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DRAFT ANNUAL CAPITAL STRATEGY 2025/2026

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1. STRATEGIC CONTEXT AND PURPOSE

1.1 The Council's capital investment programme bring together many aspects of the Council's services and financial planning. This is driven by the Corporate Plan which sets out the Council's drivers in the development and prioritisation of the capital proposals as described below:

- Responding to climate change, including providing electric vehicle charging points, securing investments in renewable energy and support local community led and community owned renewable energy projects.
- Economic regeneration developments including attracting investment in infrastructure to support better broadband and 5G coverage and using our investments and assets to boost the local economy.
- Providing socially rented homes by delivery of social rented and affordable accommodation across the District.
- Maximising opportunities for income generation within projects that support the key priorities of the Council.

1.2 The Council has historically been able to manage funding its capital programme through the use of capital receipts, but external borrowing will underpin the planned developments in future years. The Council expects to fund the majority of its capital programme going forward largely from prudential borrowing and use of capital receipts. This discussed in more detail within Section 3 of this report.

2. CAPITAL RESOURCES AND FINANCING

2.1 The capital programme is planned to be fully financed from a combination of existing resources, external grants and contributions, capital receipts, and an affordable level of borrowing. The Capital Strategy prioritises the use of external grants and funding where possible to support Council Plan priorities. Where included, capital receipts assumptions are based on a prudent level of expected capital receipts from asset sales, loan repayments and other sources.

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2.2 Resources of £18.2m have been identified to fund the four-year capital programme from 2025/26 to 2028/29, with £2.9m of this being through prudential borrowing. The Council will ensure that any borrowing will be undertaken in accordance with the Prudential Code for local authority capital finance and within the framework and policies set out in this capital strategy.

2.3 Revised or additional capital budgets funded from corporate resources may be approved by Cabinet or Council, in accordance with the Council's Financial Rules. Additional prudential borrowing must be approved by full Council.

2.4 A breakdown of the resources utilised to fund the capital programme is shown in **Chart 1** and **Table 1** below:

Chart 1 – Resources to fund the Capital Programme 2025/26 to 2028/29

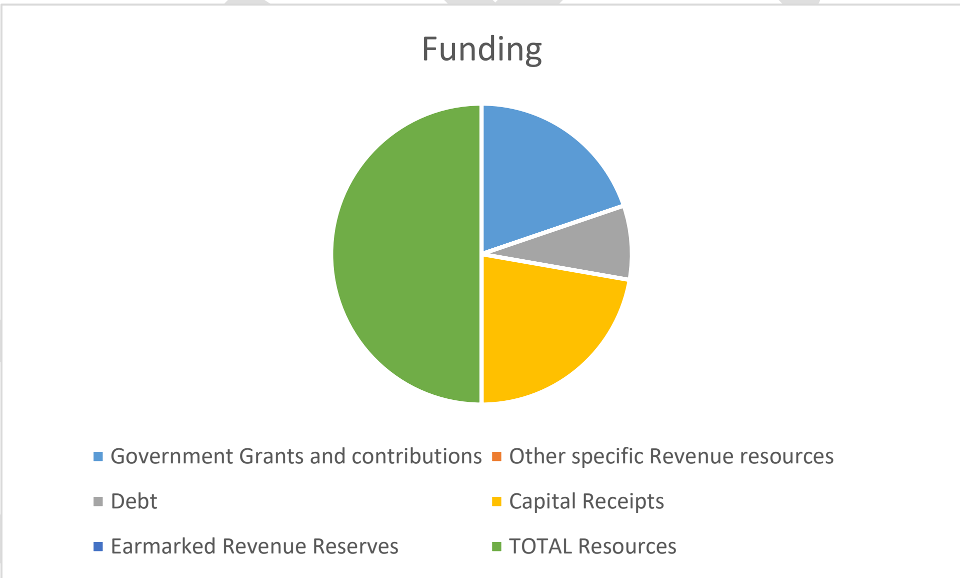

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Table 1 – Capital Financing

	2023/24 Actual (£m)	2024/25 Forecast (£m)	2025/26 Budget (£m)	2026/27 Budget (£m)	2027/28 Budget (£m)	2028/29 Budget (£m)
Specific Resources						
Government Grants and contributions	1.8	3.3	2.0	1.7	1.7	1.8
Other specific Revenue resources	0.0	0.0	0.0	0.0	0.0	0.0
SUBTOTAL Specific Resources	**1.8**	**3.3**	**2.0**	**1.7**	**1.7**	**1.8**
Corporate Resources						
Debt	0.1	0.4	0.0	2.9	0.0	0.0
Capital Receipts	4.1	3.6	2.1	3.2	2.5	0.3
Earmarked Revenue Reserves	0.0	0.0	0.0	0.0	0.0	0.0
SUBTOTAL Corporate Resources	4.2	4.0	2.1	6.1	2.5	0.3
TOTAL Resources	**6.0**	**7.3**	**4.1**	**7.8**	**4.2**	**2.1**

