Appendix B

Extract from the Corporate Capital Strategy 2022/23 – 2031/32 - 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.

	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 to 2031/32 Estimate £m
Non-HRA	79.170	54.109	60.982	64.196	116.880
HRA	23.834	29.318	19.098	15.324	141.127
Total	**103.004**	**83.427**	**80.080**	**79.520**	**258.007**
Financed by:					
Capital receipts	2.875	0.033	0.068	0.171	1.425
Capital grants	30.496	35.689	22.998	13.045	69.930
Contributions	2.515	3.688	0.300	1.450	3.250
Revenue	22.464	20.816	16.678	17.054	142.502
Net financing need for the year	**44.654**	**23.201**	**40.036**	**47.800**	**40.900**

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.

	2020/21 Actual £m
Non-HRA	41.348
HRA	17.989
Total	**59.337**

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.

	2021/22 Forecast	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non-HRA	12.66%	11.90%	11.37%	12.00%	12.72%
HRA	16.62%	15.82%	16.50%	16.06%	15.50%

	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate	2031/32 Estimate
Non-HRA	12.36%	11.95%	11.63%	11.35%	11.67%	11.14%
HRA	14.13%	13.49%	13.10%	12.72%	11.26%	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.

	2020/21 Actual
Non-HRA	12.36%
HRA	18.44%

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

	2021/22 Forecast	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Council Tax – Band D	£35.13	£35.10	£20.59	£33.79	£34.37

	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate	2031/32 Estimate
Council Tax – Band D	£20.69	£5.55	£5.52	£5.49	£5.47	£5.44

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.

	2021/22 Forecast	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Weekly Housing Rent Levels	£9.39	£49.63	£9.44	£0.00	£0.00

	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	2030/31 Estimate	2031/32 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 Asset Life Method - 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**.**

Equal Instalment Method - 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

Annuity Method – 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 MRP on capitalised loan advances to other organisations or individuals will not be required. Instead, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. However, revenue MRP contributions would still be required if the loan or part of the loan defaulted, equal to the amount of any impairment of the loan advanced.

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