| MIDDLESBROUGH COUNCIL | Middlesbrough moving forward |
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| **Report of:** | Corporate Director of Finance (S151 Officer), Andrew Humble |

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| **Relevant Executive Member:** | Executive Member for Finance, Cllr. Nicky Walker |

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| **Submitted to:** | Council |

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| **Date:** | 18 February 2026 |

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| **Title:** | Prudential Indicators 2026/27 to 2029/30 and Treasury Management Annual Strategy Report 2026/27 |

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| **Report for:** | Decision |

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| **Status:** | Public |

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| **Council Plan priority:** | Delivering Best Value |

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| **Key decision:** | Yes |
| **Why:** | Decision(s) will incur expenditure or savings above £250,000 |

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| **Subject to call in?** | No |
| **Why:** | Part of the statutory budget setting process |

Proposed decision(s)

That the Council **approves** the following as set out below:

- The Prudential Indicators and Limits for 2026/27 to 2029/30 relating to capital expenditure and treasury management activity set out in tables 1 to 9 of Appendix 1.
- The Treasury Management Strategy for 2026/27, which includes the Annual Investment Strategy for that financial year.
- The Minimum Revenue Provision (MRP) Policy for the 2026/27 financial year.
- An Authorised Limit for External Debt of £354 million for the 2026/27 financial year.

## Executive summary

The Council is required to approve annually a Treasury Management Strategy and a set of Prudential Indicators, which self-regulate the level of capital financing activities of the Council and the affordability of the capital programme. These need to be set on an annual basis to comply with the Local Government Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Codes of Practice on Capital Finance and Treasury Management.

The Treasury Management Strategy is important from both a financial and governance perspective as it sets the framework within which the council manages its borrowing and investments, how it delivers these services, and how it controls the risks attached to any decisions made. It also sets out the parameters and criteria that govern the day-to-day cashflow management activity and how these impact on the medium to long term financial planning processes. These include achieving value for money from any external borrowing undertaken, managing risk on large value financial transactions, and protecting any resources that have been invested.

The Prudential Indicators are an integral part of the CIPFA Capital Finance Code and demonstrate whether the capital programme is affordable, sustainable, and prudent. These include the level of capital expenditure over the next four years, how this has been financed, the maximum level of external debt, and the cost to the revenue budget.

The Minimum Revenue Provision (MRP) policy governs how the Council plans to account for the repayment of loan principal in relation to its external borrowing activities and has a fundamental impact upon the current and future capital financing budget. The current MRP policy is based on a 2% annuity model in line with many other local authorities. The Council took the decision during the 2022/23 financial year to review the MRP policy, the effect of which is to achieve improved affordability on an annual basis over the short to medium term, although there are higher revenue charges in 25 – 50 years' time.

The Council's underlying need to borrow is measured by the Capital Financing Requirement which is forecast to reach £312.383m during 2025/26, rising to £335.755m by the end of 2026/27 and increasing still further, to £358.733m by the end of 2029/30.

