

Committee Report Checklist

Please submit the completed checklists with your report. If final draft report does not include all the information/sign offs required, your item will be delayed until the next meeting cycle.



Stage 1

Report checklist – responsibility of report owner

ITEM	Yes / No	Date
Councillor engagement / input from Chair prior to briefing		
Commissioner engagement (if report focused on issues of concern to Commissioners such as Finance, Assets etc)	Yes	21/10/25
Relevant Group Head review		
MAT+ review (to have been circulated at least 5 working days before Stage 2)		
This item is on the Forward Plan for the relevant committee	Yes	16/10/25
	Review ed by	Date
Risk comments	LO	24/10/25
Legal comments	LH	24/10/25
HR comments (if applicable)	NA	N/a

For reports with material financial or legal implications the author should engage with the respective teams at the outset and receive input to their reports prior to asking for MO or s151 comments.

Do not forward to stage 2 unless all the above have been completed.

Stage 2

Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least 5 working days before MAT	L Heron	24/10/25
S151 Officer commentary – at least 5 working days before MAT	T. Collier	20/10/25
Confirm final report cleared by MAT		

Corporate Policy and Resources Committee

11 November 2025

Title	Treasury Management Half Yearly Report
Purpose of the report	To note
Report Author	Peter Worth, Interim Treasury Management Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Financial Sustainability
Recommendations	The Committee is asked to: Note the performance of the Treasury management team during the first six months of 2025/26
Reason for Recommendation	Not applicable

1. Executive summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none">• The Council has a statutory duty to present a half yearly, Treasury management report to show the performance of Treasury activities between 1 April 2025 - 30 September 2025.• The Council has both a significant debt portfolio (most of which is at fixed rates) of £1,094m (£1,062m long term and £32m of short term) and investment funds of £33m and cash balances currently averaging £2m.• This scale of activity creates risks which need to be proactively managed and Officers review liquidity and cashflow on a weekly basis.• The Council seeks to minimise financing costs whilst maximising returns on surplus funds whilst managing risk• The Council is under a statutory direction to reduce borrowing and set Minimum Revenue Provision at a prudent level	<ul style="list-style-type: none">• To provide Councillors with an understanding of the Council's borrowing and investment position part way through the financial year.

This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> • Comply with the Statutory Direction by amending the MRP Policy and implementing a debt reduction plan. • Continuing to seek professional advice from our advisers 	<ul style="list-style-type: none"> • To closely monitor and manage the treasury management function for the next 6 months of 2025/26 and going forward • To approve a revised Minimum Revenue Provision (MRP) Policy for 2025/26 • To approve a debt reduction plan

2. Key Issues

- 2.1 This report covers Treasury Management activity at Spelthorne Borough Council for the six months to the end of September 2025. Performance is reported throughout the report and summarised at Appendix A, using a RAG system (Red, Amber, Green).
- 2.2 The Council takes a prudent approach to Treasury Management, both in how it manages liquidity and how it mitigates operational, financial, and reputational risk.
- 2.3 The Council's Treasury Management performance has remained within its prudential indicators for the six months to end of September 2025 as outlined in the next section and summarised at Appendix A.
- 2.4 The key issues are to take action to comply with the Statutory Direction (next Section), namely:
- To approve an amended MRP Policy for 2025/26 to set MRP at a prudent level (see paragraphs 2.19-2.21 and Appendix B); and
 - To approve a debt reduction policy including restructuring the Council's loan debt portfolio (para 2.24).

3. Report

Statutory Direction

- 3.1 On 8 May 2025, the Secretary of State issued the Council with Statutory Directions requiring the Council to implement an Improvement and Recovery Plan which includes the following actions which impact on the Council's Treasury Management Strategy:
- 3.2 A plan to ensure the Authority's capital, investment and treasury management strategies are sustainable and affordable, including an asset rationalisation programme for assets and commercial investments;
- a comprehensive and strict debt reduction plan, demonstrating how overall capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale, reducing debt servicing costs; and
 - a plan to ensure the Authority is complying with all relevant rules and guidelines relating to the financial management of the Authority, including updating the minimum revenue provision (MRP) policy.

- 3.3 To meet the above three separate reports have been prepared to recommend:
- amending the Minimum Revenue Provision (MRP) policy statement for 2025/26 to increase level of MRP to a prudent level in line with statutory guidance;
- 3.4 restructuring all loans maturing after 10 years, which will generate a discount, currently estimated at £360m, which will offset the increase in MRP arising from increasing to a prudent level; and
- 3.5 procuring additional external expertise and capacity to rationalise its investment and regeneration property portfolio.
- 3.6 This mid-year report has been prepared on the assumption that all three of the above key decisions will be approved in order to comply with the Statutory Direction.

