

## Capital Prudential Indicators and MRP Statement 2018/19

### Prudential Indicators 2018/19

The Local Government Act 2003 requires the Authority 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 Authority 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 Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2017/18 Revised £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Capital Expenditure	27,039	31,204	23,707	18,753
<b>Total Expenditure</b>	<b>27,039</b>	<b>31,204</b>	<b>23,707</b>	<b>18,753</b>
Capital Receipts	7,459	8,325	2,884	(832)
Grants/Contributions	3,330	2,879	823	835
Borrowing	16,250	20,000	20,000	18,750
<b>Total Financing</b>	<b>27,039</b>	<b>31,204</b>	<b>23,707</b>	<b>18,753</b>

**Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.3.18 Estimate £'000	31.3.19 Forecast £'000	31.3.20 Forecast £'000	31.3.21 Forecast £'000
Adjustment A	9,113	9,113	9,113	9,113
Leases	136	62	30	0
Unsupported Borrowing	16,250	36,250	56,250	75,000
<b>Total CFR</b>	<b>25,499</b>	<b>45,425</b>	<b>65,393</b>	<b>84,113</b>

The CFR is forecast to rise by £75m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

**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 Authority 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.

Total debt is expected to remain below the CFR during the forecast period.

Debt	31.03.18 Revised £'000	31.03.19 Estimate £'000	31.03.20 Estimate £'000	31.03.21 Estimate £'000
Borrowing	16,250	36,250	56,250	75,000
Finance leases	136	62	30	0
<b>Total Debt</b>	<b>16,386</b>	<b>36,312</b>	<b>56,280</b>	<b>75,000</b>

**Operational Boundary for External Debt:** The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority'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 Authority's debt.

Operational Boundary	2017/18 Revised £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	26,000	46,000	66,000	84,000
Other long-term liabilities	800	800	800	800
<b>Total Debt</b>	<b>26,800</b>	<b>46,800</b>	<b>66,800</b>	<b>84,800</b>

**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 Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2017/18 Limit £'000	2018/19 Limit £'000	2019/20 Limit £'000	2020/21 Limit £'000
Borrowing	84,000	84,000	84,000	84,000
Other long-term liabilities	1,000	1,000	1,000	1,000
<b>Total Debt</b>	<b>85,000</b>	<b>85,000</b>	<b>85,000</b>	<b>85,000</b>

**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	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	-0.3	-3.29	-3.27	-3.10

**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 is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed

Incremental Impact of Capital Investment Decisions	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
General Fund - increase in annual band D Council Tax	0.36	0	0.19

**Adoption of the CIPFA Treasury Management Code:** The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* in April 2002. The 2017 Edition of the Code was published in January 2018. The Council fully complies with the Code recommendations.

## **Annual Minimum Revenue Provision Statement 2018/19**

Where the Authority 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 Authority 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 Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

For capital expenditure incurred before 1<sup>st</sup> April 2008, MRP will be determined in accordance with the former regulations that applied on 31<sup>st</sup> March 2008, incorporating an "Adjustment A" of £9,113k.

For unsupported capital expenditure incurred after 31<sup>st</sup> March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset by either of the following methods:

- in equal instalments
- or*
- as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational.

MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over a period of up to 25 years.

For assets acquired by finance leases MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31<sup>st</sup> March 2017, the budget for MRP has been set as follows:

	<b>31.03.2018 Estimated CFR £'000</b>	<b>2018/19 Estimated MRP £'000</b>
Capital expenditure before 01.04.2008	9,113	0
Supported capital expenditure after 31.03.2008	0	0
Unsupported capital expenditure after 31.03.2008	16,250	186
Finance leases and Private Finance Initiative	136	74
<b>Total</b>	<b>25,499</b>	<b>260</b>