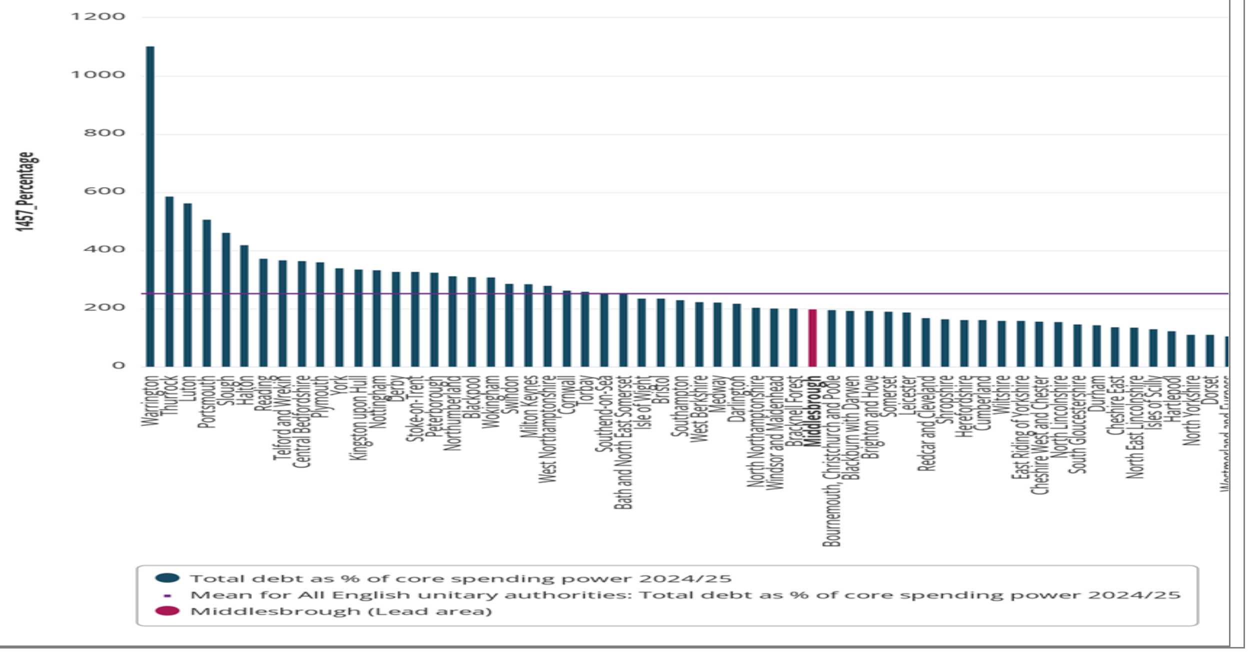
This results in the revenue cost of borrowing as shown in the table below.

| | 2024/25 actual | 2025/26 forecast | 2026/27 forecast | 2027/28 forecast | 2028/29 forecast | 2029/30 forecast |
|---|---|---|---|---|---|---|
| Financing costs (£m) | 10.406 | 12.205 | **14.151** | 16.022 | 16.769 | 17.396 |
| Net Revenue Budget (£m) | 143.190 | 143.304 | **200.840** | 225.265 | 241.231 | 250.017 |
| Proportion of net revenue budget (%) | 7.3% | 8.5% | **7.0%** | 7.1% | 7.0% | 7.0% |

Whilst the Council is not an outlier in terms of its level of total debt (see the graph below), it was reaching the limit of its revenue affordability on borrowing to fund its future capital investment. Changes to the Local Government Finance Settlement and how the net revenue budget have been calculated have changed significantly with the Fair Funding Review 2.0 and are not now comparable post the 2026/27 budget.

The Council will need to review what the affordability threshold will be in this context and if the 10% best practice amount previously recommended by CIPFA is still relevant. Capital investment is important for the ongoing Council plan ambitions, however, there continues to be a need to be prudent, sustainable and affordable. It will still benefit from prioritising its capital investment decisions over the medium and longer term and should secure its financing through third party funds such as contributions and grants and capital receipts from the sale of assets to minimise future borrowing.

**Total debt as a percentage of core spending power (2024/25) for All English unitary authorities**



## 1. Purpose of this report and its contribution to the achievement of the Council Plan ambitions

1.1 This report outlines the Council's prudential indicators for the financial years 2026/27 – 2029/30 and sets the framework and approves the limits within which the treasury management operations for this period will work. It fulfils key legislative and guidance requirements as follows:

(a) The setting of the prudential indicators setting out the expected capital activities and treasury management prudential indicators (included as treasury indicators) in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice.

(b) The Treasury Management Strategy statement which sets out how the Council's treasury function will support capital decisions taken above, day to day treasury management activities on service delivery and any limitations on these, via the treasury prudential indicators.

(c) The approval of the Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for historic capital debt for the financial year.

(d) The Authorised Limit for External Debt for the financial year. This is the maximum amount of borrowing that the Council can enter, with any amount above this limit being deemed illegal.

(e) The Annual Investment Strategy which sets out the Council's criteria for choosing the investment counterparties and limiting exposures to the risk of loss.

