Prudential Indicators and Annual Minimum Revenue Provision Statement

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Title:	**Prudential Indicators and Annual Minimum Revenue Provision Statement 2018/19**
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Purpose:	To present prudential indicators and MRP statement to the PCC for approval
ACPO / Strategic Lead:	PCC CFO
National Decision Model compliance:	*Yes*
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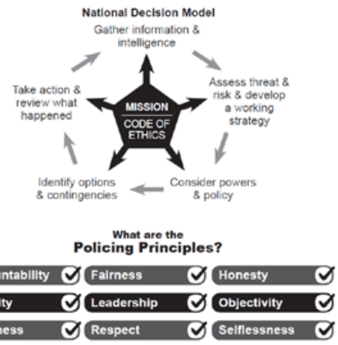

Purpose of Report
The PCC is required to set a number of statutory treasury management and cash flow limits before the beginning of each financial year. This report presents the prudential indicators for 2018/19 required by the CIPFA Prudential Code for Capital Finance, together with the required Statement of Minimum Revenue Provision (MRP) for 2018/19.

Summary
<u>Prudential Indicators</u>
The provisional capital and revenue budgets for 2018/19 have been incorporated into the prudential indicators attached.

Assuming the capital programme is spent in the year it has been profiled, there will be a requirement to borrow resources during 2018/19 and thereafter. These indicators have been set on the assumption that any borrowing with be from external resources from 2018/19 which will increase the MRP cost as well as associated financing costs.

<u>Statement of Minimum Revenue Provision</u>
Each year the PCC must approve a statutory minimum amount which is set aside on an annual basis as a provision to redeem debt.

A summary of the impact of the MRP regulations is provided in the main body of this paper, together with the required Statement of Minimum Revenue Provision for 2018/19.

Recommendations
That the PCC approves:-

1. the Prudential Indicators,
2. the Statement of Minimum Revenue Provision for 2018/19

1. <u>Prudential Indicator – Affordability</u> (appendix 1)

1.1 The measure of affordability is determined by a judgement about acceptable Council Tax levels

- the ratio of financing costs to net revenue stream (affordability indicator 1).
- the incremental impact of capital investment decisions on the council tax precept (affordability indicator 2).

1.2 <u>Indicator 1</u> - The numbers are small because interest payable on borrowing represents a small proportion of the net revenue stream. The reduction from 0.37% in 16/17 to 0.16% in 2017/18 illustrates the saving made from an additional Minimum Revenue Provision (MRP) contribution. 2018/19 shows an increase because of the predicted borrowing to meet the planned capital programme and the percentages jump up further in 2019/20 and 2020/21 due to increased borrowing to fund the Estate Strategy.

1.3 <u>Indicator 2</u> - This ratio assesses the incremental impact of borrowing on council tax, which increases by £0.64 in 2019/20 with a further increase to £1.53 in 2020/21.

2. <u>Prudential Indicator – Prudence</u> (appendix 2)

2.1 The PCC must ensure that net external borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year, plus the estimates of any additional capital financing requirement for the current and next 2 financial years and ensures that net borrowing is for capital purposes only.

2.2 The PCC currently has no external borrowing however, it is anticipated that there is a requirement to borrow £3.8m in 2018/19 £12.2m in 2019/20 and £13.7m in 2020/21 to fund the proposed capital programme.

3. <u>Prudential Indicator - Capital Expenditure</u> (appendix 3)

3.1 The 2 basic prudential indicators associated with capital expenditure are:

- total capital expenditure (capital expenditure indicator 1)
- capital financing requirement (capital expenditure indicator 2)

3.2 In order to calculate these indicators, it has been assumed that external borrowing will be used. Such estimates do not commit the PCC to a particular method of financing.

3.3 The Capital Financing Requirement (CFR) reduces by the MRP contribution whilst the PCC is utilising Capital Receipts. These receipts are expected to be fully utilised by 2018/19 according to the Capital Programme, at which point the CFR increases due to the planned borrowing.

4. <u>Prudential Indicator - External Debt</u> (appendix 4)

4.1 Both the authorised limit and the operational boundary for external debt are consistent with the PCC's capital expenditure and financing plans, and the treasury management policy.

4.2 The operational boundary provides sufficient latitude to fund the current 3-year capital programme externally in the event that any anticipated capital receipts or capital grants that have not yet been confirmed or committed are not received.

4.3 The authorised limit has been set to provide for a figure 10% in excess of the Operational Boundary for borrowing to meet any potential cash flow fluctuations.

5. **Prudential Indicator - Treasury Management (appendix 5A)**

5.1 This indicator shows that Treasury Management is being carried out in accordance with good professional practice.

6. **Treasury Management (appendix 5B)**

6.1 The PCC should ensure that security and liquidity are always given priority over yield when investing funds.

6.2 Appendix 5b shows the calculation of the Treasury Management indicators:

- Interest Rate Exposures Indicator
- Maturity Structure of Borrowing Indicator
- Total Principal sums Invested for Periods Longer than 364 Days Indicator

As the PCC plans to borrow from 2018/19 this appendix illustrates the cost of such borrowing. The proposed indicators allow for the maximum flexibility of type and period of exposure. This will be reviewed in consultation with the PCC's treasury management provider if and when borrowing becomes necessary.

