	25,000	85,000	85,000

(Note that the Council's previous Authorised Limit was £5m to allow for cash-flow movements and therefore this level of £5m will be retained and combined with the revised £80m borrowing limit – this is considered a prudent measure).

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 net 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	(1.00)	(2.2)	48	47

The ratios above for Epsom and Ewell move from negative to positive to reflect cost of borrowing after allowing for investment income. This is a worst case indicator only and reflects the "gross" cost of borrowing against the overall "net" Council budget. In reality the borrowing costs from the acquisitions are paid for from revenue income streams generated by them and are thus self-financing.

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 Probable £	2017/18 Estimate £	2018/19 Estimate £
Proposed Capital Programme	24,274,000	61,249,000	976,000
Estimated Interest earned on short term investments	1.25%	1.50%	1.75%
Estimated Tax Base	32,013	32,324	32,324
Incremental Impact on Band D Council Tax	9.47	28.42	0.53

(Note that the Council Tax base 2017/18 is used for this indicator – important to note that this indicator is for illustrative purposes as a worse-case scenario and does not actually mean an increase to Council Tax at that level for Epsom and Ewell Borough Council as the borrowing costs are paid for from income streams and are thus self-financing).

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 13 April 2012.

ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT

2016/17 AND 2017/18.

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 previous to 2016/17. 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 a maximum of £80m at 31st March 2018 and in line with the CLG Guidance it will therefore charge MRP on an asset life basis. This basis is subject to review and change in line with the Councils Treasury Management Strategy and approved Prudential Indicators which are revised annually.

Capital expenditure incurred during 2016/17 will be fully subject to a MRP charge from 2017/18 onwards. Capital expenditure incurred during 2017/18 will be subject to a MRP charge from 2018/19 onwards.