1.2 The information contained in the report regarding the Council's capital expenditure plans, treasury management and prudential borrowing activities, indicate that they are:

- Within the statutory framework and consistent with the relevant codes of practice.
- Prudent, affordable, and sustainable from the perspective of the S151 Officer.
- An integral part of the Council's Revenue and Capital Medium Term Financial Plans.

| Our ambitions | Summary of how this report will support delivery of these ambitions and the underpinning aims |
|---|---|
| **A successful and ambitious town** | Treasury Management is a corporate discipline that underpins and supports the financial infrastructure of the Council. As a result, this report and the governance around capital financing and treasury management arrangements indirectly contributes to all areas and ambitions within the Council Plan. |
| **A healthy Place** | |
| **Safe and resilient communities** | |

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| **Delivering best value** | The cost of capital financing and cashflow management for the Council is £12.2m per annum for 2025/26. This is one of the largest operating budgets managed by the Council and pays for more than £300m of historic capital investment. All decisions on borrowing and investments need to operate within this budget and the parameters set by Full Council (the Prudential Indicators) on an annual basis, to ensure that they are affordable and sustainable over the medium-term.<br><br>Given the size of the transactions involved on borrowings and investments, it is important that these comply with the framework set out in the annual treasury management strategy. This allows risk to be managed in a prudent way, that appropriate governance measures are in place, and that best value can be achieved from these resources in the support of the Council Plan priorities. |

## 2. Recommendations

2.1 That the Council **approves** the following as set out below:

- The Prudential Indicators and Limits for 2026/27 to 2029/30 relating to capital expenditure and treasury management activity set out in tables 1 to 9 of Appendix 1.
- The Treasury Management Strategy for 2026/27, which includes the Annual Investment Strategy for that financial year.
- The Minimum Revenue Provision (MRP) Policy for the 2026/27 financial year.
- An Authorised Limit for External Debt of £354 million for the 2026/27 financial year.

## 3. Rationale for the recommended decision(s)

3.1 The recommendations above will fulfil the following for the local authority:

- To comply with the Prudential Code for Capital Finance in Local Authorities and the Ministry for Housing, Communities, and Local Government (MHCLG) guidance on investments.

- To comply with the CIPFA Treasury Management Code of Practice for Local Authorities.

- To comply with the requirements of the Local Government Act 2003 Part 1.

- To approve a financial governance framework within which officers will operate when making both borrowing and investment decisions and entering material financial transactions.

## 4. Background and relevant information

4.1 The Prudential Indicators & Treasury Management Strategy report for the Council for 2026/27 covers the following areas:

- How the capital programme for the MTFP period is financed.
- The relevant prudential Indicators to monitor the performance, revenue budget affordability and sustainability of the capital expenditure being proposed in line with the requirements of the prudential code.
- Treasury Management arrangements in place for investing surplus funds and borrowing to fund capital expenditure financed by prudential borrowing.
- The types of investments the Council makes as part of managing its cash balances – the Annual Investment Strategy.
- Knowledge and skills of staff involved in the Treasury Management process.
- Minimum Revenue Provision policy – This determines how much the Council accounts for in terms of the revenue costs of historical capital debt. These costs have been incurred in relation to historical and future capital investment in its asset base to support the operational delivery of services.

4.2 Capital Expenditure relates to how the Council plans to invest in long-term assets and infrastructure (such as property, equipment, vehicles, roads etc.). The Council must consider how this expenditure is paid for and what the long-term financial implications are of undertaking this investment. The Council is also permitted to borrow funds to finance the capital programme under the Local Government Act 2003. It needs to consider the impact on the revenue budget of the level of borrowing being proposed, how it funds the repayment of this debt and the period over which this debt is repaid.

4.3 The Council must ensure the capital programme and its plans to borrow to finance it are prudent and affordable. Where elements of this are funded by borrowing (either externally or internally), the Council must set aside budgetary allocations in the general fund revenue budget to meet the cost of this debt. These budgets include the interest payable to lenders on external borrowing and the setting aside of funds to re-pay the principal element of debt (known as the Minimum Revenue Provision).

Prudential Indicators and Capital Investment Plans

4.4 The Council demonstrates the concepts of affordability, sustainability, and prudence on its investment plans by setting a range of Prudential and Treasury Management indicators. These are set out in Appendix 1 and are key metrics to the Corporate Director of Finance (S151 Officer) and elected members when setting the budget plans each year.

4.5 Any variance from these indicators during a financial year indicates either a higher level of indebtedness, or a lower level of prudence, on the capital activities of the Council than when the budget was set. The following section gives a brief commentary on these key indicators as we reach the start of the 2026/27 financial year.