3. CAPITAL EXPENDITURE

3.1 Capital expenditure is where the Council spends money on assets, such as land, property, or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are treated as operational expenditure and charged to the revenue budget. For details of the Council's policy on capitalisation, see the Council's accounting policy which are contained with the annual Statement of Accounts. [2023/24 Statement of Accounts]

3.2 Based on the above strategy to support the delivery of the Council Plan outcomes, the proposed Capital Programme totals £4.1m in 2025/26 and £18.1m over the four-year period to 2028/29 as summarised below in **Table 2**:

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Table 2 – Estimates of Capital Expenditure

Spend by Council Priority Area	2023/24 Actual (£m)	2024/25 Forecast (£m)	2025/26 Budget (£m)	2026/27 Budget (£m)	2027/28 Budget (£m)	2028/29 Budget (£m)
Responding to Climate Emergency	0.1	0.9	0.0	0.0	0.0	0.0
Suporting Communities	0.1	1.3	0.0	0.5	0.0	0.0
Delivering Good Services	1.0	1.5	1.9	5.4	2.0	0.4
Delivering Housing	4.4	2.4	1.7	1.8	2.2	1.8
Supporting the Economy	0.1	0.9	0.3	0.0	0.0	0.0
SUBTOTAL Priority Areas	**5.7**	**7.1**	**4.0**	**7.7**	**4.2**	**2.1**
Capital investments	0.3	0.3	0.0	0.0	0.0	0.0
TOTAL	**6.0**	**7.3**	**4.0**	**7.7**	**4.2**	**2.1**

3.3 New projects and priorities are identified through the Council's financial planning process and are added to the capital programme. Further detail on planned expenditure in each of the Council Priority areas is included within Annex D of the Medium-Term Financial Strategy.

3.4 The Council manages capital risks through its business case appraisal and approval arrangements. The Council will need to consider the best approach for the review of capital business cases before recommendation for approval of expenditure by Cabinet or Council. Capital programme expenditure and treasury management performance is regularly monitored and reported to Members at the Audit and Governance Committee, Overview and Scrutiny Committee and Cabinet in accordance with the Constitution. Capital risks have also been considered by the Chief Finance Officer as part of the annual report on the adequacy of Council reserves.

4. CAPITAL FINANCING- EXTERNAL RESOURCES

4.1 Where capital expenditure is funded from external resources such as grants and contributions the financing cost is nil.

4.2 The Council will continue to support the community through the allocation of Disabled Facilities Grant which is funded through a grant of approximately £1.6m per year.

5. CAPITAL FINANCING- INTERNAL RESOURCES

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5.1 **Financing from Capital Receipts**: Capital receipts from the disposal of assets represent a finite funding source and it is important that a planned and structured approach to disposals it taken to support the corporate priorities of the Council.

5.2 **Asset management**: An updated asset management strategy was adopted by Cabinet in May 2024, supported by detailed Asset Management Plans for all land and property assets to ensure the Council is achieving the maximum benefit from its assets. Carter Jonas have been instructed to undertake this work. The strategy will help ensure that the Council's capital assets are maintained and developed and continue to contribute effectively to the delivery of the Council's services, support the local economy or provide income in line with expectations. Where there are opportunities to use assets more effectively to delivery Council Priorities, businesses cases are presented to the Cabinet or Council for approval.

5.3 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts "flexibly" on service transformation projects up until and including 2029/30 (subject to guidance from Government). Repayments of capital grants, loans and investments also generate capital receipts.

5.4 All land and buildings which are surplus to existing use will be reviewed before any Council decision is made, to ensure the re-use or disposal of the asset provides best value in supporting the Council's objectives.

5.5 **Table 3** shows forecast of Capital Receipts over the medium-term.

