APPENDIX 1

PRUDENTIAL INDICATORS &

TREASURY MANAGEMENT STRATEGY - 2025/26

Introduction

The Treasury Management Strategy (TMS) report gives a high-level overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of local public services at the Council. In addition, it also gives an overview of how the associated risks are managed and the implications for future financial sustainability.

The following information is a requirement of the 2021 Code of Practice on Treasury Management, issued by the Chartered Institute of Public Finance & Accountancy, and has been produced in an accessible way to enhance members' understanding of these often technical areas

Capital Expenditure and Financing

Capital Expenditure is where the Council spends money on assets, such as property, IT and vehicles that will be used for more than one financial year. In local government, this also includes spending on assets owned by other bodies, finance leases and loans & grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are generally not capitalised.

In the 2025/26 financial year, the Council is planning a total capital expenditure of £74.798m as summarised below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2024/25 £m Estimate	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate	2028/29 £m Estimate
Total Capital Expenditure	**65.158**	**74.798**	**63.008**	**17.863**	**14.621**

All capital expenditure has to be financed, from either external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and private finance initiative). The planned financing of the above expenditure is as follows:

***Table 2**: Capital financing in £ millions*

	2024/25	2025/26	2026/27	2027/28	2028/29
FUNDED BY:	£m	£m	£m	£m	£m
Prudential Borrowing	12.003	17.085	28.180	-	-
Capital Receipts	6.000	6.000	6.000	11.613	13.571
Flexible Receipts	9.850	7.500	6.750	6.250	1.050
Grants	35.713	43.230	15.558	-	-
Contributions	1.592	0.983	6.520	-	-
Total FUNDING	**65.158**	**74.798**	**63.008**	**17.863**	**14.621**

Any external debt must be repaid over time by other sources of finance. This comes from the revenue budget in the form of Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace/repay debt finance. The Council generally uses capital receipts to finance new capital expenditure rather than to redeem debt. The total cost of MRP included in the Council's revenue budget is as follows:

***Table 3**: Minimum Revenue Provision in £ millions*

	2024/25 actual	**2025/26 forecast**	**2026/27 budget**	**2027/28 budget**	**2028/29 budget**
Cost to Revenue Budget	4.316	**4.704**	**5.082**	**5.366**	**5.935**

- The Council's minimum revenue provision statement for 2025/26 is available towards the end of this report.

The Council's cumulative amount of debt finance still outstanding is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure each year and then reduces with minimum revenue provision and capital receipts used to redeem debt.

The CFR is expected to increase by £12.381m or 4.2% during the 2025/26 financial year. This increase is due to the new capital expenditure funded by external debt of £17.085m less the MRP set aside of £4.704m.

Based on the above plans for expenditure and financing, the Council's estimated CFR for the period of the Medium-Term Financial Plan is as follows:

***Table 4**: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions*

	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 budget	31.3.2028 budget	31.3.2029 budget
TOTAL CFR	**297.816**	**310.197**	**333.295**	**327.929**	**321.994**

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 be used to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

The Council plans to receive £29.4m of capital receipts in the coming financial year as follows. These amounts have increased significantly for the next few years due to the asset review being undertaken by the Council. Some of these receipts may not be required in the financial year they are generated and can be carried forward for future use.

***Table 5**: Capital receipts in £ millions*

	2024/25 forecast	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
TOTAL	**28.687**	**29.387**	**9.204**	**1.800**	**9.650**

- The level of capital receipts for each financial year is monitored between Regeneration, Finance and Valuation & Estates teams, and any significant changes are reported to Executive as part of the Quarterly budget updates.
- The Council has adopted and used in the past two financial years, the Flexible Use of Capital Receipts Policy where these proceeds may be used for funding service transformation costs that would otherwise be classed as revenue expenditure. This is mainly to fund the current year's revenue budget overspend and would be a device to protect reserves.
- The large value of receipts generated in the 2024/25 and 2025/26 financial years as party of the assets sales theme to support the Council's transformation programme. Some of these may need to be rolled forward depending on the actual transformation expenditure achieved in each financial year.