SECTION 1 CAPITAL STRATEGY

Capital forecast

- 3.7 The Capital Programme remains on track as set out in Table 1 below. In addition, two asset sales currently in progress are expected to complete before the end of the year and are forecast to generate around £22.5m in capital receipts, which is a favourable improvement on the budget of £6.5m.

Table 1 Summary capital programme (Prudential Indicator 1)

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Capital programme						
Housing and regeneration	31.3	4.3	4.3	0.9	0.9	0.9
Other capital expenditure	1.8	3.1	1.8	4.2	3.4	0.6
Total capital expenditure	33.1	7.4	6.1	5.1	4.3	1.5
Financing						
Capital receipts	0.0	(6.5)	(22.5)	(4.2)	(3.4)	(0.6)
Capital grants and contributions	(11.8)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Revenue contributions	(0.4)	0.0				
Total financing	(12.2)	(7.4)	(23.4)	(5.1)	(4.3)	(1.5)
Net financing need	20.9	0.0	(17.3)	0.0	0.0	0.0

- 3.8 The £16m improvement in capital receipts will be used to repay borrowing and applied to reduce the Capital Financing Requirement and thus reduce future years' Minimum Revenue Provision.

Overall Borrowing Need

- 3.9 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR measures the extent to which

capital expenditure incurred has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure, which is not immediately paid for through a revenue or capital resource, will increase the CFR.

3.10 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges for the economic consumption of capital assets as they used.

3.11 Table 2 shows the Council's forecast CFR. The opening balance in the forecast differs from the estimate for 2025/26, because it reflects the outturn position per the Statement of Accounts.

Table 2 Capital Financing Requirement (Prudential Indicator 2)

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Opening CFR	1,151.2	1,179.8	1,152.8	991.3	898.0	696.4
Capital investment	33.1	7.4	6.1	5.1	4.3	1.5
Financing						
Capital receipts	0.0	(6.5)	(107.1)	(55.8)	(166.1)	0.0
Government grants and contributions	(11.8)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Revenue contributions	(0.4)	0.0	0.0	0.0	0.0	0.0
Minimum Revenue Provision	(19.3)	(13.2)	(59.6)	(41.7)	(39.0)	(29.6)
Closing CFR	1,152.8	1,166.6	991.3	898.0	696.4	667.4

3.12 If the Council takes no action regarding the loan debt portfolio, then borrowing would remain above the CFR, which would indicate that the Council would be borrowing for a revenue purpose. However, by:

3.13 Restructuring the loans maturing after 10 years to generate an estimated discount of £360m (at August rates); and

3.14 Rationalising the investment property (except the BP site) and all the regeneration property this is estimated to be able to generate a further £329.6m (as reflected across years 25-26 to 27-28 above),

the Council's overall borrowing would reduce significantly and remain within the CFR as shown in Table 3 below.

Table 3 Borrowing compared with CFR (Prudential indicator 3)

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Capital Financing Requirement	1,152.8	1,166.6	991.3	898.0	696.4	667.4
Gross borrowing position	1,069.2	1,020.0	588.3	532.5	475.4	460.5
(Under)/over borrowing	(83.6)	(146.6)	(403.0)	(365.5)	(221.0)	(206.9)

Affordability

- 3.15 The objective of the affordability indicator is to ensure that the level of investment in capital assets proposed remains within sustainable limits and in particular highlight the impact of capital financing costs (i.e. MRP and interest) on the Council's "bottom line". The financing costs reflect current commitments and the capital outturn to date. The net revenue stream is defined in paragraph 96 of the Prudential Code as taxation and non-specific grant income as reported in the Authority's Comprehensive Income and Expenditure Statement.
- 3.16 By generating a discount from restructuring the loan debt portfolio and implementing an asset disposal strategy, the affordability ratio improves significantly as less of the net revenue stream is spent on servicing debt charges.

Table 4 Affordability indicator (Prudential Indicator 4a)

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Total capital finance charges	44.7	40.0	49.7	31.5	25.3	14.9
Net revenue stream	14.2	15.6	15.6	18.4	19.4	20.1
Affordability ratio	315%	256%	318%	171%	131%	74%

- 3.17 Table 4 above shows the impact of restructuring the loan debt portfolio and generating capital receipts nearly halves the ratio in 2026/27 compared with 2025/26 and the ratio further reduces to 74% by 2028/29.

