Appendix B

Extract from the Corporate Capital Strategy 2023/24– 2032/33 - Prudential Indicators and MRP Policy Statement

1. Prudential Indicators

1.1 The Council shall set and monitor against the specified prudential indicators for capital expenditure and external debt. The prudential indicators provide a broad framework to be considered alongside robust forecasting procedures embedded into the budget consideration process.

1.2 The prudential indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparative performance indicators. They should be considered in parallel with the treasury management indicators required by the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

1.3 The prudential and treasury indicators contained within the Treasury Strategy and this Corporate Capital Strategy approved by Full Council will be monitored by Audit Committee as part of the Mid Year Treasury Management Report. The Prudential Indicators are set out below.

Estimates of Capital Expenditure

1.4 The estimate of capital expenditure is the first prudential indicator and must show the total capital expenditure the Council plans to incur during the forthcoming financial year and at least the following two financial years. This information is shown in detail within the Corporate Capital Programme and summarised below with the financing of the capital expenditure. Any shortfall in resources results in a borrowing need.

	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 to 2032/33 Estimate £m
Non-HRA	60.605	99.287	73.410	53.439	139.284
HRA	20.929	41.057	18.444	16.191	147.276
Total	**81.534**	**140.344**	**91.854**	**69.630**	**286.560**
Financed by:					
Capital receipts	2.220	5.358	1.030	1.632	0.000
Capital grants	26.393	66.842	44.249	24.163	79.522
Contributions	4.481	1.730	1.300	0.300	2.100
Revenue	23.650	19.192	17.532	16.507	149.488
Net financing need for the year	**24.790**	**47.222**	**27.743**	**27.028**	**55.450**

Actual Capital Expenditure

1.5 After the year end, the actual capital expenditure incurred during the financial year will be recorded. This prudential indicator will be referred to as the actual capital expenditure.

	2021/22 Actual £m
Non-HRA	72.000
HRA	21.208
Total	**93.208**

Estimates of Financing Costs to Net Revenue Stream

1.6 Prudential indicators are required to assess the affordability of the capital investment plans, to provide an indication of the impact of the capital investment plans on the Council's overall finances. 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.

	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Non-HRA	10.51%	10.59%	10.84%	11.34%	11.80%
HRA	15.50%	15.40%	15.19%	15.01%	13.87%

	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate	2031/32 Estimate	2032/33 Estimate
Non-HRA	11.35%	10.84%	11.13%	11.46%	10.43%	10.01%
HRA	13.34%	13.06%	12.82%	10.69%	12.24%	11.97%

Actual Financing Costs to Net Revenue Stream

1.7 After the year end the proportion of financing costs to net revenue stream will be calculated directly from the Council's comprehensive income and expenditure statement.

	2021/22 Actual
Non-HRA	12.07%
HRA	17.39%

Estimates of the incremental impact of capital investment decisions on council tax

1.8 This indicator identifies the revenue costs associated with proposed changes to the three-year capital programme compared to the Council's existing approved commitments and current plans. The indicator takes into account the level of borrowing required within the programme so in later years where there are less approved schemes then the impact is significantly reduced. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published in advance of years.

Incremental impact of capital investment decisions on the Band D Council Tax

	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Council Tax – Band D	£26.65	£19.16	£12.05	£12.26	£8.41

	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate	2031/32 Estimate	2032/33 Estimate
Council Tax – Band D	£4.55	£14.32	£4.51	£8.28	£5.39	£4.44

Estimates of the incremental impact of capital investment decisions on housing rent levels

1.9 Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact of any newly proposed borrowing requirement, although any discrete impact will be constrained by rent controls. Where the capital programme is fully funded and there is no borrowing requirement then the impact will be nil.

	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Weekly Housing Rent Levels	£8.47	£79.45	£9.41	£0.00	£0.00

	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate	2031/32 Estimate	2032/33 Estimate
Weekly Housing Rent Levels	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00

2. Minimum Revenue Provision (MRP) Policy Statement

2.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

2.2 Regulations have been issued which require Full Council to approve an 'MRP Statement' in advance of each year. A variety of options are provided to councils; however, these are not compulsory as long as there is a prudent provision.

The Council is recommended to approve the following MRP Policy Statement:

2.3 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, MRP will be charged on a 2% straight line basis, net of 'Adjustment A'. This ensures that the debt will be repaid within 50 years.

2.4 From 1 April 2008, for all unsupported borrowing (including PFI and Finance Leases) the MRP policy will be the:

2.5 <u>Asset Life Method</u> - There are 2 methods of calculating the annual charge under this option. Firstly, equal annual instalments or secondly by the annuity method where annual payments gradually increase during the life of the asset**.**

<u>Equal Instalment Method</u> - MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). MRP in respect of leases brought on balance sheet will equal the annual repayment of the deferred liability; and the

<u>Annuity Method</u> – MRP is linked to schemes where the flow of benefits is expected to increase in later years. It may be particularly attractive in connection with projects promoting regeneration.

2.6 These options provide for a reduction in the borrowing need over the asset's approximate life and each option is used in appropriate circumstances.

2.7 Regulations allow authorities to apply an 'MRP holiday', whereby the MRP charge is deferred until a year after the practical completion of the asset. The Council will apply this allowance where appropriate.

2.8 There is no requirement on the HRA to make a minimum revenue provision but following HRA reform, there is a requirement for a charge for depreciation to be made (although there are currently transitional arrangements in place).

2.9 Repayments included in annual PFI or finance leases are applied as MRP**.**

2.10 For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

2.11 Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

2.12 MRP on investments in equities will be made on an annuity profile over 20 years, as recommended by government guidance.