<u>Treasury Management</u>

Treasury Management is concerned with keeping sufficient but not excessive cash resources, available to meet the Council's spending needs, while managing the risks involved in these investments. Surplus cash is invested until required, whilst a shortage of cash will be financed by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. Cash balances can be a combination of both revenue and capital cash given that there are timing differences between funds being received from various sources and those being spent on the operational plans of the Council.

The Council is typically cash rich in the short-term as revenue income is received and before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. Revenue cash surpluses are therefore offset against capital cash shortfalls to reduce the overall borrowing amount required, as part of an integrated strategy on Treasury Management. This is in line with best practice.

The Council on 31 December 2024 had £245.860m of borrowing at an average interest rate of 3.5% and £35.201m of treasury investments at an average rate of around 4.75%.

Both investment and borrowing rates available to the Council are at high levels currently due to the uncertainty in the US/global economy at present.

Borrowing strategy: The Council's main objectives when borrowing is to achieve a low but certain cost of finance for long-term capital projects whilst retaining flexibility should plans change in future. This is more difficult than in previous years due to long-term borrowing rates being higher currently than within the Council's strategy. However, both longer term and short-term borrowing rates are expected to reduce during the 2025/26 financial year which will help.

Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement (overall council need to borrow).

Table 6*: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions*

	31.3.2025 forecast	**31.3.2026 budget**	**31.3.2027 budget**	**31.3.2028 budget**	**31.3.2029 budget**
External Debt	270.303	292.388	**320.568**	320.568	315.568
Capital Financing Requirement	297.816	310.197	**333.295**	327.929	321.994

Statutory guidance is that debt should remain below the capital-financing requirement, except in the short-term where the benefits of short-term borrowing may be taken. As can be seen from Table 6, the Council expects to comply with this in the medium term with debt being lower than the capital-financing requirement in all relevant financial years. Discussions are ongoing with our treasury advisers on this position and what the long-term approach the Council should take.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt levels start to approach the legal limit and is a more realistic rather than worst-case view of what will happen during the financial year. Any need to change these during the 2025/26 financial year from the original budget assumptions will be reported by the Director of Finance to the Executive at the earliest opportunity.

***Table 7**: Prudential Indicators: Authorised limit and operational boundary for external debt in £m*

	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit	2028/29 limit
Authorised Limit (OB + £10m)	318.000	**331.000**	354.000	348.000	342.000
Operational Boundary (CFR + £10m)	308.000	**321.000**	344.000	338.000	332.000

Investment strategy: Treasury investments arise from the Council receiving cash before it is paid out again for service commitments. These cash balances can be a useful source of working capital, particularly around the need to externally borrow for capital needs.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, which focuses on minimising risk rather than maximising returns. Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities, or selected high-quality banks, to minimise the risk of loss. Most investments are for less than 6 months so do not qualify as long term investments. Interest earned on cash balances tends to follow base rate returns over the financial year.

The aim of the Council is to hold a strategic level of cash of around £15 million. This amount meets two criteria for the Council. It cash backs all of the general fund reserve, plus a small amount of earmarked reserves. It also classifies the organisation as a professional (rather than retail) investor under MIFID II legislation – European law on financial instruments management. There may be an occasional need to hold less than the £15m when interest rates are higher than the medium-term approach to cash.

***Table 8**: Treasury management investments in £millions*

	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget	31.3.2029 budget
Short-term investments	10.000	**15.000**	15.000	15.000	15.000
Longer-term investments	0.000	**0.000**	0.000	0.000	0.000
TOTAL	**15.000**	**15.000**	**15.000**	**15.000**	**15.000**

Governance: Decisions on treasury management in relation to investment and borrowing are made daily. These are delegated by the Director of Finance to the Head of Finance & Investment and staff within the central finance team. They act in line with the treasury management strategy approved by Council and the treasury management practices (operational guidance set out by the CIPFA Code of practice). Significant decisions on treasury are discussed by the Head of Service with the Section 151 Officer as necessary.

Quarterly updates on treasury management activity are reported to Executive as part of the regular budget monitoring process, including a more detailed mid-year report. The central finance team meet weekly to discuss cash flow forecasts, borrowing decisions and operational matters on a weekly basis. All this information feeds into the both the prudential indicators and the treasury management strategy.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on external borrowing and minimum revenue provision on capital expenditure are. These costs can be offset by any interest earned on cash balances or by income earned via commercial investments where borrowing has been used.

