

Capital Prudential Indicators

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. This includes spending on assets owned by other bodies, loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are often not capitalised and are charged to revenue in year.

The summary of the capital expenditure is shown in the Table 1 below, further detail is available in the capital section of the Finance Performance Report 2023/24.

Table 1: Summary of Capital Expenditure in £000s

	2023/24 Original Budget £000s	2023/24 Current Budget £000s	2023/24 Outturn £000s
Property, Plant and Equipment	4,661	6,291	2,421
Investment Properties	1,802	2,262	1,833
Intangible Assets	102	168	81
REFCUS	19,419	20,916	8,477
Assets Under Construction	0	0	595
Community	3,202	3,207	0
Loan	206	306	0
Total	29,392	33,150	13,407

The major variations (out of a total of £19.7m) between the current budget and the outturn include;

Underspends and rephasings;

- Market Towns programme £13.9m
- Hinchbrooke Country Park £2.6m
- Vehicles and Plant £1.1m
- Commercial Property Improvements £0.9m
- Community Infrastructure Levy Funding and Planning £1.4m
- Car Parking £0.4m
- IT hardware and software £0.6m
- Parks schemes £0.5m
- Finance schemes £0.2m

Overspends

- Fareham Improvements £0.5m (Funded from reserves)

- Housing Fund £0.9m (Funded from external grant)
- Disabled Facilities Grants £0.5m (Extra grant of £0.4m was received, the net extra expenditure was £0.1m)

Full details of the variances are included in the Finance Performance Report Outturn 2023/24.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing).

Table 2: Summary of Capital financing in £000s

	2023/24 Original Budget £000s	2023/24 Current Budget £000s	2023/24 Outturn £000s
Capital Receipts	359	359	136
Capital Grants and Contributions	19,030	21,666	6,358
Community Infrastructure Levy	3,476	3,476	2,365
Earmarked Reserve	0	0	1,808
Minimum Revenue Provision	2,771	2,771	2,660
Internal Borrowing	3,756	4,878	80
Total	29,392	33,150	13,407

Debt is only temporary source of finance since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP).

The CFR figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2023/24 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Table 3: Summary of Capital Financing Requirement (CFR)

	2023/24 Original Budget £000s	2023/24 Current Budget £000s	2023/24 Outturn £000s
Opening CFR	71,592	72,261	72,261
Net expenditure	6,527	7,648	2,739
MRP	(2,771)	(2,771)	(2,660)
Closing CFR	75,348	77,138	72,340

Note the 2023/24 budget is set before the 2022/23 outturn is known, and as a result underspends in 2022/23 are not taken into account in the CFR balance.

Reducing the CFR. The Council's underlying borrowing need (the CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of borrowing need. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

When a capital asset is no longer needed, it may be sold so that the proceeds known as capital receipts, can be spent on new assets or to repay debt. Repayments of loan principal also generate capital receipts.

Table 4: Summary of the capital receipts

	2023/24 Original Budget £000s	2023/24 Current Budget £000s	2023/24 Outturn £000s
Housing clawback	350	350	15
Loan Repayments	9	9	121
Total	359	359	136

Table 5: Gross Debt and the Capital Financing Requirement

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term.

	2023/24 Original Budget £000s	2023/24 Actual £000s	Complied
Debt (including leases)	34,300	34,816	N/A
Capital Financing Requirement	75,300	72,340	N/A
Excess of CFR over Debt	41,000	37,524	Yes

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 6: Proportion of financing costs to net revenue stream

	2022/23 Actual £000s	2023/24 Actual £000s	2024/25 Budget £000s	2025/26 Budget £000s	2026/27 Budget £000s
Net revenue stream	17,303	22,170	25,413	26,432	24,205
Financing Costs	2,103	101	2,344	2,842	3,411
Proportion of net revenue stream	12%	0.5%	9%	11%	14%