3.18 Table 5 Affordability including investment property net income (Prudential Indicator 4b)

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Total capital finance charges	44.7	40.0	49.7	31.5	25.3	14.9
Net revenue stream	14.2	15.6	15.6	18.4	19.4	20.1
Net operating income from investment property	39.8	44.0	44.0	38.2	36.5	21.7
Affordability ratio	83%	67%	83%	56%	45%	36%

- 3.19 Table 5 above Including the net operating income from the Authority's investment property portfolio considerably reduces the affordability indicator down to 36% by 2028/29. However, this remains well above the affordability ratio for comparable authorities which is less than 18%.

Minimum Revenue Provision

- 3.20 Following comments from both the Best Value inspection team and Grant Thornton that the Council's MRP was not at a prudent level, the Chief Finance

Officer (Deputy Chief Executive) commissioned an external review of the Council's MRP arrangements.

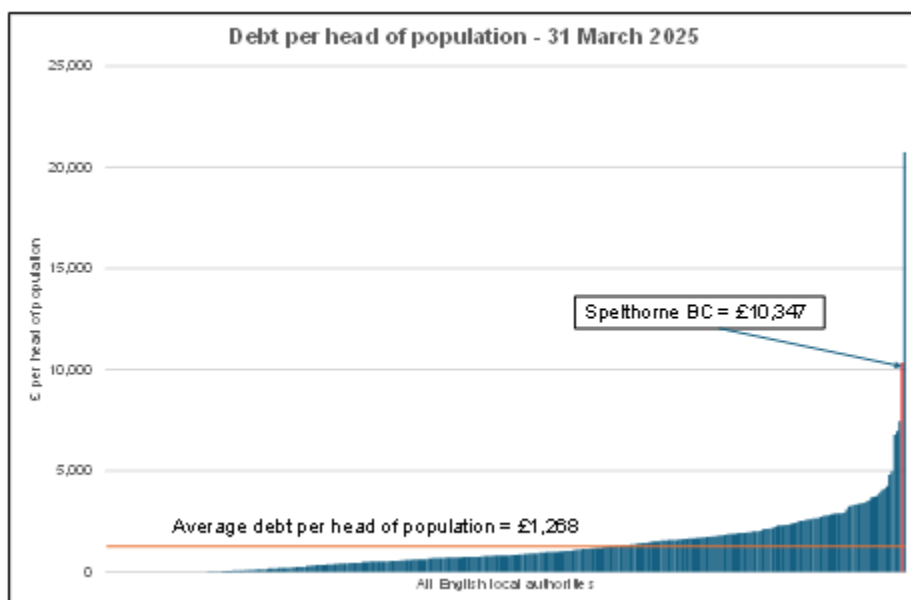
- 3.21 The report identified that the Council's previous calculation method did not follow Statutory Guidance in a number of respects and recommends that these issues should be addressed by:
- 3.22 Increasing MRP to reflect shorter asset lives of 15 to 25 years as advised by Knight Frank LLP. Previous calculations were based on standard asset lives of 50 years without input from registered valuers, other than initial due diligence at time of acquisition with respect to expected lifespans of the assets; including MRP on surplus assets and third-party loans which previously were omitted from the Council's MRP calculations. It should be noted that surplus assets comprise regeneration assets which were treated as on-going projects until October 2023 when the Council cancelled the projects on affordability grounds. Under the Council's MRP policy such projects were not subject to MRP until the year after they became operational; and calculating MRP on a straight-line basis for Investment Property and on an annuity basis for other asset types. Previously MRP was calculated on an annuity basis for all categories of expenditure, which did not reflect the pattern of economic benefit that the Council currently obtains from rental income and changes in the market value of commercial properties.
- 3.23 A revised MRP Policy is attached at Appendix B, which fully complies with the Statutory MRP Guidance and has been consulted upon with MHCLG, CIPFA and Grant Thornton.

3.24 **SECTION 2 BORROWING**

Borrowing and debt restructuring

- 3.25 The Council's total external borrowing had reduced to £1,046.7m at 30 September 2025 – a reduction of £22.3m from the position at 31 March 2025. All borrowing is long-term fixed interest rate borrowing with the Public Works Loans Board at an average rate of 2.4%.
- 3.26 Nonetheless the Council's level of borrowing per head of population is the second highest amongst all English local authorities at c. £10,000, as shown in Chart 1 below.