The net annual charge to the revenue budget is reported as capital financing costs; this is compared to the net revenue stream i.e., the amount funded from council tax, business rates and general government grants. This is an important indicator around the affordability of the Council's capital programme going forwards.

Table 9*: Prudential Indicator: Proportion of financing costs to net revenue stream.*

	2024/25 actual	2025/26 forecast	2026/27 forecast	2027/28 forecast	2028/29 forecast
Financing costs (£m)	11.154	**12.060**	13.732	14.685	15.404
Net Revenue Budget (£m)	143.190	**143.362**	144.356	148.595	152.947
Proportion of net revenue stream	7.8%	**8.4%**	9.5%	9.9%	10.1%

Sustainability: Due to the very long-term nature of capital expenditure and its financing, the revenue budget implications of this expenditure incurred in the next few years could extend for up to some 50 years into the future.

The figures in table have remained at lower levels when debt for the Council has been increasing. Members should be aware that this is because of various capital investments in commercial property made by the Council over the last few years for regeneration purposes. This results in around £2.6m of income per year being credited to the capital financing budget by the end of the 2025/26 financial year. It is imperative and a key budget risk that these rental levels are maintained, and the income assumed in the estimates above are generated.

However, the level of revenue budget strain is increasing over the capital programme being proposed as part of the 2025/26 budget process and this may not be sustainable given the revenue budget position and low level of reserves. The Council will need to reduce its reliance on external borrowing to fund the capital programme going forwards and target capital grants and contributions or capital receipts from the asset review.

Taking the figures above in Tables 1 to 9 and the key message of caution to be exercised in the future on capital financing decisions. The Director of Finance is satisfied that the proposed capital programme is prudent, affordable, and sustainable because appropriate resources have been allocated from the Council's medium term financial plan, and any borrowing plans have been fully costed and reviewed.

***Table 10** – Total Borrowing required for each year of the MTFP*

	2024/25 £m Estimate	**2025/26** **£m** **Estimate**	2026/27 £m Estimate	2027/28 £m Estimate	2028/29 £m Estimate
Capital Programme	12.003	**17.085**	28.180	-	-
Debt Refinancing	20.000	**20.000**	15.000	10.000	10.000
Working Capital	10.000	**10.000**	-	5.000	-
Total	**42.003**	**47.085**	**43.180**	**15.000**	**10.000**

This considers any debt needed by the Council to either finance the capital programme, in respect of leasing arrangements, or to finance any debt restructuring required.

The prudential indicators & limits set out in this report are consistent with the Council's current commitments, existing plans, and the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices.

The Director of Finance confirms that these are based on estimates of the most likely and prudent scenarios, with in addition sufficient headroom over and above this to allow for operational management and some scope for flexibility. For example, unusual cash movements or any unbudgeted capital expenditure required. Risk analysis and management strategies have been considered; as have plans for capital expenditure, estimates of the capital financing requirement, and estimates of cash flow requirements for all purposes.

Prudence – Treasury Management Indicators

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2025/26, 2026/27, 2027/28 and 2028/29 of 100% of its estimated total borrowing undertaken.

It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2025/26, 2026/27, 2027/28 and 2008/29 of 25% of its estimated total borrowing undertaken.

This means that the Director of Finance will manage fixed interest rate exposures on total debt within the range 75% to 100% and variable interest rate exposures on total debt within the range 0% to 25%.

It is also recommended that the Council sets upper and lower limits for the maturity structure (when the debt needs to be repaid) of its total borrowing as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate at the start of the period:

	Upper limit	**Lower limit**
under 12 months	50%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	90%	20%

Currently investments are limited to a maximum of 2 years, with any deals being arranged so that the maturity will be no more than 2 years after the date the deal is arranged.

