Appendix E

MINIMUM REVENUE PROVISION (MRP)

When the Council does not finance capital expenditure with resources such as capital receipts, grants, contributions and reserves it effectively finances the spend by debt (although this can be internally sourced debt), and it must put aside resources to repay that debt. The amount charged is known as the Minimum Revenue Provision (MRP).

The amount of Minimum Revenue Provision (MRP) is set by the Council but legislation requires the Council to have regard to guidance issued by the Department for Communities and Local Government (DCLG). The aim of the guidance is to ensure that debt is repaid over a period that broadly matches the period over which the unfinanced capital expenditure provides benefits

The Department for Communities and Local Government's guidance requires the Council to approve an annual MRP statement and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

The Council is recommended to approve the following MRP Statement:

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported (*Note*) Capital Expenditure, the MRP policy will follow the former DCLG Regulations. This means the MRP will be based on 4% of the Capital Financing Requirement in respect of that expenditure.

- From 1 April 2008 for all unsupported capital expenditure, the MRP will be calculated by dividing the capital expenditure by the expected useful life of the relevant assets, starting in the year after the asset becomes operational. 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.

- For assets subject to finance leases, the MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.

- Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

- Capital spend is not subject to a MRP until the next financial year.

Note Supported Capital Expenditure is capital spend that central government supports with a contribution through grant. Horsham District Council does not have any Supported Capital Expenditure at present.

Appendix F

Prudential Indicators

Capital Expenditure Plans

The Council is asked to approve the capital expenditure projections below. The estimate of capital expenditure is based on the capital budget approved elsewhere in this report and estimates of capital spend that may become necessary during the period of the medium term financial strategy.

	2015/16 Revised £000	2016/17 Revised £000	2017/18 Revised £000	2018/19 Estimate £000
Projected Capital Expenditure	8,515	19,247	26,489	5,990
Financed by:				
Capital receipts and third party contributions	6,301	6,860	6,771	4,412
Capital grants	442	442	442	442
Revenue reserves	72	2,000	5,416	596
Total Financing	6,815	9,302	12,629	5,450
Net financing need	**1,700**	**9,945**	**13,860**	**540**

The Council's borrowing need, the Capital Financing Requirement

The Council is asked to approve the projections below in which t The capital financing requirement peaks in this time frame as unfinanced capital spend outweighs resources put aside to cover it until 2018/19.

Capital Financing Requirement	2015/16 Revised £000	2016/17 Revised £000	2017/18 Revised £000	2018/19 Estimate £000
Opening balance	11,986	12,900	22,019	34,748
Net financing need	1,700	9,945	13,860	540
Less MRP	(786)	(826)	(1,131)	(1,494)
Closing balance	**12,900**	**22,019**	**34,748**	**33,794**
Net inc/(decrease)	914	9,119	12,729	(954)

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 Authority 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. Total debt is expected to remain below the CFR during the forecast period as indicated below.

	2015/16 Revised £000	2016/17 Revised £000	2017/18 Revised £000	2018/19 Estimate £000
Gross Borrowing	4,000	9,000	18,000	18,000
Capital Fin. Req.	12,900	22,019	34,748	33,794

Limits to debt

There are two indicators that seek to put a limit on debt. The first limiting indicator is the ‘operational boundary’ which represents the expected maximum debt position during each year but is not an absolute limit. The other debt prudential indicator is the ‘authorised limit’ for external debt which represents the limit beyond which external borrowing is prohibited, and needs to be set and revised by Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The table below shows the estimates that the Council are asked to approve.

	2016/17	2017/18	2018/19
Operational boundary - borrowing	£9m	£18m	£18m
Operational boundary – other long term liabilities	£0m	£0m	£0m
Operational boundary - Total	£9m	£18m	£18m
Authorised limit – borrowing	£14m	£24m	£24m
Authorised limit – other long-term liabilities	£1m	£1m	£1m
Authorised limit – Total	£15m	£25m	£25m

Both limits are increasing as borrowing is projected to increase over the medium term.

Affordability Prudential Indicators

Estimates of the ratio of financing costs to net revenue stream – This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream. It therefore measures how much of the Council’s overall income is used to finance capital. The increase is due to the capital expenditure which is not financed from capital and revenue resources.

2015/16	2016/17	2017/18	2018/19
5%	6%	7%	11%

Estimates of the incremental impact of capital investment decisions on the Council Tax – This indicator identifies the revenue costs associated with the proposed changes to the capital programme recommended in the budget report. The costs are shown per Band D property and have been included in all the budget projections brought before the Council.

2016/17	2017/18	2018/19
£0.04	£0.12	£0.18