Title of Report:	**Prudential Indicators**
Committee Report Submitted To:	**Full Council**
Date of Meeting:	**8 February 2024**
For Decision or For Information	**For decision**
To be discussed In Committee YES/NO	**No**

Linkage to Council Strategy (2021-25)	
Strategic Theme	Cohesive Leadership
Outcome	Council has agreed policies and procedures and decision making is consistent with them.
Lead Officer	Chief Finance Officer

Budgetary Considerations	
Cost of Proposal	
Included in Current Year Estimates	**~~YES~~/NO**
Capital/Revenue	Revenue
Code	
Staffing Costs	

Legal Considerations	
Input of Legal Services Required	**~~YES~~/NO**
Legal Opinion Obtained	**~~YES~~/NO**

Screening Requirements	Required for new or revised Policies, Plans, Strategies or Service Delivery Proposals.		
Section 75 Screening	Screening Completed:	~~Yes~~/No	Date:
	EQIA Required and Completed:	~~Yes~~/No	Date:
Rural Needs Assessment (RNA)	Screening Completed	~~Yes~~/No	Date:
	RNA Required and Completed:	~~Yes~~/No	Date:
Data Protection Impact Assessment (DPIA)	Screening Completed:	~~Yes~~/No	Date:
	DPIA Required and Completed:	~~Yes~~/No	Date:

1.1 Background

In setting the rate Council should also consider its Prudential Indicators which summarise the cost of servicing its loan finance.

1.2 Detail

The prudential indicators summary attached as an appendix to this.

1.3 Recommendation

It is recommended that Council approve the Prudential indicators as tabled in the appendix**.**

Appendix 1

Minimum Revenue Provision (MRP) Policy Statement 2024-25

Background

Under regulation 6 of the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011, Councils now have a statutory requirement, to charge to its general fund, an amount of Minimum Revenue Provision (MRP) which it considers to be “prudent”. This replaced the previous requirement whereby the revenue charge was broadly equivalent to the amount of loans and leasing principal paid in any one year.

The regulations also state that authorities are required to prepare an annual statement of their policy on making MRP for approval by Council. This report sets out Council’s policy for 2024/25.

What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which provide future service potential and have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. Financing of these assets can come from a variety of sources, such as Grants, Capital Receipts and Borrowing. In order to account for the repayment of the councils borrowing, irrespective of when the timing of loan receipts and payments might take place, the council will be making an annual prudent provision for repayment of debt through a charge to the General Fund referred to as Minimum Revenue Provision (MRP).

The Regulation does not define a ‘prudent provision’. However, the Department of the Environment (DoE) has issued guidance which makes recommendations to authorities on the interpretation of that term. The guidance came into effect on 1 April 2012.

The Annual MRP Statement

Councils are required to prepare an annual statement of their policy on making MRP for submission to their full Council by the prescribed date of 15 February each year (or by the date the Rates are set). This mirrors other requirements in the Finance Act to report on the Councils Prudential borrowing limit and investment policy. The aim is to give elected members the opportunity to scrutinise the proposed use of the freedoms conferred under the regulations.

This statement indicates how it is proposed to discharge the duty to make prudent MRP in the financial year in question. If it is ever proposed to vary the terms of the original statement during any year, a revised statement will be put to Council at that time.

The Department for Communities (DfC) guidance includes specific examples of options for making a prudent provision. The aim of this is to ensure that the Provision for the borrowing which financed the acquisition/construction of an asset is made over a period that is reasonably commensurate to the useful life of that asset. Detailed below is a brief summary of each option.

Option 1 – Asset Life Method

The Asset Life Method is to make prudent provision over the estimated life of the asset for which the borrowing is undertaken. The MRP can be calculated using either an Equal Instalment Method or Annuity Method. The Asset Life Methods, as described below, are generally viewed as being easier to apply. Under both variations, councils may in any year make additional voluntary revenue provision, in which case an appropriate reduction is made in later years' levels of MRP.

(a) **Equal Instalment Method**

MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

Where:

A is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements

B is the total provision made before the current financial year in respect of that expenditure

C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

(b) **Annuity Method**

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The council should use an appropriate interest rate to calculate this amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 2 – Depreciation Method

This option means making MRP in accordance with the standard rules for depreciation accounting.

MRP Commencement

Under both options the estimated life of the asset should be determined in the year that MRP commences and not subsequently be revised. If no life can be reasonably attributed to an asset, such as freehold land, the life should be taken to be a maximum of 50 years.

Provision for debt will normally commence in the financial year following the one in which the expenditure is incurred. However, under Option 1 the council may treat the asset life as commencing in the year in which the asset first becomes operational. It may postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. In the case of major projects this could be perhaps two or three years, possibly longer. There would be a similar effect under Option 2 using the normal depreciation rules.

Existing Borrowing and Transitional Arrangements

Under the preceding arrangements, Councils charged to their general fund an amount which was broadly equivalent to the amount of loans and leasing principal paid in any one year. The new guidelines do not provide any examples on how Councils should account for their existing debt under the new Finance Act. The only duty is “to charge to its general fund an amount of MRP which it considers prudent”.

Councils’ Financial Statements for 2011/12 included a charge to the general fund in respect of loans and leasing principal for that year. It would be prudent to use this as the starting point regarding the provision for borrowing before the introduction of MRP. This will be referred to as “pre MRP Debt” for MRP purposes.