Table 3: Capital Receipts Receivable

Capital Receipts	2023/24 Actual (£m)	2024/25 Forecast (£m)	2025/26 Budget (£m)	2026/27 Budget (£m)	2027/28 Budget (£m)
Asset sales*	0.2	0.6	0.0	0.0	0.0
Ubico Loans repaid for Vehicle purchase	0.9	0.8	0.9	0.8	0.8
Other Loans repaid	1.3	0.7	0.0	0.0	0.0
TOTAL	**2.4**	**2.0**	**0.9**	**0.8**	**0.8**

*** Asset sale receipts includes receipts from "Right to Buy" asset disposals from Bromford Housing Association and the disposals outlined in paragraph 5.3.*

5.6 The Council made a decision to dispose of the vacant Visitor Information Centre in Bourton on the Water and Old Station and Memorial Cottages in 2024/25, both sales are expected to complete in the 2024/25 financial year. At this stage, no other significant disposals are planned between 2024/25 and 2026/27 but in light of the Asset Management Strategy this will be an evolving position.

5.7 The Council's Audit and Governance Committee receives information on the Council's asset portfolio as part of its consideration of the financial statements.

Financing from Earmarked Reserves

5.8 There are no plans to fund the current Capital Programme from earmarked reserves.

Table 4: Capital Programme Funded by earmarked reserves

Reserve Funding	2024/25 Forecast (£m)	2025/26 Forecast (£m)	2026/27 Budget (£m)	2027/28 Budget (£m)
Service Improvements	0.0	0.0	0.0	0.0
Investment	0.0	0.0	0.0	0.0
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**

6. CAPITAL FINACING – DEBT AND TREASURY MANAGEMENT

6.1 Local authorities are required by law to set an overall limit on their debt outstanding, including loans and other long-term liabilities. This 'prudential limit' may not be exceeded, so the Council's proposed limit allows for risks, uncertainties, and potential changes during the year which may need to be accommodated within this overall limit. The outstanding borrowing for the Council after use of internal resources (such as capital receipts or revenue reserves) is outlined in **Table 1**.

6.2 The Council's debt liabilities and its investments arising from day-to-day cash flows need careful management in order to manage the costs and risks. This is the subject of the Council's Treasury Management Strategy and Policies.

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6.3 The Council has a low to moderate appetite for taking financial risk and this is reflected in this Capital Strategy. Treasury Management risks are managed through the Treasury Management Strategy and Policy

Borrowing Strategy

6.4 The Council's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility to adapt to changes in the future. These objectives are often conflicting, and the Council will therefore seek to strike a balance between lower-cost short-term loans and long-term fixed rate loans where the future cost is known but higher.

6.5 Local Authorities must not borrow more than or in advance of their needs purely to profit from the investment of extra sums borrowed. The Council plans to borrow in 2026/27 to invest in new capital schemes. Any funds borrowed will be in relation to specific schemes and based upon the cash required for the chosen schemes. There are no plans to borrow in advance of need.

6.6 The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

6.7 The cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt financed capital expenditure and reduces when debt is repaid through revenue or other capital receipts. Statutory guidance is that debt should remain below the CFR, except in the short term. The CFR for each financial year is set out in **Table 5** below and shows that the estimated borrowing complies with this.

Table 5 – Capital Financing Requirement by General Fund services (Council Priorities) and Capital Investments

Capital Financing Requirement	2023/24 Actual (£m)	2024/25 Budget (£m)	2025/26 Forecast (£m)	2026/27 Forecast (£m)	2027/28 Forecast (£m)
Investment in Council Priorities	0.1	0.5	0.5	3.0	2.6
Capital Investments	0.0	0.0	0.0	0.0	0.0
TOTAL CFR	**0.1**	**0.5**	**0.5**	**3.0**	**2.6**

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Liability Benchmark

6.8 To compare the Council's estimated borrowing against an alternative strategy, a liability benchmark is calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £13m at each year-end. The liability benchmark is currently -£11m and is forecast to rise to £1.14m over the next three years.

6.9 **Table 6** below shows that the Authority expects to remain borrowed above its liability benchmark until 2026/27. This is because a deliberate decision was made to borrow additional sums through a Community Municipal Investment to give local people a chance to invest in a cleaner, greener, healthier future for the Cotswolds.

