

Appendix B

Prudential Indicators and MRP Statement 2017/18

Prudential Indicators 2017/18

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	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	19.784	20.441	4.715	0.710
Total Expenditure	19.784	20.441	4.715	0.710
Capital Receipts	3.774	1.419	0.760	0.0
Government Grants	0.7	1.077	0.70	0.70
Reserves	0.0	0.0	0.0	0.0
Revenue	0.03	0.165	0.015	0.010
Internal Borrowing	5.0	0.0	0.0	0.0
External Borrowing	10.280	17.780	3.240	0.0
Leasing and PFI	0.0	0.0	0.0	0.0
Total Financing	19.784	20.441	4.715	0.710

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	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
General Fund	15.280	17.780	3.240	0.0
Minimum Revenue Provision	-0.0	-0.261	-0.507	-0.146
Total CFR	15.280	32.799	35.532	35.386

The CFR is forecast to rise by £21.04m 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.

Debt	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Borrowing	10.28	17.78	3.24	0.0
Finance leases	0.0	0.0	0.0	0.0
PFI liabilities	0.0	0.0	0.0	0.0
Transferred debt	0.0	0.0	0.0	0.0
Total Debt	10.28	28.06	31.30	31.30

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	11.0	29.0	32.0	32.0
Other long-term liabilities	0.0	0.0	0.0	0.0
Total Debt	13.0	29.0	32.0	32.0

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	2016/17 Limit £m	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m
Borrowing	19.0	35.0	38.0	38.0
Other long-term liabilities	0.0	0.0	0.0	0.0
Total Debt	19.0	35.0	38.0	38.0

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	-0.82	3.01	5.23	1.43

In 2016/17 there is a negative ratio as investment income is higher than borrowing costs and impact of the MRP. It is not until 2017/18 that MRP impact is high enough that borrowing becomes a proportion of the revenue budget.

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	9.32	15.71	4.35

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. It fully complies with the Codes.

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 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 unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments *or* as the principal repayment on an annuity with an annual interest rate, 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 3 in England and Wales)*

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 31st March 2017, the budget for MRP has been set as follows:

	31.03.2017 Estimated CFR £m	2017/18 Estimated MRP £
Unsupported capital expenditure after 31.03.2008	15.280	0.261
Total General Fund	15.280	0.261