4.6 There is total outstanding debt of £269.360 million on 31 December 2025, with circa £20m of additional borrowing expected to be required before 31 March 2026.

4.7 The forecast overall total long term external debt at the end of 2025/26 is therefore **£289.360 million** and should be compared with the estimated *Capital Financing Requirement* (the underlying value which the Council needs to borrow to fund capital activities) of **£312.383 million**. The Council therefore has an expected under-borrowed position of **£23.023 million**, which is financed via internal cash balances and provides a level of savings in interest payments as other revenue and capital cash has been used in lieu of borrowing. This is a key strategic decision each year as to whether the under-borrowing position is increased or reduced.

4.8 Table 6 in Appendix 1 shows the profile of outstanding debt over the whole of the medium-term financial planning period, and this will rise to a maximum of £351.223m by 31 March 2030. This increase in external debt is a direct result of the amounts required to fund the capital programme, and any additional cash flow demands required for liquidity purposes in each financial year.

4.9 The Council holds revenue budgets for repaying debt and interest (known as Capital Financing Costs). The repayment of debt costs for the 2026/27 financial year is expected to £14.151million (7.0% of the net revenue budget).

| Prudential Indicator | 2025/26 (£m) | **2026/27 (£m)** | 2027/28 (£m) | 2028/29 (£m) | 2029/30 (£m) |
|---|---|---|---|---|---|
| **Capital Financing Requirement (underlying need to borrow)** | **312.383** | **333.755** | **350.350** | **355.651** | **358.733** |
| External Borrowing | 289.360 | **326.028** | 347.623 | 350.651 | 351.233 |
| Internal Borrowing | 23.023 | **7.727** | 2.727 | 5.000 | 7.500 |
| % of Net Revenue Budget on debt costs | 8.4% | **7.0%** | 7.1% | 7.0% | 7.0% |
| Authorised limit for External Debt | 331.000 | **354.000** | 371.000 | 376.000 | 379.000 |

4.10 The table above summarises the key prudential indicators and how these change over the period to 2029/30 due to the Council's capital programme ambitions. Whilst the Council is not an outlier in terms of its level of total debt (see the graph below), it was previously reaching the limit of its revenue affordability on borrowing to fund its future capital investment. Changes to the Local Government Finance Settlement and how the net revenue budget have been calculated have changed somewhat with the Fair Funding Review 2.0 and the figures pre 2026/27 are not exactly comparable with those going forward.

4.11 The Council will need to review what the affordability threshold will be in this context and if the 10% best practice amount previously recommended by CIPFA is still relevant. Capital investment is important for the ongoing Council plan ambitions, but there continues to be a need to be prudent, sustainable and affordable. It will still benefit from prioritising its capital investment decisions over the medium and longer term and should secure its financing through third party funds such as contributions and grants and capital receipts from the sale of assets to minimise future borrowing.

4.12 It is also a statutory requirement for the Council to set an authorised limit for external debt at the start of each financial year. This is an amount beyond which it would be ultra-vires (or outside of council powers) to exceed in a particular financial year. The authorised limit for 2025/26 is £331 million, with this increasing to **£354 million** for 2026/27 due to an increase in the level of borrowing required for the financial year.

4.13 It should be noted that the authorised limit for the Council is currently higher than either the level of external debt or the capital financing requirement. This is not uncommon within local authorities to build in extra headroom for unexpected capital investment, possible debt re-financing opportunities, and the remote possibility of needing to borrow for any further exceptional revenue purposes. At present, the Council's authorised limit is set at £20m above its capital financing requirement and allows a degree of flexibility within the Council's planning processes and this legal limit. As suggested above, it is not recommended to go beyond the capital financing requirement unless this is only for temporary and defined purposes.

Treasury Management

4.14 Treasury Management is defined as *'the management of the Council's cash flows, borrowing and investments, and the associated risk'*. The main risks that affect a local authority include credit risk, interest rate risk, liquidity risk, and refinancing risk.

4.15 The Council is generally cash rich in the short term as many grants and contributions are paid in advance of need. Because of this, any excess cash is invested with an appropriate counterparty until the funds are required. When making an investment, the Council follows the advice set out in the Local Government Act 2003 and within the Treasury Management Code with paramount consideration given to the security of the sum invested, followed by the liquidity position of the Council and finally the interest rate achievable on the investment.