Affordable Borrowing Limit

6.10 The Council is also legally obliged to set an affordable borrowing limit (also known as 'authorised limit for external debt'. In line with statutory guidance, a lower 'operational boundary' is also set as a warning level should debt approach the limit.

Table 6 – Forecast Debt and Prudential Indicators

	Actual as at 31/03/2024 (£m)	Forecast to 31/03/2025 (£m)	Forecast to 31/03/2026 (£m)	Forecast to 31/03/2027 (£m)	Forecast to 31/03/2028 (£m)
Forecast outstanding borrowing / Debt	(0.36)	(0.26)	(0.16)	(0.05)	0.00
Capital Financing Requirement	0.07	0.48	0.47	2.97	2.57
Liability benchmark	(11.20)	(10.37)	(8.46)	(0.45)	1.14
Authorised limit	10.00	10.00	10.00	10.00	10.00
Operational boundary	5.00	5.00	5.00	5.00	5.00

6.11 The Council's full MRP statement is included as **Appendix 1-A** and is also mirrored in the Annual Treasury Management Strategy.

Revenue Budget Implications

6.12 Although capital expenditure is not charged directly to revenue, the interest payable on loans and provision for repayment of loans (MRP) will be. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. This charge is known as financing costs. The proportion of financing costs to net revenue stream, i.e., the amount funded from Council Tax, Business Rates and General Government Grants is shown in **Table 7.**

Table 7 – Financing costs as a proportion of revenue (£m)

Financing costs	**Actual as at 31/03/2024**	**Forecast to 31/03/2025**	**Forecast to 31/03/2026**	**Forecast to 31/03/2027**	**Forecast to 31/03/2028**
Financing costs (£m)	0.012	0.012	0.014	0.107	0.534
Proportion of net revenue stream	0.09%	0.07%	0.08%	0.76%	4.17%

6.13 The funding available from Government from 2026/27 onwards is very uncertain due to changes due to be implemented to local government funding. The proportion indicator should therefore be treated as highly indicative.

6.14 Further details on the revenue implications of capital expenditure are covered in section 5 of the 2025/26 Revenue Budget, Capital Programme and Medium-Term Financial Strategy report. [Link to Cabinet Report].

Sustainability

6.15 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable, and sustainable because the net budget demand on the Council and the risks within the programme have been reviewed and are within the Council's risk appetite and tolerances.

7. TREASURY MANAGEMENT

7.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved.

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Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

7.2 Due to decisions taken in the past, the Authority currently has £0.3m of borrowing at an average interest rate of 2.2% and £29m of treasury investments at an average rate of 4.68%

7.3 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

7.4 The Authority's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy, and the Authority may request its money back at short notice.

7.5 Further details on treasury investments are included in Section 4 of the Treasury Management Strategy [Link to Cabinet Report Annex]

7.6 **Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks. The treasury management prudential indicators are included within **Table 4a** and Section 7 of the Treasury Management Strategy [Link to Cabinet Report Annex]

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7.7 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to the Audit and Governance Committee, Overview and Scrutiny and then Council. The Audit Committee is responsible for scrutinising treasury management decisions.

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8. INVESTMENTS FOR SERVICE PURPOSES

8.1 The Council makes investments to assist local public services, including making loans to local charities, housing associations, local residents and its employees to support local public services, stimulate local economic growth and support Council priorities of providing socially rented housing and promoting carbon neutral development and infrastructure. Total investments for service purposes are currently valued at £2.1m with the largest being a loan facility to a local housing association with a current balance of £1.9m.

8.2 **Risk management**: In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to break-even or generate a small profit after all costs. A limit of £3.6m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

8.3 **Governance**: Decisions on service investments are made by the relevant service manager in consultation with the Chief Finance Officer and must meet the criteria and limits laid down in the Investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme. The Chief Finance Officer is responsible for ensuring that adequate due diligence is carried out before investment is made. At this time, independent advice may be sought from organisations such as Arlingclose as Treasury Advisors.

8.4 Further details on service investments are in Sections 3 and 4 of the Annual Non-Treasury Investment Strategy: [Link to Cabinet Report Annex]

9. COMMERCIAL ACTIVITIES

9.1 Commercial investments or activities are those the Council invests in purely for financial gain. With Government financial support for local public services declining, the Authority has previously invested in commercial property purely or mainly for financial gain. Total commercial property investments are currently valued at £4.875m, with the largest being £1.4m (Cirencester town centre property leased as retail units) at 31 March 2024 providing a net return after all costs of 7.18% (forecast 4.42% in 2025/26).