7. **Annual Statement of Minimum Revenue Provision (appendix 6)**

7.1 Having considered planned levels of borrowing, the PCC also needs to consider the cost of repaying this debt. Each year the PCC is required to calculate a statutory minimum amount which is required to set aside on an annual basis as a provision to redeem debt – the Minimum Revenue Provision (MRP). For the purposes of this paper, debt is defined as capital expenditure financed by either borrowing or credit arrangements such as finance leases.

7.2 The recommended options and MRP calculations are shown in appendix 6, the approach adopted has been to minimise the impact of MRP on the Comprehensive Income and Expenditure Statement.

Equalities Implications – There are no equality implications arising from this report.

Risk – The following risks arise from this report:

- If the PCC does not adopt Prudential Indicators in line with the CIPFA Prudential Code for Capital Finance there is a risk of censure from the auditors and reputational damage as a consequence.
- If the PCC does not produce a Statement of Minimum Revenue Provision for 2018/19 in line with Government regulations there is a risk of breaching statutory requirements. There is also a risk of censure from the auditors and reputational damage as a consequence.

Human Rights - There are no human rights implications arising from this report.

Attachments:

Appendix 1 – Prudential Indicator - Affordability
Appendix 2 – Prudential Indicators - Prudence
Appendix 3 – Prudential indicator – Capital Expenditure
Appendix 4 – Prudential Indicator – External Debt
Appendix 5 – Prudential Indicator – Treasury Management
Appendix 6 – Annual Statement of Minimum Revenue Provision 2018/19

Prudential Code **Appendix 1**

Prudential Indicators For Affordability

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Future Year Targets			Comments
			2016/17	2017/18	2018/19	2019/20	2020/21	
1	**Ratio of financing costs to net revenue stream**	Financing costs / net revenue stream * 100%	0.37%	0.16%	0.19%	0.49%	0.99%	The figures are positive when the PCC is a net borrower. The numbers are small because the provision to pay internal borrowing (MRP)represents a small proportion of our net revenue stream but are increasing from 2018/19 due to interest costs on borrowing to fund the Capital Programme.
2	**Estimate of the incremental impact of capital investment decisions on the council tax precept**	(i) Forecast total budgetary requirements for the PCC based on no change to the existing capital programme *less* (ii) Forecast total budgetary requirement for the PCC with the changes to the capital programme included in the calculation. (iii) Take the difference between (i) and (ii) and calculate the addition or reduction to Council Tax that would result			-£0.03	£0.64	£1.53	These figures are negative when the cost of borrowing reduces but become positive from 2018/19 due to costs of borrowing for the capital programme.

Prudential Code **Appendix 2**

Prudential Indicators For Prudence

No.	Indicator	Definition	Last Year's Actual 2016/17 £'000	This Year's Estimate 2017/18 £'000	Future Year Targets 2018/19 £'000	2019/20 £'000	2020/21 £'000	Comments
1	**Borrowing and the capital financing requirement**	An authority must ensure that external borrowing does not, except in the short term, exceed the capital financing requirement in the preceding year plus the estimates of any capital financing requirement for the current and next 2 financial years.	✓	✓	✓	✓	✓	There is a requirement to borrow to support the Capital Programme from 2018/19 onwards
		Investments	-25,123	-23,680	-22,903	-24,852	-25,852	(a)
		External borrowing	0	0	3,777	12,220	13,661	(b)
		Gross external borrowing requirement/investment(-)	**-25,123**	**-23,680**	**-19,126**	**-12,632**	**-12,191**	(a) + (b)
	Capital Financing Requirement to be monitored against existing borrowing.		**8,549**	**8,149**	**11,541**	**22,056**	**34,087**	
		Is net external borrowing > total capital financing requirement?	NO	NO	NO	NO	NO	
		Management action required	None	None	None	None	None	

Prudential Code **Appendix 3**

Prudential Indicators For Capital Expenditure

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	Estimated Future Year Targets			Comments
			2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	
1	**Total Capital Expenditure**	Total capital expenditure incurred	6,959	8,911	13,500	19,014	20,003	As per the Capital Programme
2	**Capital Financing Requirement**	Fixed assets, deferred charges, revaluation reserve, capital adjustment account plus government grants deferred (plus, for future years, future capital expenditure less usable capital receipts, grants, contributions etc.)	8,549	8,149	11,541	22,056	34,087	The figures are increasing from 2018/19 to support the capital programme by borrowing.