4.16 Given that credit criteria are the most important factor when making an investment decision, the Council receives regular updates from its external treasury management adviser, Arlingclose, on changes in credit ratings for individual financial institutions. They also advise on maximum amounts to be invested with each counterparty (financial institution) and the maximum duration for any fixed term deposits made. This framework helps to protect against the loss of any sums invested (credit risk), ensuring liquidity is not compromised, and that these investments earn interest to support the revenue budget.

4.17 On 31 December 2025, the Council had cash balances of £24.917 million invested either on fixed term deposit with central government or in liquidity accounts with appropriate banks. The strategic level of cash holdings is a minimum of £15.000 million below which the Council will look to borrow to maintain liquidity. The amount currently is slightly higher than normal due to income being received in advance of need in the first three quarters of the financial year and should reduce as we reach the end of the financial year.

4.18 In relation to external borrowing, the Council seeks to achieve a low but certain cost of finance, whilst retaining the flexibility to borrow for short-term periods and to respond to demands of the capital programme as needed. The Council therefore looks to create a balance between taking advantage of generally lower rates of interest for short term borrowing (predominantly from other local authorities) versus the need to achieve certainty over rates of borrowing in the longer term from either government or financial institutions (mainly from the PWLB or other banks).

4.19 Out of the £269.360 million worth of external debt on 31 December 2025, 89% is long term from the Public Works Loan Board – the government agency for local authority borrowing and 11% is long term with financial institutions (generally banks). There is also £8.0m short-term borrowing in place at present.

4.20 Current long-term interest rates for borrowing from the PWLB are between 4.25% and 6.25% depending on the length of the loan (local authorities can borrow up to 50 years from central government) with short term rates being between 3.5% and 4.25% for up to one year in duration.

4.21 On local authority borrowing, there has been much interest from both regulators and the media in recent years around individual councils taking significant amounts of long-term debt from the PWLB for the sole purposes of commercial activity – generally property investment. Under the Prudential Code, local authorities have lots of freedom to conduct and self-regulate their own borrowing and investment activities.

4.22 Both the Government and the Chartered Institute of Public Finance & Accountancy have said that borrowing for the sole purposes of commercial investment is against the spirit of the Code. The PWLB outlawed any local authority applications for this type of activity from 1st April 2021, with Section 151 Officers having to confirm on an annual basis that their investment plans do not contain any of these types of activity.

4,23 Although the Council has undertaken some capital projects in the past that have generated a revenue income stream, the primary aim has always been to regenerate the areas involved and to grow the wider economy within the Town. As a result, these activities can continue under the Code, with funding from the PWLB if required.

Knowledge & Skills

4.24 This Strategy provide details of the knowledge and experience in place of Officers within the corporate finance team (the local authority service that deals with treasury functions) and the access to external advice and guidance made available to enhance this. Council officers have a broad range of skills to ensure treasury management decisions are informed and risk-assessed on a consistent basis. The Council uses external consultants to provide up to date and specialist advice which is bespoke for local government sector regulations, particularly focusing on risks and opportunities.

4.25 The Council also participates in a treasury management benchmarking club run by Arlingclose. This club provides access to data on other local authorities' approaches to Treasury Management, including strategic information, and the wider performance outputs of the Treasury Management activities.

4.26 As part of the Treasury Management Code, it is also a best practice requirement that elected members have the necessary skills & knowledge to scrutinise the Council's plans and processes in this area. The last formal training in this area provided by our external advisers was undertaken in 2021. In between this the S151 and Deputy S151 Officer have provided guidance and support as required to Executive and Audit Committee when the annual strategy, mid-year and outturn reports have been produced. However, it is good practice to have regular specialist training in this area due to the complexity of the subject matter and the high levels of risk involved in treasury matters. A session is therefore being organised between Arlingclose and Members to be held prior to the Council meeting on 18 February 2026, considering this report for approval.

Minimum Revenue Provision

4.27 The Council is required under the Local Government Act 2003 Part 1 to maintain a policy for the repayment of historic external debt incurred from the annual revenue budget. The policy is split into different elements which are influenced by when the borrowing was originally incurred, the type of assets, and the useful economic life of the assets the borrowing is funding. The Council has in previous years amended this policy to reflect the useful economic life of the funded assets more accurately and then in 2022/23 moved to an annuity basis of calculating these revenue costs. **No changes are being proposed to the MRP policy for 2026/27 financial year**. This policy is set out at the end of Appendix 1 for information.

