Prudential Indicators Statement 2018/19

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

Capital Expenditure and Financing	2017/18 Revised £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Total Expenditure	**301,194**	**220,208**	**6,016**	**5,216**
Capital Grants / Contributions	(980)	(985)	0	0
Capital Reserves / Revenue	(2,967)	(2,762)	(1,016)	(216)
Borrowing	(297,247)	(216,461)	(5,000)	(5,000)
Total Financing	**(301,194)**	**(211,257)**	**(6,016)**	**(5,216)**

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

Capital Financing Requirement	31.03.18 Revised £000's	31.03.19 Estimate £000's	31.03.20 Estimate £000's	31.03.21 Estimate £000's
Total CFR	909,393	901,957	874,334	850,000

The Council has been debt free for a number of years, and therefore the CFR has been nil. However, recent acquisitions have led to the CFR increasing significantly and it is forecast to rise again in 2017/18 to reflect the further funding being made available for strategic acquisitions. It will then slowly reduce over time in line with the annuity based funding model used by the Council to support each of the strategic acquisitions made.

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 Council 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	31.03.18 Revised £000's	31.03.19 Estimate £000's	31.03.20 Estimate £000's	31.03.21 Estimate £000's
Total Debt	887,593	878,157	868,534	858,000

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

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

Operational Boundary	2017/18 Revised £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Total Debt	920,000	912,000	904,000	896,000

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 Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements, including the short term VAT related costs incurred with any acquisitions.

Authorised Limit	2017/18 Revised £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Borrowing	942,000	934,000	926,000	918,000
Total Debt	**942,000**	**934,000**	**926,000**	**918,000**

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	62	73	77	78

The ratio has changed significantly following the acquisitions completed in 2016. The ratio will continue to increase in future years due to increasing MRP requirements (which reflects the borrowing we are repaying each year) and the reducing income stream the Council is going to receive in grants from central Government.

Adoption of the CIPFA Treasury Management Code: The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition at its meeting on 24th January 2012.

Appendix 4

Annual Minimum Revenue Provision Statement 2018/19

Where the Council 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 Council to have regard to the Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance). The MHCLG has recently issued consultation on revisions to the Minimum Revenue Provision Guidance which the Council has responded to. Once the MRP guidance is revised the Council will revise its policy as necessary.

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 Council's current policy of fully repaying borrowing and associated liability by using annual MRP set asides to pay annual amortising debt is a fully prudent approach.

The CLG 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 incorporates options recommended in the Guidance.

Capital expenditure incurred during the financial year on asset acquisitions will not be subject to a MRP charge until the following complete financial year. For capital expenditure incurred that is funded from borrowing, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the relevant PWLB rate at the point the expenditure is incurred. 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.

The annuity method makes provision for an annual charge to the General Fund which takes account of the time value of money (whereby paying £100 in 10 years' time is less of a burden than paying £100 now). The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the annual charges when they fall due.

The annuity method also matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. the method reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). This re-profiling of MRP therefore conforms to the DCLG "Meaning of Prudent Provision" which provide that “debt [should be] repaid over a period that is reasonably commensurate with that which the capital expenditure provides benefits”.

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