The maximum % of the total of all investments that have an outstanding period of one year or longer, at the time the investment is made, is 10%.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Finance and Investment has more than 25 years' experience in local government treasury management. There is similar experience within the finance teams in relation to treasury management, budgeting, & accounting for capital expenditure and financing. The Council also pays junior staff to study towards relevant professional qualifications including CIPFA, CIMA, ACCA, AAT, and other relevant vocational studies.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Treasury Management Practices

Further details of how the treasury management function operates, the procedures used to manage banking, treasury, and capital market transactions, how risk is managed by the in-house team and how these fit with the CIPFA Code of Practice is included in the Council's set of Treasury Management Practices.

Minor operational and terminology changes to this are made by the Director of Finance on an ongoing basis to keep the TMP's updated. If any significant changes are required to the document, either because of organisational or regulatory changes, this will be brought to full Council for approval.

ANNUAL INVESTMENT STRATEGY & TREASURY MANAGEMENT - POLICY STATEMENT 2025/26

1. In accordance with revised guidance from the Ministry of Housing, Communities and Local Government (MHCLG) a local authority must prepare and publish an Annual Investment Strategy which must be approved by full Council before the start of the financial year to which it relates.

2. The MHCLG guidance offers councils greater freedom in the way in which they invest monies, providing that prior approval is received from Members by approving the Annual Investment Strategy. The guidance also considers the wider implications of investments made for non-financial returns and how these can be evaluated.

3. The Local Government Act 2003, which also introduced the Prudential Code for Capital Finance, requires that a local authority must have regard to such guidance as the Secretary of State issues relating to prudent investment practice.

4. In addition, the Chartered Institute of Public Finance & Accountancy (CIPFA) has published a revised Code of Practice for Treasury Management in the Public Services in December 2021. This replaces the 2017 Code which had been adopted in full by Middlesbrough Council. The updated Code requires the Council to clearly state, in the Annual Investment Strategy document, its policy on effective control, and monitoring of its treasury management function. These controls are set out in Treasury Management Practices (TMP's) which have been approved as part of acceptance of the previous Code.

5. The revised Strategy, showing where the Guidance has determined Council policy, can be set out as:

ANNUAL INVESTMENT STRATEGY 2025/26

6. Middlesbrough Council will create and maintain as the cornerstones for effective treasury management:

   - a treasury management policy statement, stating the policies, objectives, and approach to risk management of its treasury management activities.

   - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

7. The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

8. Middlesbrough Council will receive reports on its treasury management policies, practices, and activities, including, as a minimum: an annual strategy in advance of the year, a mid-year review, and an annual report at the end of each financial year, in the form prescribed in its TMP's. Revised Strategies can be presented to the Council for approval at any other time during the year if the Director of Finance considers that significant changes to the risk assessment of significant parts of the authority's investments has occurred.

9. Middlesbrough Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Director of Finance. The execution and administration of treasury management decisions is further delegated to *the Head of Finance & Investments*, who will act in accordance with the organisation's policy statement, TMPs and CIPFA's *Standard of Professional Practice on Treasury Management.*

10. Middlesbrough Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

11. The Council is very circumspect in its use of credit rating agencies with the section on Specified Investments setting out the current policy. Ratings are monitored on a real time basis as and when information is received from either our treasury management consultants or any other recognised source. Decisions regarding inclusion on the Approved List are made based on market intelligence drawn from a number of sources.

12. All staff involved in treasury management will, under the supervision of *the Head of Finance & Investments*, act in accordance with the treasury management practices and procedures, as defined by the Council. Such staff will undertake relevant training, identified during the Council's induction process and, on an on-going basis, the Council's appraisal policy.

13. The general policy objective contained in the guidance is that local authorities should invest prudently the short-term cash surpluses held on behalf of their communities. The guidance emphasises that priority should be given to security and liquidity rather than yield. Within that framework the Council must determine a category of borrowers, who must be of "high credit quality" classified as **Specified Investments**, with whom it can invest surplus cash with minimal procedural formalities and further identify a category of borrowers classified as **Non-Specified Investments**, with whom it can also invest but subject to prescribed limits.

14. Although the guidance definition of Non-Specified Investments is "one not meeting the definition of a Specified Investment", the authority is required to identify which categories of investments are identified as prudent to use and the limits on any such investment either individually or in total. It is because some organisations do not subscribe to credit rating agencies that they have to be included as Non-Specified Investments, rather than any concern over their creditworthiness.