## 5. Ward Member Engagement if relevant and appropriate

5.1 Not relevant to this report as it relates to corporate financial management and governance issues.

## 6. Other potential alternative(s) and why these have not been recommended

6.1 It is a statutory requirement for the Council to approve the annual Treasury Management Strategy and set of Prudential Indicators. This report is a key step in achieving that objective. As a result, there are no alternatives available.

## 7. Impact(s) of the recommended decision(s)

| Topic | Impact |
|---|---|
| Financial (including procurement and Social Value) | All relevant financial implications are outlined within the body of this report and the supporting Appendix 1. The capital programme and financing being recommended in the budget report remains affordable within the revenue budget |

| | |
|---|---|
| | parameters but needs to be strictly managed and prioritised going forward. The treasury indicators and processes remain robust and within prudent limits. The policy on minimum revenue provision also remains in line with the appropriate regulations and government guidance.<br><br>The table between paragraphs 4.9 and 4.10 outlines the key debt metrics and the capital financing costs as a % of the net revenue budget over the medium-term financial planning period. |
| Legal | There are no direct legal implications of this report. All activity on capital financing, investments and borrowing is under current local authority powers under either the Local Government Act 2003, or the capital finance and accounting regulations. |
| Risk | Any risk related issues are set out within the report. Risk management is an integral part of the Council's treasury management strategy, and these are considered as part of business-as-usual activities and are set out in more detail within the Treasury Management Practices document. |
| Human Rights, Public Sector Equality Duty and Community Cohesion | There are no applicable issues to consider within this report. |
| Reducing Poverty | There are no applicable issues to consider within this report. |
| Climate Change / Environmental | There are no applicable issues to consider within this report. |
| Children and Young People Cared for by the Authority and Care Leavers | There are no applicable issues to consider within this report |
| Data Protection | There are no applicable issues to consider within this report. |

## Actions to be taken to implement the recommended decision(s)

| Action | Responsible Officer | Deadline |
|---|---|---|
| To implement and monitor the 2026/27 prudential indicators and treasury management strategy | Head of Corporate Finance | 1 April 2026 (and during the 2026/27 financial year) |

## Appendices

| | |
|---|---|
| **1** | Prudential Indicators & Treasury Management Report for 2026/27 to 2029/30 |

## Background papers

| Body | Report title | Date |
|---|---|---|
| Council | Prudential Indicators and Annual Treasury Management Strategy – 2025/26 | 19 February 2025 |
| Executive | Prudential Indicators and Treasury Management Strategy Report – Mid Year review 2025/26 | 3 December 2025 |
| Executive | Prudential Indicators 2026/27 to 2029/30 and Treasury Management Annual Strategy Report 2026/27 | 4 February 2026 |

**Contact:** Justin Weston, Head of Corporate Finance (Deputy S151 Officer)
**Email:** justin_weston@middlesbrough.gov.uk

**APPENDIX 1**

# PRUDENTIAL INDICATORS 2026/27 to 2029/30 &

# TREASURY MANAGEMENT STRATEGY - 2026/27

## Introduction

The Treasury Management Strategy (TMS) and Prudential Indicators 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 and give benefits 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 2026/27 financial year, the Council is planning a total capital expenditure of £79.483m. There are a range of new bids for capital funding, mainly financed through prudential borrowing. More details of this are given in Appendix 9 to the Budget 2026/27 and MTFP report on the capital programme and strategy. These are included in the table below with increased capital spend proposals in later financial years.

