

### **Prudential Indicators Statement 2021/22**

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.

<b>Capital Expenditure and Financing</b>	<b>2020/21 Revised £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>
<b>Total Expenditure</b>	<b>33.5</b>	<b>36.1</b>	<b>102.6</b>	<b>72.6</b>	<b>38.7</b>
Capital Grants / Contributions	(5.2)	(1.3)	(0.8)	(0.8)	(0.8)
Capital Reserves / Revenue	(0.8)	(1.7)	(0.3)	(0.8)	(0.6)
Borrowing	<b>(27.5)</b>	<b>(33.1)</b>	<b>(101.5)</b>	<b>(71.0)</b>	<b>(37.3)</b>
<b>Total Financing</b>	<b>(33.5)</b>	<b>(36.1)</b>	<b>(102.6)</b>	<b>(72.6)</b>	<b>(38.7)</b>

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

<b>Capital Financing Requirement</b>	<b>31.03.21 Revised £m</b>	<b>31.03.22 Estimate £m</b>	<b>31.03.23 Estimate £m</b>	<b>31.03.24 Estimate £m</b>	<b>31.03.25 Estimate £m</b>
Total CFR	1,131.7	1,152.4	1,241.2	1,299.1	1,323.3

The CFR is forecast to rise again in 2021/22 to reflect the further funding being made available for housing development and strategic acquisitions.

**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	31.03.21 Revised £m	31.03.22 Estimate £m	31.03.23 Estimate £m	31.03.24 Estimate £m	31.03.25 Estimate £m
Total Debt	1,086	1,106	1,196	1,253	1,276

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	2020/21 Revised £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Total Debt	1,250	1,300	1,350	1,350	1,350

**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	2020/21 Revised £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Total Debt	1,350	1,400	1,450	1,450	1,450

**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 interest and investment income. CIPFA Prudential Code definition of Net Revenue Stream comprises taxation and non-specific grants only. The ratio excludes the net property investment income, which makes a substantial contribution to Spelthorne Council revenue budgets. The ratio shows that the financing costs are higher than net revenue stream as defined above because the financing costs are mainly in relation to borrowing to fund commercial property portfolio.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2020/21 Revised %</b>	<b>2021/22 Estimate %</b>	<b>2022/23 Estimate %</b>	<b>2023/24 Estimate %</b>	<b>2024/25 Estimate %</b>
General Fund	276%	296%	327%	279%	295%

**Net Contribution of Commercial Property Income to Debt Interest Payable:** CIPFA recommends **local indicators** to deal with issues specific to an individual authority. Spelthorne Council has significant commercial property income to offset the financing costs including the minimum revenue provision. Therefore, a local indicator has been developed showing the net contribution of commercial property income to the revenue budget, this is shown below.

<b>Net contribution towards revenue budget after interest, annual debt repayments, asset management costs and sinking fund contributions.</b>	<b>2020/21 Revised £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>
To General Fund	11.1	10.3	10.1	8.3	8.6

**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 24<sup>th</sup> January 2012.

### **Annual Minimum Revenue Provision Statement 2021/22**

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 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 projects which span more than one financial year, MRP will be applied in the full financial year following completion. 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 completed asset as the principal repayment on an annuity basis with an annual interest rate of 2%, which based on the Council's treasury management advisors' advice is being used as a long-term proxy for inflation. 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

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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 2021/22, other than that on schemes completing after 2021/22, will be subject to a MRP charge from 2022/23. Following advice from our Treasury Management advisors, schemes which take more than one financial year to complete will have MRP charged in the first full financial year following the completion of the scheme.