15. The guidance defines investment in such a way as to exclude pension fund and trust fund investments. In practice, Middlesbrough Council, in its role as Administering Authority for the Teesside Pension Fund, follows similar procedures as approved by Members as part of compliance with the CIPFA Code of Practice, albeit with different limits.

LIMITS & DEFINITION OF SPECIFIED INVESTMENTS

16. The following are currently determined as meeting the criteria for Specified Investments:

- The investment is made with the UK Government, or a local authority (as defined in the Local Government Act 2003), or a police authority, or fire, or a UK Nationalised Industry, or UK Bank, or UK Building Society.

- The investment is made with a Money Market Fund that, at the time the investment is made, has a rating of AAA.

- The investment is made with one of the bodies listed in section 4 of Schedule 1E of the current version of the Treasury Management Practices document which, at the time the investment is made, has a short-term "investment grade" rating with either Standard & Poors, Moody's Investors Search Ltd or Fitch Ratings Ltd (or in the case of a subsidiary the parent has such a rating). Where ratings awarded differ between the rating agencies any one award below investment grade will prevent the investment being categorised as a Specified Investment. The rating of all listed bodies must be monitored monthly. Where officers become aware of a downward revision of rating, that moves the body out of the "investment grade" category, between such monthly checks, the body should be removed from the list of Specified Investments and, if considered appropriate, the investment should be recalled.

17. All specified investments must be denominated in sterling and must be one where the authority may require it to be repaid or redeemed within 12 months of the date on which the investment is made and must be considered of high credit quality. This is defined as having met the criteria set out above. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The minimum % of the total of all investments which must be Specified Investments, at the time the investment is made, is 90%
- The maximum investment with any one counterparty is £15 million, except for the Debt Management Office which is has no limit.
- The maximum investment in any one group (i.e., a bank and its wholly owned subsidiaries) is £15m.

LIMITS & DEFINITION OF NON-SPECIFIED INVESTMENTS

18. These categories of investment currently meet the criteria for non-specified investments:

- The investment is made with a UK bank, or UK building society, or a UK subsidiary of an overseas bank.

- The investment is made with one of the bodies listed in section 4 of Schedule 1E of the current version of the Treasury Management Practices document, which is not a Specified Investment.

- The investment is for a period of one year or longer.

19. All non-specified investments must be denominated in sterling. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum % of the total of all investments which can be non-specified investments, at the time the investment is made, is 10%.
- The maximum investment with any one counterparty is £3 million.
- The maximum investment in any one group (i.e., a bank and its wholly owned subsidiaries) is £3m.
- The maximum % of the total of all investments that have an outstanding period of one year or longer, at the time the investment is made, is 10%.

20. The maximum period for which an investment can be made is 3 years, with the maturity date no more than 3 years and 1 month from the time the deal is agreed.

21. As referred to earlier in the report, borrowing should be kept at, or below, the expected capital financing requirement over the medium term to reduce the risk of exposure to interest rate fluctuations. The balance of 'net borrowing' (loans less investments) should also be monitored to, where prudent, minimise interest rate differences.

22. The Council considers that it is empowered by Section 12 of the Local Government Act 2003 for the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future. While not "borrowing to invest" it is prudent to invest monies raised in advance of expenditure. As required by the Guidance such investment is permitted providing the anticipated expenditure is within this or the next financial year or within a period of eighteen months, whichever is the greater.

TREASURY MANAGEMENT POLICY STATEMENT

23. Middlesbrough Council defines its treasury management activities as:
'The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

24. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered to manage those risks.

25. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

26. The high-level policies and monitoring arrangements adopted by the Council for Borrowing and Investments are as follows:

<u>Borrowing</u>

- Any borrowing decisions will aim to strike an appropriate risk balance between securing low interest rates and achieving cost certainty over the periods for which funds are required. Economic forecasts available from our treasury management advisers and any other available sources will be used to form a view on the target borrowing rates and overall borrowing strategy.
- Any decisions should also look to maintain the stability and flexibility of the longer-term debt portfolio, given the current interest rate environment where short-term borrowing or internal borrowing offer revenue budget savings.
- The main sources of funding for external borrowing for the Council are the Public Works Loan Board, Local Authorities, and financial institutions.

