

Prudential Indicators and MRP Statement 2022/23

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives the Prudential Code sets out several indicators, some of which are set out below. The remaining indicators are set out in the Treasury Management Strategy 2022/23.

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows. Further detail is provided in Appendix 1c (Capital and Projects Programme 2021/22 to 2026/27) and Appendix 1d (Asset Replacement Forecast 2021/22 to 2026/27) to this Budget Report.

| Capital Expenditure and Financing | 2021/22 Original | 2021/22 Latest | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|-----------------------------------|------------------|----------------|------------------|------------------|------------------|------------------|------------------|
| | £m | £m | £m | £m | £m | £m | £m |
| Capital Expenditure | 10.938 | 23.651 | 19.546 | 3.936 | 5.737 | 5.620 | 0.000 |
| Financed By: | | | | | | | |
| Capital Receipts | 0.000 | 0.000 | 2.217 | 0.000 | 0.000 | 0.000 | 0.000 |
| Government Grants | 2.000 | 4.589 | 4.009 | 1.600 | 1.600 | 1.600 | 1.600 |
| Other Contributions | 5.029 | 4.285 | 4.793 | 5.097 | 12.733 | 2.245 | 5.000 |
| Reserves | 3.734 | 6.714 | 6.186 | 1.567 | 1.692 | 1.070 | 2.551 |
| Revenue | 0.175 | 3.426 | 3.224 | 0.000 | 0.000 | 0.000 | 0.000 |
| Total Financing | 10.938 | 19.014 | 20.429 | 8.264 | 16.025 | 4.915 | 9.151 |

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

| Ratio of Financing Cost to Net Revenue Stream | 2021/22 Original | 2021/22 Revised | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|---|------------------|-----------------|------------------|------------------|------------------|------------------|------------------|
| General Fund | -5.59 | -5.73 | -5.75 | -6.85 | -6.60 | -6.05 | 0.00 |

The estimates of financing costs reflect the Budget Spending Plans for 2022/23 to be considered by Cabinet on 1 March and approved by Council on 8 March. These indicators have been updated to reflect the current phasing of the capital programme and the effect on the cash flow forecasts for investments. The fact that the percentages remain negative shows that the investment interest remains an income source to the Council.

Annual Minimum Revenue Provision Statement 2022/23

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance:

As the Council's General Fund Capital Financing Requirement (CFR) is expected to remain negative or zero as at 31 March 2022, the MHCLG Guidance does not require an MRP charge to be made in 2022/23.

In the event that borrowing to fund capital expenditure is incurred, the Council's MRP policy for all borrowing after 31st March 2008 is based on the asset life method.

For new borrowing whether supported by the Government or not, MRP provision will be made over the estimated life of the asset for which the borrowing is undertaken. This will be done on a straight line basis in-line with the asset life determined for depreciation purposes and the MRP provision will commence in the financial year following the one in which the asset becomes operational.

For assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability over the term of the lease.

MRP is payable in the financial year following that in which the capital expenditure was incurred. The guidance allows for an important exception to this rule. In the case of expenditure on a new asset, MRP would not have to be charged until the financial year following the year in which the asset became operational. In respect of major schemes, this would enable an "MRP Holiday" delaying the on-set of the revenue charge for possibly up to 2 or 3 years.

Based on the Council's estimate of its Capital Financing Requirement on 31st March 2022 (i.e. the underlying need to borrow to fund capital expenditure) the budget for MRP has been set at **zero for 2022/23**.