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

| | 2025/26 £m Estimate | 2026/27 £m Estimate | 2027/28 £m Estimate | 2028/29 £m Estimate | 2029/30 £m Estimate |
|---|---|---|---|---|---|
| **Total Capital Expenditure** | 64.173 | **79.483** | 51.838 | 29.897 | 22.523 |

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*

| | 2025/26 | **2026/27** | 2027/28 | 2028/29 | 2029/30 |
|---|---|---|---|---|---|
| **FUNDED BY:** | £m | **£m** | £m | £m | £m |
| Prudential Borrowing | 17.170 | **26.741** | 22.260 | 11.475 | 9.645 |
| Capital Receipts | 6.000 | **11.960** | 16.060 | 14.231 | 12.878 |
| Flexible Receipts | 5.694 | **5.789** | 1.270 | - | - |
| Grants | 34.319 | **29.498** | 6.363 | 0.078 | - |
| Contributions | 0.990 | **5.495** | 5.885 | 4.113 | - |
| | | | | | |
| **Total FUNDING** | **64.173** | **79.483** | **51.838** | **29.897** | **22.523** |

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. It also has a flexible use of capital receipts strategy where revenue costs that meet the definition of 'qualifying expenditure' in relation to savings, service transformation, or increased income can also be capitalised and funded by flexible capital receipts.

The total cost of MRP included in the Council's revenue budget, and for the medium-term financial planning period, is as follows:

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

| | **2025/26 forecast** | **2026/27 forecast** | **2027/28 budget** | **2028/29 budget** | **2029/30 budget** |
|---|---|---|---|---|---|
| Cost to Revenue Budget | 4.828 | **5.219** | 5.665 | 6.174 | 6.563 |

- The Council's minimum revenue provision statement for 2026/27 is available towards the end of this report.
- In addition, the Council can over-provide for the repayment of debt above the level of MRP required under statutory guidance. This is known as voluntary revenue provision (VRP) and is at the discretion of the S151 Officer. Where VRP is available, this will be included in the table above.

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 £21.372m or 6.8% during the 2026/27 financial year. This increase is due to the new capital expenditure funded by external debt of £26.591m less the MRP set aside of £5.219m.

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*

| | 31.3.2026 forecast | 31.3.2027 forecast | 31.3.2028 budget | 31.3.2029 budget | 31.3.2030 budget |
|---|---|---|---|---|---|
| **TOTAL CFR** | 312.383 | **333.755** | 350.350 | 355.651 | 358.733 |

**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 £22.2m of capital receipts in the coming financial year as follows. These amounts have increased significantly in recent years due to the asset review 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*

| | 2025/26 forecast | 2026/27 forecast | 2027/28 budget | 2028/29 budget | 2029/30 budget |
|---|---|---|---|---|---|
| **TOTAL** | 6.335 | **22.186** | 15.302 | 4.450 | 7.000 |

- The level of capital receipts for each financial year is monitored between Regeneration and Finance 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 and will do so for 2026/27, 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.
- The large value of receipts generated in previous financial years as part 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 and the amount needed to finance the capital programme.

## Treasury Management

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 generally 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 2025 had £269.360m of borrowing at an average interest rate of 4.1% and £24.917m of treasury investments at an average rate of around 3.9%.

Both investment and borrowing rates available to the Council are linked to the UK bank rate which has been cut several times over the last financial year.

**Borrowing strategy:** The Council's main objectives when undertaking external 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 important for certainty in relation to the revenue budget position, as well as demonstrating value for money.

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*

| | **31.3.2026 forecast** | **31.3.2027 budget** | **31.3.2028 budget** | **31.3.2029 budget** | **31.3.2030 budget** |
|---|---|---|---|---|---|
| External Debt | 289.860 | **326.068** | 347.623 | 350.651 | 351.233 |
| Capital Financing Requirement | 312.383 | **333.755** | 350.350 | 355.651 | 358.733 |

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.

**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 2026/27 financial year from the original budget assumptions will be reported by the Corporate Director of Finance (S151 Officer) to the Executive, at the earliest opportunity.

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

| | 2025/26 limit | **2026/27 limit** | 2027/28 limit | 2028/29 limit | 2029/30 limit |
|---|---|---|---|---|---|
| Authorised Limit (OB + £10m) | 331.000 | **354.000** | 371.000 | 376.000 | 379.000 |
| Operational Boundary (CFR + £10m) | 321.000 | **344.000** | 361.000 | 366.000 | 369.000 |

**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 reduce externally borrowing levels.

The Council’s policy on these 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 six months, so these do not qualify as long-term investments. Interest earned on cash balances tends to follow base rate levels 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 usable 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 on borrowing are higher than those in the borrowing strategy, or where cash is expected to be received soon.