<u>Investments</u>

- The CIPFA/MHCLG guidance require the Council to invest its funds prudently and to have regard to security, liquidity and yield, when making decisions.
- Security being the arrangements in place to protect principal sums invested by a local authority.
- Liquidity being to ensure that enough cash resources are available on a day-to-day basis for transactional needs.
- Yield being the interest rate and total financial return applicable to the investment being made.
- With these strategic issues in mind, the management of credit risk (or security) is key to the Council's investment strategy and any subsequent activity. The Council uses the external advisers' credit worthiness matrix to determine limits with individual counterparties.

MINIMUM REVENUE PROVISION POLICY - 2025/26

INTRODUCTION

27. Local authorities are required each year to set aside some of their revenue income as provision for debt repayment. There is a simple duty for an authority each year to make an amount of revenue provision, which it considers "prudent". (Minimum Revenue Provision) MRP Guidance makes recommendations to authorities on the interpretation of that term.

28. Authorities are legally obliged to "have regard" to any such guidance – which is the same duty as applies to other statutory guidance including, for example, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG Guidance on Investments.

29. Authorities are asked to prepare an annual statement of their policy on making MRP and to have this approved by the body before the start of each financial year.

MEANING OF "PRUDENT PROVISION"

30. The main part to the guidance is concerned with the interpretation of the term "prudent provision". The guidance proposes a number of options. It explains that provision for repayment of the borrowing, which financed the acquisition of an asset, should be made over a period bearing some relation to that over which the asset continues to provide a service or has economic benefit. It should also cover the gap between the Capital Financing Requirement and the various sources of capital income available to the Council to finance its capital programme, such as capital receipts, capital grants, contributions and direct revenue financing.

OPTIONS FOR PRUDENT PROVISION

Option 1: Regulatory Method

31. For debt supported by (Revenue Support Grant) RSG in previous years, authorities will be able to continue to use the formulae in regulations, since the RSG was provided on that basis.

Option 2: CFR Method

32. This is a technically simpler alternative to Option 1 and may also be used in relation to supported debt. While still based on the concept of the Capital Financing Requirement (CFR), which can be derived from the balance sheet, it avoids the complexities of the formulae in the regulations.

Option 3: Asset Life Method

33. For new borrowing under the Prudential system (from 2008) for which no government support is given, there are two main options. Option 3 is to make provision for debt

repayment in **equal annual instalments** over the estimated life of the asset for which the borrowing is undertaken. This is a possibly simpler alternative to the use of depreciation accounting (Option 4), though it has some similarities to that approach.

34. The formula allows an authority to make **voluntary extra provision** in any financial year that this is affordable.

35. In the case of the construction of a new building or infrastructure, MRP would not need to be charged until the new asset comes into service. This "**MRP holiday**" would be perhaps 2 or 3 years in the case of major projects and could make them more affordable. There would be a similar effect in the case of Option 4 under normal depreciation rules.

Option 4: Depreciation Method

36. Alternatively, for new borrowing under the prudential framework for which no Government support is being given, Option 4 may be used. This means making MRP in accordance with the standard rules for depreciation accounting.

37. Councils will normally need to follow the standard procedures for calculating depreciation when making this revenue provision.

Option 5: 2% Annuity Method

38. This method recognises the time value of money and the useful life of the assets funded from borrowing and is seen as a fairer way of charging MRP. It is supported by the Council's treasury management advisers (Arlingclose) and is being adopted by many local authorities nationally as an equitable basis for calculating the revenue costs of repaying debt.

MINIMUM REVENUE PROVISION -

2025/26 POLICY FOR MIDDLESBROUGH COUNCIL

39. The Secretary of State recommends that before the start of each financial year a local authority prepares a statement of its policy on making MRP in respect of that financial year and submits it to the full council as part of its budget setting process. The statement should indicate which of the options listed above are to be followed in the financial year.

40. For supported capital expenditure, Middlesbrough Council intends to use **option 5 - a 2% annuity basis** for the coming financial year.

41. For unsupported capital expenditure, Middlesbrough Council intends to use **option 5 - a 2% annuity basis** for the coming financial year.