The legislative requirement to make a prudent provision came into effect from 1 April 2012. In order to properly account for these arrangements whilst dealing with capital financing existing at that date, the Council has put in place transitional arrangements outside of the two examples given by DfC in their guidance. These transitional arrangements provide for a full and prudent provision for existing borrowing requirements as at 31 March 2012 and are detailed in the policy statement below.

MRP Policy

Option 1, the Asset Life (Equal Instalment) Method will be used for capital expenditure incurred from 1 April 2012 which is financed by borrowings. Therefore the Minimum Revenue Provision Policy Statement for 2024/25 is as follows:

In accordance with the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 the Council’s policy for the calculation of Minimum Revenue Provision in 2024/25 will be the Asset Life (Equal Instalment) method for borrowings following the introduction of MRP, loan principal on borrowings made before the introduction of MRP, and for finance leases the principal paid in 2024/25.

The adoption of this method will enable the Council to link the revenue charge to the flow of benefits received from the asset. It will also allow the Council to utilise the payments holiday while assets are under construction. This however could lead to a significant increase to MRP the year after a capital project comes into operation. It would therefore be prudent, particularly in respect of larger capital schemes, to make a full or voluntary contribution of MRP for assets under construction to avoid this.

Based on this policy an amount of **£9,345,166** has been included in the Councils 2024/25 Estimates in respect of MRP, as follows: -

	2024/25 £
Forecasted Loans Principal Payment (on pre MRP debt)	3,258,178
MRP on Internal Borrowing (financing from own resources)	0
Voluntary extra provision	0
Prior Year Capital Expenditure funded from Borrowing	3,576,812
TOTAL	**6,834,990**
Interest costs on borrowings	2,019,440
TOTAL Cost for estimates	**8,854,430**

The policy will be reviewed on an annual basis.

Prudential Indicators for 2023/24 to 2026/27

1. Background

The Local Government Finance Act (Northern Ireland) 2011 requires the Council to adopt the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. In doing so, the Council is required to set and monitor a series of Prudential Indicators, the key objective of which is to ensure that, within a clear framework, the capital investment plans of the Council are affordable, prudent and sustainable.

2. Capital Expenditure Indicators

2.1 Capital Expenditure

This indicator outlines estimated annual Capital Expenditure which will be incurred by the Council, to ensure that capital investment plans are sustainable. The Council's estimated annual gross capital expenditure is included in table 1 below.

Table 1
Estimated Annual Capital Expenditure

	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
Gross Capital Expenditure	7,000	7,000	7,000	7,000

2.2 Capital Financing Requirement

The Capital Financing Requirement reflects the Council's underlying need to borrow for a capital purpose. It shows the estimated capital expenditure that has not been resourced from capital or revenue sources. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision (MRP) mechanism. The Capital Financing Requirement for the Council is shown in table 2 below.

Table 2
Capital Financing Requirement

	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
Capital Financing Requirement	72,148	72,313	72,453	72,901

3. Prudence Indicator

3.1 Gross Borrowing and the Capital Financing Requirement

This is a key indicator of prudence which ensures that over the medium term, gross borrowing will only be for a capital purpose. Under the Prudential Code it is permitted for gross borrowing to exceed the Capital Financing Requirement, in the short term, provided that it does not exceed the estimate for the current year plus the next two financial years. The following table demonstrates that the estimated net debt position is comfortably within the estimated Capital Financing Requirement over the medium term.

Table 3
Gross Borrowing and the Capital Financing Requirement

	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
Capital Financing Requirement	72,148	72,248	72,348	72,448
Gross Borrowing	49,971	45,446	45,428	45,781
Is Gross Borrowing within CFR?	Y	Y	Y	Y

4. Affordability Indicators

4.1 Ratio of Financing Costs to Net Revenue Stream

An important aspect of the Prudential Code is the assessment of affordability of the capital investment plans. One mechanism for doing this is by ascertaining the proportion of the revenue budget which is spent on capital financing, net of receipts from investment income. This does not include direct revenue financing amounts for capital schemes. Table 4 below summarises the ratio of financing costs to the estimated net revenue stream for the Council.

Table 4
Financing Costs to Net Revenue Stream

	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
Financing Costs	9,166	8,854	8,880	8,972
Net Revenue Stream	59,054	63,813	65,088	66,390
Percentage	15.6	13.9	13.6	13.5

The net revenue stream is calculated as the income from the Rates plus support grants.

4.2 Incremental Impact of Capital Investment Programme on the Rates

A key measure of the affordability of capital decisions is the ultimate impact on the Rates. This indicator identifies the impact within the proposed Rates attributable to the proposed changes in the Capital Programme. This impact is illustrated in Table 5 below.

Table 5
Impact of Capital Investment Programme on the Rates (- is saving)

	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
Incremental impact on Rates	-0.81%	-0.49%	0.04%	0.14%

5. External Debt Indicators

5.1 Authorised Borrowing Limit

The Act requires the Council to set an affordable borrowing limit, which relates to gross debt. This limit is referred to within the Prudential Code as the Authorised limit and must not be breached. It is therefore set at a level which while prevents excess borrowing and provides headroom for the operational management of the treasury function. The authorised borrowing limit, or estimated debt, to 2023/24 is set out in table 6 below.

Table 6
Council Authorised Borrowing Limit

	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
Authorised Borrowing Limit	80,000	80,000	80,000	80,000

5.2 Operational Boundary

Unlike the Authorised Borrowing Limit, the Operational Boundary is not a limit and instead provides an indication of the most likely, but not the worst case, estimate of gross external debt.

Table 7
Operational Boundary for Borrowing

	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
Operational Borrowing Limit	74,000	74,000	74,000	74,000