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

| | 31.3.2026 forecast | 31.3.2027 budget | 31.3.2028 budget | 31.3.2029 budget | 31.3.2030 budget |
|---|---|---|---|---|---|
| Short-term investments | 15.000 | **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 Corporate Director of Finance to the Head of Corporate Finance (Deputy S151 Officer) to ensure that investment and borrowing decisions can be made in an informed and timely manner.  Staff in the corporate finance team act within 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 corporate 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 combined 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.*

| | **2025/26 actual** | **2026/27 forecast** | **2027/28 forecast** | **2028/29 forecast** | **2029/30 forecast** |
|---|---|---|---|---|---|
| Financing costs (£m) | 12.205 | **14.151** | 16.022 | 16.769 | 17.396 |
| Net Revenue Budget (£m) | 143.304 | **200.840** | 225.265 | 241.231 | 250.017 |
| Proportion of net revenue stream | 8.5% | **7.0%** | 7.1% | 7.0% | 7.0% |

**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 the table above have remained at lower levels when debt for the Council has been increasing. Members should be aware that this is because of the 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 2026/27 financial year. It is imperative and a key budget risk that these rental levels are maintained, and the income assumed in the estimates above continue to be generated.

The table above illustrates the key figures on the capital financing costs and how these change over the period to 2029/30. Whilst the Council is not an outlier in terms of its level of total debt, it was reaching the limit of its revenue affordability on borrowing to fund its future capital investment. Changes to the Local Government Finance Settlement and how the net revenue budget have been calculated have changed significantly with the Fair Funding Review 2.0 and the figures prior to this are not exactly comparable with those going forward.

The Council will need to review what the affordability threshold will be in this context and if the 10% best practice amount previously recommended by CIPFA is still relevant. Capital investment is important for the ongoing Council plan ambitions, however, there continues to be a need to be prudent, sustainable and affordable in its financial plans. The Corporate Director of Finance’s view is that the Council will still benefit from prioritising its capital investment decisions over the medium and longer term and should secure its financing through third party funds such as contributions and grants and capital receipts from the sale of assets to minimise future borrowing.

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 Corporate 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 2026/27, 2027/28, 2028/29 and 2029/30 of 100% of its estimated total borrowing undertaken. All debt can be taken at fixed rates of interest if required.

It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2026/27, 2027/28, 2028/29 and 2029/30 of 20% of its estimated total borrowing undertaken.

This means that the Corporate Director of Finance will manage fixed interest rate exposures on total debt within the range 80% to 100% and variable interest rate exposures on total debt within the range 0% to 20%.

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 two years, with any deals being arranged so that the maturity will be no more than two 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 Corporate Finance 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 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 Ltd 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 Corporate Director of Finance on an ongoing basis to keep the TMP's updated. If any significant changes are required to this document, either because of organisational or regulatory changes, this will be brought to full Council for approval.

# ANNUAL INVESTMENT STRATEGY & TREASURY MANAGEMENT - POLICY STATEMENT 2026/27

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 the 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) published a revised Code of Practice for Treasury Management in the Public Services in December 2021. This 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 2026/27

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 way 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 Corporate Finance considers that significant changes to the risk assessment of the Council's investments have occurred.

9. Middlesbrough Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Corporate Director of Finance. The execution and administration of treasury management decisions is further delegated to *the Head of Corporate Finance (Deputy S151 Officer)*, 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 several sources.

12. All staff involved in treasury management will, under the supervision of *the Head of Corporate Finance*, 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 Council 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.

18. 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 also £15m.

## LIMITS & DEFINITION OF NON-SPECIFIED INVESTMENTS

19. 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.

20. 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%.

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

22. 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.

23. 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

24. 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.'*

25. 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.

26. 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.

27. 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

## INTRODUCTION

28. 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.

29. 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.

30. 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”

31. The main part to the guidance is concerned with the interpretation of the term “prudent provision”. The guidance proposes several 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

32. 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

33. 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

34. 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.

35. The formula allows an authority to make **voluntary revenue provision (VRP)** in any financial year that this is affordable.

36. 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**

37. 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.

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

**Option 5: 2% Annuity Method**

39. 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 -

## 2026/27 POLICY FOR MIDDLESBROUGH COUNCIL

40. 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.

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

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

43. Any change to the above policy during the financial year will need to be proposed by the S151 Officer (with a report setting out the reasons for the change) to full Council, for discussion and then approval.