Prudential Indicators and MRP Statement 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 a number of indicators, some of which are set out below. The remaining indicators are set out in the Treasury Management Strategy 2019-20.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows. Further detail is provided in Appendix 1c (Capital and Projects Programme 2019-20 to 2023-24) and Appendix 1d (Asset Replacement Forecast 2019-20 to 2023-24) to this Budget Report.

Capital Expenditure and Financing	**2018/19 Rev £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**
Total Expenditure	**14.013**	**8.919**	**11.139**	**9.351**	**3.017**	**4.687**
Capital Receipts	1.215	1.478	1.395	0.500	0.000	0.000
Government Grants	6.334	2.050	1.970	1.660	1.350	1.350
Other Contributions	1.396	2.116	2.747	2.525	0.050	0.425
Reserves	4.526	2.731	2.155	2.019	1.367	2.662
Revenue	0.542	0.544	2.872	2.647	0.250	0.250
Total Financing	**14.013**	**8.919**	**11.139**	**9.351**	**3.017**	**4.687**

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 Rev**	**2019/20 Est**	**2020/21 Est**	**2021/22 Est**	**2022/23 Est**	**2023/24 Est**
General Fund	-5.10%	-7.00%	-7.28%	-6.95%	-6.49%	-6.31%

The estimates of financing costs reflect the Budget Spending Plans for 2019-20 to be reported to Cabinet on 5 February 2019 and considered by Council on 5 March

2019. These indicators have been updated to reflect the current phasing of the capital programme and the effect on the cash flow forecasts for investments. The fact that the percentages remain negative shows that the investment interest remains an income source to the Council.

Annual Minimum Revenue Provision Statement 2019-20

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 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, reasonably commensurate with the period implicit in the determination of that grant.

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 only incorporates options recommended in the Guidance:

> Whilst the Council's General Fund Capital Financing Requirement is expected to remain negative or zero as at 31st March 2019, if the CLG Guidance is adhered to there should be no MRP charge in 2019-20. However, as identified whilst preparing the 2014-15 statutory accounts a finance lease for the Multi-functional devices was identified which adjusted the negative CFR position, and as such an MRP charge of £12,700 will be required in 2019-20 in accordance with the Council's MRP policy.

The Council's MRP policy for all borrowing after 31st March 2008 is based on the asset life method.

> *For new borrowing whether supported by the Government or not, MRP provision will be made over the estimated life of the asset for which the borrowing is undertaken. This will be done on a straight line basis in-line with the asset life determined for depreciation purposes and the MRP provision will commence in the financial year following the one in which the asset becomes operational.*

MRP is payable in the financial year following that in which the capital expenditure was incurred. The guidance allows for an important exception to this rule. In the case of expenditure on a new asset, MRP would not have to be charged until the financial year following the year in which the asset became operational. In respect of major schemes, this would enable an “MRP Holiday” delaying the on-set of the revenue charge for possibly up to 2 or 3 years.

Based on the Council’s estimate of its Capital Financing Requirement on 31st March 2019, the budget for MRP has been set is set at **£12,700 for 2019-20** due to the MRP required for the MFD finance lease.