

## Prudential Indicators and MRP Statement 2017/18

### Appendix C - Prudential Indicators 2017/18

The Local Government Act 2003/2011 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. Further detail is provided in the capital programme report.

Capital Expenditure and Financing	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	26.893	32.331	17.697	20.359
HRA	13.539	11.295	11.288	11.302
<b>Total Expenditure</b>	<b>40.432</b>	<b>43.626</b>	<b>28.985</b>	<b>31.661</b>
Capital Receipts	19.241	16.043	7.583	9.861
Government Grants	0.824	0.265	0.265	0.265
Major Repairs Reserve	13.539	11.295	11.288	11.302
Revenue	3.980	0	0	0
Internal Borrowing	2.848	12.323	8.350	2.500
External Borrowing	0	3.700	1.500	7.733
<b>Total Financing</b>	<b>40.432</b>	<b>43.626</b>	<b>28.986</b>	<b>31.661</b>

**Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. For this calculation we exclude allowance for finance leases.

Capital Financing Requirement	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.19 Estimate £m
General Fund	22.394	32.052	37.697	37.389
HRA	249.345	241.653	226.970	223.137
<b>Total CFR</b>	<b>271.739</b>	<b>273.705</b>	<b>264.667</b>	<b>260.526</b>

The CFR is forecast to fall by £11.213m over the next three years as capital expenditure financed by debt is less than the 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.

Debt	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Borrowing	249.344	236.544	219.444	200.644
Internal Borrowing	13.474	16.322	28.645	36.955
Other External Borrowing	0	0	0	7.734
Finance leases	2.103	2.103	2.103	2.103
<b>Total Debt</b>	<b>264.921</b>	<b>254.969</b>	<b>250.192</b>	<b>247.436</b>

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

**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	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	6.000	6.000	6.000	6.000
Other long-term liabilities	2.331	2.103	2.103	2.103
Housing Self Financing Borrowing	265.400	251.900	236.600	219.500
<b>Total Debt</b>	<b>273.731</b>	<b>260.003</b>	<b>244.703</b>	<b>227.603</b>

#### Authorised Limit for External Debt:

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003 / Local Government Finance Act 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	2016/17 Limit £m	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m
Borrowing	8.000	8.000	8.000	8.000
Other long-term liabilities	2.331	2.103	2.103	2.103
Housing Self Financing Borrowing	304.799	304.799	304.799	304.799
<b>Total Debt</b>	<b>315.130</b>	<b>314.902</b>	<b>314.902</b>	<b>314.902</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	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	1.08	1.53	1.44	0.80
HRA	38.09	40.99	44.57	47.09

#### 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	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
General Fund - increase in annual band D Council Tax	1.38	-0.12	-2.37
HRA - increase in average weekly rents	0	0	0

**HRA Limit on Indebtedness:**

Under the reform of housing finance implemented from 1st April 2012, the Government published the Limits on Indebtedness Determination 2012. This sets out the maximum amount of housing debt that the council may have outstanding at any one time.

	<b>2015/16 Revised £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
HRA limit on indebtedness	304.799	304.799	304.799	304.799
HRA Capital Financing Requirement	249.344	236.544	219.444	200.644

The HRA limit is maximum housing debt allowed. The HRA CFR is the expected housing debt at the end of each year.

The difference is the principal loan repayments and internal borrowing.

**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 2011 Edition* in February 2012.

## Appendix D - Annual Minimum Revenue Provision Statement 2017/18

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 incorporates options recommended in the Guidance:

### Option 1:

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 £8.115m.

### Option 2:

For capital expenditure incurred before 1<sup>st</sup> April 2008 MRP will be determined as 4% of the Capital Financing Requirement in respect of that expenditure.

### Option 3:

For 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 in equal instalments *or* as the principal repayment on an annuity with an annual interest rate equivalent to PWLB rates 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 20 years.

### Option 4:

For capital expenditure incurred after 31<sup>st</sup> March 2008, MRP will be determined as being equal to the accounting charge for depreciation.

The Council is asked to approve:

- The Council's policy for the calculation of MRP for 2017/18 shall be the Asset Life Method (Option 3 of the guidance), the principal (capital) element reflects the true nature of the rent/ charge over the life of the assets. This amounts to £165k for 2017/18.
- For newly created assets that will attract a rental income, the annuity method of allocating the MRP will be used. This method reflects the fact that more income will be received in later years of the asset life due to inflationary increases.
- All other financed assets will have the MRP calculated on an equal instalment basis, where a charge is made equal to the element of the charge that goes to write down the balance sheet liability.

Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

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:

	Finance leases	Other General Fund	HRA reform	TOTAL
	£0	£0	£0	£0
Capital Financing Requirement 31.03.2017	2,103	22,394	249,345	273,842
Less adjustment A		-8,115		-8,115
Allow GF benefit of -ve HRA CFR before HRA reform		-2,554	2,554	0
Capital expenditure financed from internal borrowing		2,848		2,848
Capital Financing Requirement liable to MRP	2,103	14,573	251,899	268,575
<b>MRP</b>	<b>0</b>	<b>165 (note 1)</b>	<b>15,300 (note 2)</b>	<b>15,465</b>

Note 1 – The borrowing is being used to finance the invest to save schemes within the capital programme. No MRP will be charged on these schemes until they become operational in future years.

Note 2 - This represents a voluntary debt repayment of £15.3m.