Appendix 6

PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY

1. THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2023/24

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The approval of the indicators is a statutory requirement by regulations issued under the Local Government Act 2003.

1.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

The tables below summarise the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a financing or borrowing need.

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Capital expenditure	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
Non-HRA	13.011	16.674	9.447	4.385	1.845
HRA	3.859	12.354	18.956	18.995	5.600
Strategic property purchases	43.400	23.488	20.000	0.000	0.000
TOTAL	**60.270**	**52.516**	**48.403**	**23.380**	**7.445**
Financed by:					
Capital receipts	0.795	1.248	1.799	0.021	0.004
Capital grants and contributions	12.230	10.257	1.425	0.963	0.375
Revenue Reserves & contributions	3.477	7.852	7.808	7.423	7.565
Net financing need for the year	**43.768**	**33.159**	**37.371**	**14.973**	**(0.499)**

1.2 **The Council's borrowing need (the Capital Financing Requirement)**

The second prudential indicator is the Councils' Capital Financing Requirement (CFR). The CFR is simply the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Councils' indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used. The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Councils' borrowing requirement, these types of scheme include a borrowing facility and so the Councils are not required to separately borrow for these schemes. The Councils currently do not have any such schemes within the CFR. The Councils are asked to approve the CFR projections below:

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Capital Financing Requirement (£m)	**2019/20 Actual**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
CFR – non-HRA	25.906	31.196	37.066	38.989	38.882
CFR - HRA	60.294	65.866	79.004	94.099	95.798
CFR – strategic	80.818	103.115	121.478	119.433	117.342
Total CFR	**167.018**	**200.177**	**237.548**	**252.521**	**252.022**
Movement in CFR	43.768	33.159	37.371	14.973	(0.499)
Movement in CFR represented by					
Financing need for the year	45.159	35.381	40.170	18.455	3.125
Less: MRP/VRP and other financing movements	(1.391)	(2.222)	(2.799)	(3.482)	(3.624)
Movement in CFR	**43.768**	**33.159**	**37.371**	**14.973**	**(0.499)**

1.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that the gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Financial Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Adur District Council External Debt £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt at 1 April	(116.167)	(161.802)	(194.961)	(232.332)	(247.305)
Expected change in Debt	(45.635)	(33.159)	(37.371)	(14.973)	0.499
Other long-term liabilities (OLTL)	0.000	0.000	0.000	0.000	0.000
Actual gross debt at 31 March	(161.802)	(194.961)	(232.332)	(247.305)	(246.806)
The Capital Financing Requirement	167.018	200.177	237.548	252.521	252.022
Under/(over) borrowing	5.216	5.216	5.216	5.216	5.216

1.4 **Treasury Indicators: limits to borrowing activity**

The operational boundary - This is the limit which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

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Operational boundary £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	195.0	233.0	248.0	247.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**196.0**	**234.0**	**249.0**	**248.0**

The authorised limit for external debt - A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Council is asked to approve the following authorised limit:

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Authorised limit £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	204.0	238.0	251.0	251.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**205.0**	**239.0**	**252.0**	**252.0**

1.5 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicators and limits:

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MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 365 DAYS			
	2021/22	**2022/23**	**2023/24**
Principal sums invested > 365 days	50%	50%	50%

1.6 **Affordability prudential indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream
This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Adur	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	%	%	%	%	%
Non-HRA	13.06	16.56	16.92	19.11	18.89
HRA	21.53	25.51	25.37	27.84	28.55
Strategic purchases	(16.16)	(17.08)	(14.77)	(14.81)	(14.94)
TOTAL	**18.43**	**24.99**	**27.52**	**32.14**	**32.50**

HRA Ratio

Adur	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA debt £m	**(58.452)**	**(65.824)**	**(78.962)**	**(94.057)**	**(95.756)**
Number of HRA dwellings	**2542**	**2538**	**2549**	**2597**	**2646**
Debt per dwelling	**£23.0k**	**£25.9k**	**£31.0k**	**£36.2k**	**£36.2k**

1.7 **Maturity structure of borrowing**

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council does not have any variable rate borrowing.

The Council is asked to approve the following treasury indicators and limits:

ADC Limits to maturity structure of fixed interest rate borrowing 2021/22		
	Lower Limit	**Upper Limit**
Under 12 months	0%	20%
12 months to 2 years	0%	30%
2 years to 5 years	0%	50%
5 years to 10 years	0%	70%
10 years to 20 years	0%	80%
20 years to 30 years	0%	60%
30 years to 40 years	0%	60%
40 years to 50 years	0%	45%

2. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

2.1 The Council is required to set aside funds to repay the accumulated General Fund debt associated with the capital investment programme each year (the CFR) through a revenue charge to the General Fund budget (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

MHCLG regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

For Adur District Council, the MRP relating to built assets under construction will be set aside once the asset is completed. If any finance leases are entered into, the repayments are applied as MRP.

The Council is recommended to approve the following MRP Statement:

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For Adur District Council it was approved by the Joint Strategic Committee on 2nd June 2016 that for borrowing incurred before 1st April 2008, the MRP will be set aside in equal instalments over the life of the associated debt.

2.2 **General Fund**

For non-HRA capital expenditure after 1st April 2008 the MRP will be calculated as the annual amount required to repay borrowing based on the annuity method: equal annual payments of principal and interest are calculated, with the interest element reducing and the principal element increasing over the life of the asset as the principal is repaid. The interest is based on the rate available to the Council at the beginning of the year in which

payments start and the MRP is calculated as the amount of principal, so that by the end of the asset's estimated life the principal is fully repaid (the Asset Life Method). The option remains to use additional revenue contributions or capital receipts to repay debt earlier.

An exception was agreed in the 2015/16 Treasury Management Strategy Statement: the Chief Financial Officer has discretion to defer MRP relating to debt arising from loans to Registered Social Landlords (RSLs) to match the profile of debt repayments from the RSL and other public bodies. RSLs normally prefer a maturity type loan as it matches the onset of income streams emanating from capital investment with the timing of the principal debt repayment. The deferral of MRP to the maturity date would therefore mean that MRP is matched at the same point as the debt is repaid, and is therefore cash (and revenue cost) neutral to the Council.

If concerns arise about the ability of the borrower to repay the loan, the Chief Financial Officer will use the approved discretion to make MRP as a "prudent provision" from the earliest point to ensure that sufficient funds are set aside from revenue to repay the debt at maturity if the RSL defaults.

2.3 **Housing Revenue Account**

Unlike the General Fund, the HRA is not required to set aside funds to repay debt. There is a requirement for a charge for depreciation to be made but there are transitional arrangements in place. The Council's MRP policy previously applied the financially prudent option of voluntary MRP for the repayment of HRA debt, to facilitate new borrowing in future for capital investment. However in order to provide additional capital funding to address the maintenance backlog identified by the condition survey, the payment of voluntary MRP was suspended for a period of 9 years from 2017/18 whilst the Council invests in its current housing stock and manages the impact of rent limitation.