Prudential Code **Appendix 4**

Prudential Indicators For External Debt

No.	Indicator	Definition	Last Year's Actual 2016/17 £'000	This Year's Estimate 2017/18 £'000	Future Year Targets 2018/19 £'000	Future Year Targets 2019/20 £'000	Future Year Targets 2020/21 £'000	Comments
1	**Authorised Limit**	Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities			13,965	26,688	41,246	Equals the operational boundary for external borrowing plus a provision of 10% to meet any potential cash flow fluctuations.
2	**Operational Boundary**	Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long term liabilities			12,695	24,262	37,496	The operational boundary provides sufficient latitude to borrow externally to fund the entire capital programme in the event that none of the anticipated capital grants or capital receipts are received.
3	**Actual External Debt**	Actual external debt = actual borrowing + actual other long term liabilities as at 31st March each year.	0	0				

Prudential Code

Prudential Indicators For Treasury Management **Appendix 5A**

No.	Indicator	Definition	Last Year's Actual	This Year's Estimate	`			Comments
			2016/17	2017/18	2018/19	2019/20	2020/21	
1	**Treasury Management**	The authority must adopt the CIPFA Code of Practice For Treasury Management in the Public Services	YES	YES	YES	YES	YES	

CIPFA Code of Practice on Treasury Management

Appendix 5B

Treasury Management Indicators

No.	Indicator	Definition	Last Year's Actual		This Year's Estimate		Future Years Targets						Comments
			2016/17		2017/18		2018/19		2019/20		2020/21		
2a	**Upper Limit On Variable Interest Rate Exposure**	Variable interest rate exposure = interest payable on variable rate borrowing less interest receivable on variable rate investments	0% - 100%		0% - 100%		0% - 100%		0% - 100%		0% - 100%		The use of variable or fixed rate loans will be decided in consultation with the PCC's Treasury Management provider (SCC) as the need arises.
2b	**Upper Limit On Fixed Interest Rate Exposure**	Fixed interest rate exposure = interest payable on fixed rate borrowing less interest receivable on fixed rate investments	0% - 100%		0% - 100%		0% - 100%		0% - 100%		0% - 100%		
	Projected interest payable on borrowing (£000s)		£0		£0		£90		£422		£787		
	Projected interest receivable on investments (£000s)		-£229		-£149		-£82		-£64		-£55		
3	**Maturity Structure of Borrowing**	Amount of projected fixed rate borrowing that is maturing in each period/Total projected fixed rate borrowing at the start of the period * 100%											
			Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	
		Under 12 months	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		12 months and within 24 months	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		24 months and within 5 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		5 years and within 10 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		10 years and above	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
4	**Principal Sums Invested For Periods Longer Than 364 days (£000's)**	Total principal sums invested to final maturities beyond the period end	£0		£0		£0		£0		£0		The Treasury Management strategy allows for longer term investment, however at this time all investmetns are limited to a maximum period of 364 days.

Appendix 6

ANNUAL STATEMENT OF MINIMUM REVENUE PROVISION – 2018/19

A. TOTAL MRP 2017/18 – 2020/21

Total MRP payments for the period 2017/18 – 2019/20, incorporating borrowing incurred prior to 1st April 2008 (option 1), along with actual and planned borrowing post 2008 (option 3), the different methods are described below.

Table 1	2017/18	2018/19	2019/20	2020/21
	Outturn	**Estimate**	**Estimate**	**Estimate**
	£000's	**£000's**	**£000's**	**£000's**
MRP using Option 1	200	192	185	177
MRP using Option 3	200	193	521	1,303
Total Minimum Revenue Provision	**400**	**385**	**706**	**1,480**

B. MRP Relating to Borrowing to Finance Capital Expenditure Incurred Before 1st April 2008

As at 31st March 2017, the PCC had £5.1m of internal borrowing outstanding which relates to capital borrowing undertaken prior to the introduction of the Prudential Code in 2004/05.

Option 1 is used to calculate MRP in relation to this debt, this is calculated in accordance with the former 2003 regulations.

The MRP payments relating to this debt are:-

Table 2	2017/18	2018/19	2019/20	2020/21
	Outturn	**Estimate**	**Estimate**	**Estimate**
	£000's	**£000's**	**£000's**	**£000's**
Capital borrowing incurred prior to 1/4/08	5,101	4,908	4,723	4,546
Minimum Revenue Provision (MRP)	200	192	185	177

C. MRP - Planned Self-Financed Borrowing relating to incurred After 1st April 2008

As at 31st March 2017, the PCC had £2.8m of internal borrowing outstanding incurred after 1st April 2008. The MRP relating to this debt has been calculated using Option 3 (charging MRP over the life of the asset on a straight line basis). The table below reflects borrowing in 2018/19 to finance planned capital expenditure which impacts on MRP expenditure in 2019/20. The table below also illustrates the plan to borrow externally to support the Estates Strategy from 2019/20, of which 85% is to be repaid over 25 years and 15% over 5 years resulting in an increase in MRP in 2020/21.

The MRP payments relating to this debt are:-

Table 3	2017/18	2018/19	2019/20	2020/21
	Outturn	**Estimate**	**Estimate**	**Estimate**
	£000's	**£000's**	**£000's**	**£000's**
Outstanding Self-Financed Borrowing	2769	2,569	6,154	17,853
Additional Borrowing		3,777	12,220	13,661
MRP	200	193	521	1,303