9.2 With financial return being the main objective, the Authority accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include: vacancy periods (voids) between tenants, cost of material repairs to property, risk of fire or flood damage. These risks are managed by: acquiring properties with long leases and with tenants with a strong covenant and insuring the property. In the longer term, the changing nature of the high street for retail occupants may require the Council to review its commercial property holdings. These risks are managed by the Council's Property Services Team. The Council also has a Corporate Risk Register which is reported quarterly to the Council's Audit and Governance Committee and includes any significant risks arising from commercial investments. In order that commercial investments remain proportionate to the size of the authority, and to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services, these are subject to an overall maximum investment limit of £10m.

9.3 Decisions of commercial investments are made by the Council in line with the criteria and limits approved by Council in the Investment Strategy. Property and most other commercial investments are also capital expenditure, and purchases will therefore also be approved as part of the Capital Programme. The Chief Finance Officer for ensuring that adequate due diligence is carried out before an investment in made.

9.4 Further details on commercial investments and limits on their use are included in Section 5 of the Investment Strategy.

Table 9: Prudential indicator: Net income from commercial and service investments to net revenue stream

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PI: Net Revenue Stream	2023/24 Actual (£m)	2024/25 Forecast (£m)	2025/26 Forecast (£m)	2026/27 Forecast (£m)	2027/28 Forecast (£m)
Total net income from service and commercial investments (£m)	0.34	0.27	0.37	0.40	0.41
Proportion of net revenue stream	2.49%	1.70%	2.18%	2.87%	3.19%

10. OTHER LIABILITIES

10.1 In addition to debt of £0.3m detailed above, the Authority is committed to making future payments to cover its pension deficit (valued at £12m). It has also set aside £1m to cover risks of Business Rate valuation appeals.

11. GOVERNANCE

11.1 The CIPFA Prudential Code expects local authorities to consider and approve a number of ‘prudential indicators’. These relate to the capital programme generally as well as borrowing and are set out in the sections above.

11.2 The Council will use borrowing in accordance with the CIPFA ‘Prudential’ system as a tool for delivering policy and managing its finances. Local authorities may borrow to finance capital expenditure, and the affordability of debt is the key constraint. Prudential borrowing is an important way to fund the Council’s own priorities where external funding cannot be obtained. The Council sets and monitors prudential indicators to manage its debt exposures.

11.3 To ensure that borrowing remains at an affordable and sustainable level, the Council will seek over the medium term to manage its new prudential borrowing for normal service delivery at a level which is close to the amount which it sets aside from the revenue account each year for debt repayment (i.e., MRP).

11.4 The Council is mindful of Government and CIPFA advice that commercial investments including property must be proportionate to the resources of the authority. The Council is not planning any investments primarily for yield. All service and commercial investments will have regard to the guidance and lending terms issued by HM Treasury.

11.5 The arrangements for realising investments and managing liquidity risk will depend on the purpose and nature of the investment in each case. Where investments have been made to support service purposes and have been funded from cash resources, there is not a funding pressure to have an investment exit route in place. Where investments are funded by borrowing, the Council's MRP Policy sets out the arrangements to repay debt without resorting to a sale of the investments.

11.6 Financial and property investment decision making will follow the Council's Business Case governance requirements, with particular attention to expert due diligence, robust financial appraisal and taking external advice in consultation with the Chief Finance Officer. New investments must reflect the Council's core priorities and must be agreed by the Chief Finance Officer before presentation of any Council decision report.

11.7 Decisions on incurring new discretional liabilities are taken by the Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by finance and reported quarterly to Cabinet.

11.8 Advisers will be used where necessary to ensure that the Council is provided with sufficient skills and understanding to support robust decision making. In particular, the Council's treasury management adviser (Arlingclose) can provide support in relation to financial investments.

11.9 Officer and Member training will be available through the Council's treasury advisers. Information relevant to investment decisions will form part of Council decision reports to members. Due diligence requirements for investments will ensure that officers are aware of the core principles of the prudential framework and local authority regulatory requirements. These arrangements will support the capacity, skills and culture of the Council in making and managing investments for service and commercial purposes.

12. MANAGEMENT OF THE CAPITAL PROGRAMME

12.1 In the above context of needs and resources, the Council has developed policies and high-level processes to ensure the effective management of capital. This will be overseen by the Council through strong governance and assurance processes for capital planning, capital appraisal and approval, project management, and capital monitoring and review.

