

Appendix 2

Prudential Indicators and MRP Statement 2019/20

Prudential Indicators 2019/20

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	2018/19 Revised £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Capital Expenditure	38,813	33,898	27,162	20,497
Total Expenditure	38,813	33,898	27,162	20,497
Capital Receipts	4,723	5,530	1,912	(2,832)
Grants/Contributions	4,090	5,782	2,836	2,839
Borrowing	30,000	22,586	22,414	20,490
Total Financing	38,813	33,898	27,162	20,497

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	31.3.19 Estimate £'000	31.3.20 Forecast £'000	31.3.21 Forecast £'000	31.3.22 Forecast £'000
Adjustment A	9,113	9,113	9,113	9,113
Leases	62	30	0	0
Unsupported Borrowing	30,000	52,586	75,000	95,490
Total CFR	39,175	61,729	84,113	104,603

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.

Debt	31.3.19 Revised £'000	31.3.20 Estimate £'000	31.3.21 Estimate £'000	31.3.22 Estimate £'000
Borrowing	30,000	52,586	75,000	95,490
Finance leases	62	30	0	0
Total Debt	30,062	52,556	75,000	95,490

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

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	2018/19 Revised %	2019/20 Estimate %	2020/21 Estimate %	2020/21 Estimate %
General Fund	(1.19)	(6.56)	(5.84)	(5.24)

Annual Minimum Revenue Provision Statement 2019/20

Where the Authority finances capital expenditure through borrowing it must put aside resources to repay it. This is usually undertaken by a charge to the annual revenue budget known as Minimum Revenue Provision (MRP). It is also possible to use or 'set aside' capital receipts to repay capital borrowing. This may be in lieu of and/or additional to a charge to the revenue budget.

The Statutory Guidance on Minimum Revenue Provision was updated in February 2018, with the requirement that it is fully implemented from 2019/20 financial year. The latest edition provides specific guidance related to investment properties.

The broad aim of the guidance is to require local authorities to put aside revenue over time to cover their Capital Financing Requirement. In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.

The 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 only incorporates options recommended in the Guidance.

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

For capital expenditure on operational assets incurred after 31st 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:

- a) In equal instalments
- b) Using an annuity basis

For freehold land, MRP will be applied over 50 years, except where there is a structure on the land which the Council considers to have a life of more than 50 years where in such cases the longer life may also be applied to the land.

For capital expenditure not related to council assets but which has been capitalised by regulation or direction (e.g. capital grants to third parties) will be charged in equal instalments 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 lease obligation.

For investment properties, MRP will be calculated over a period of no more than 50 years, and MRP may be calculated by either of the following methods:

- a) In equal instalments
- b) Using an annuity basis
- c) Weighted to reflect projected net income cash flows over the expected life of investment (up to 50 years)

MRP will be charged from the start of the financial year after the expenditure is incurred, meaning capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2019, the budget for MRP has been set as follows:

	31.03.2019 Estimated CFR £'000	2019/20 Estimated MRP £'000
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	30,000	373
Finance leases and Private Finance Initiative	62	28
Total	39,175	401