12.2 Service managers contribute annually, in the autumn, to the Council's revenue budget and capital programme. The Finance Team collates proposed changes to the Capital Programme for consideration by the Cabinet as part of the Council's budget setting process. The financing cost (which can be nil for projects funded from Council resources or external grants) is included in the Medium-Term Financial Strategy and detailed budgets for the forthcoming financial year. The Council's Overview and Scrutiny Committee considers both the Medium-Term Financial Strategy and the detailed budget. The comments of the Overview and Scrutiny Committee are reported to Cabinet when the Medium-Term Financial Strategy and detailed budget proposals are considered. Cabinet recommends the final Capital Programme and revenue budgets to Council in February each year.

12.3 The Council will need to consider the best approach for the consideration of capital business cases for projects which support the priorities of the Council prior to recommendation for approval of expenditure by Cabinet or Council. For full details of the Council's proposed capital programme see the revenue and budget papers considered by Cabinet and Council in February 2025 [link to Cabinet report].

12.4 All use of capital resources, including capital receipts, will be prioritised across the Council as a whole in relation to the Council's key priorities.

12.5 The Council's MTFS sets out the financial challenges and risks which the Council is currently managing. The Council's risk appetite is moving from low to moderate and Members are prepared to consider investments with a moderate level of risk for which there is an appropriate level of financial return. A combination of the Chief Finance Officer, the Council's Legal Team, Publica Finance, Group Manager and Strategic Director staff will support Council Member governance structures in ensuring that where risks are taken, they are fully understood and proactively managed.

12.6 The staff responsible for making capital expenditure, borrowing and investment decisions are professionally qualified and experienced. Use is also made of external advisors and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisors and other specialist advisors to support on specific transactions as required. This approach is more cost effective than employing such staff directly and ensures that the Council has access to the relevant skills and knowledge when required.

12.7 In-year revised or additional capital budgets may be approved by Cabinet or Council. The Financial Rules set out the decision-making process for approving additional in-year capital budgets. The Council will decide upon changes to the prudential borrowing limits.

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ANNUAL MINIMUM REVENUE PROVISION STATEMENT

13. MRP STATEMENT 2025/26

13.1 Where the Authority 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 Authority 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 April 2024.

13.2 The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

13.3 The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP, but does not preclude the use of other appropriate methods. This statement only incorporates options recommended in the Guidance.

13.4 MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.

13.5 For unsupported capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over 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 for all other assets or on capital expenditure not related to fixed assets but which has been capitalised by regulation or direction (revenue expenditure financed by capital under statute), will be charged over the useful economic life (UEL) of the asset up to a maximum of 50 years. MRP will be applied in the year following expenditure was incurred.

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

13.7 Where former operating leases have been brought onto the balance sheet on 01 April 2024 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

13.8 For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during the year, with the capital receipts so arising applied to finance the expenditure instead.

13.9 For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year that they are received.

13.10 For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. When expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

13.11 Where loans are made to other bodies and designated as capital expenditure, no MRP will be charged unless (a) the loan is for an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in year. However, the capital receipts generated by the repayments on those loans will be set aside to repay debt instead. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit

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loss. This option was proposed by the government in its recent MRP consultation and in the Authority's view is consistent with the current regulations.

13.12 At the commencement of 2024/25 the Council had, a Capital Financing Requirement (CFR) of £0.071m in relation to capital expenditure incurred in 2022/23 and 2023/24 financed from borrowing via a Community Municipal Investment (CMI). Expenditure funded from Borrowing undertaken through the CMI in 2022/23 has resulted in an MRP charge to the Council's General Fund Revenue Account in 2023/24 and further charges will be made in 2024/25 and future years.

13.13 Capital expenditure incurred during 2025/26 which is financed from the CMI will not be subject to MRP charge until 2026/27.

13.14 Based on the Council's latest estimate of its capital financing requirement (CFR) on 31 March 2025, the MRP budget for 2025/26 has been set at (£0.09m).

13.15 **Overpayments**: The Authority can make voluntary overpayments of MRP that are available to reduce the revenue charges in later years. No overpayment is planned.

Capital receipts: Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follow:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
- Capital receipts arising from other assets which form an identified part of the Authority's MRP calculation will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
- Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.