Chart 1 Debt per head of population



Debt Reduction Strategy

- 3.27 In view of the unsustainably high level of borrowing highlighted in Chart 1 above and the affordability indicators at table 4 and 5 above, and to comply with the Statutory Direction to implement a strict debt reduction strategy, it is recommended that the Council:
- Restructure all loans maturing over 10 years, which will generate an estimated £360m discount; and
- 3.28 Use all capital receipts from the asset rationalisation strategy to repay borrowing.
- 3.29 The combination of the two is forecast to reduce the Council's borrowing by more than half to £460m by 31 March 2029 (see Table 3 above).

Limits on external borrowing

- 3.30 By implementing the debt reduction strategy set out above, the Council's borrowing limits can also be reduced from 2026/27 onwards as set out in Table 6 below.

Table 6 Borrowing Limits (Prudential indicators 5a and 5b)

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Authorised borrowing limit	1,270.0	1,270.0	1,270.0	900.0	700.0	700.0
Operational boundary	1,170.0	1,170.0	1,170.0	700.0	600.0	530.0
Gross borrowing position	1,069.2	1,020.0	588.3	532.5	475.4	460.5
Headroom to Operational boundary	100.8	150.0	581.7	167.5	124.6	69.5

- 3.31 The revised limits from 2026/27 onwards are set to provide sufficient borrowing headroom in the event that asset sales are delayed by six months. These proposed revised lower limits will be put forward, in the New Year, to Council as part of the 2026-27 Treasury Management Strategy.

Maturity structure of borrowing

- 3.32 Table 7 below shows that the maturity structure of the current loan debt portfolio remained within the limits set out in the 2025/26 TMS.

Table 7 Debt maturity profile limits (Prudential indicator 7)

		Lower Limit	Upper Limit	Position at 30/9/2025	
		%	%	£m	%
Under 12 months	30/09/2026	0%	10%	16	2%
1-2 Years	30/09/2027	0%	15%	16	3%
3-5 years	30/09/2030	0%	20%	51	8%
6-10 Years	30/09/2035	0%	25%	90	17%
11-20 Years	30/09/2045	0%	50%	209	36%
21-30 Years	30/09/2055	0%	75%	262	62%
31-40 Years	30/09/2065	0%	90%	314	92%
41-50 Years	30/09/2075	0%	100%	89	100%
Total				1,046	

SECTION 3 MANAGING CASH BALANCES

Investment position

- 3.33 The Council's investment position is set out in Table 8 below.

Table 8 Investment position at 30 September 2025

	31/03/2025	30/09/2025
	£m	£m
Treasury investments:		
Pooled investment funds	2.9	0.0
Lending to other local authorities	8.0	14.0
Debenture with Knowle Green Estates Ltd	2.5	2.5
Treasury deposit		0.4
Loans to Knowle Green Estates and Spelthorne Direct Services Ltd	42.6	42.6
Investment property	583.1	534.8
Total	639.1	594.3

- 3.34 The balance of the pooled investment funds were divested in August 2025. Lending to other local authorities is generating a return of 4.1- 4.8%. The Treasury deposit is a new facility for investing overnight money.

Commercial activity

- 3.35 As well as investing in assets owned by the Council and used in the delivery of services, the Council can also invest, where appropriate, in:

- Investment property for return

- Loans to third parties; and
 - Shareholdings in companies and joint ventures.
- 3.36 Currently the Council is invested in the following activities which fall within the category of commercial activity under the Prudential Code:
- 3.37 An investment property portfolio valued at £534.8m estimated market value at 31 August 2025 comprising 9 office blocks both within and without the borough. (It should be noted this is not a formal Red Book valuation but a market assessment);
- 3.38 £42.6m of loans to two wholly owned Council subsidiary companies, the bulk of which is to Knowle Green Estates Ltd and
- 3.39 £1 shareholdings in the two subsidiary companies, Knowle Green Estates Ltd and Spelthorne Direct Services Ltd
- 3.40 The return on loans to the Council's two subsidiaries are at a small margin over the Council's cost of borrowing and are secured on the assets of the companies.
- 3.41 The debenture and loans to the Council's subsidiary companies are classed as non-specified investments, under the Statutory Guidance on Local Government Investments issued by the then DCLG in 2018, as they are for a period greater than 12 months. The total of £45.1m is well within the limit of £70m for non-specified investments set out in the 2025/26 TMS. The investment property portfolio is estimated to generate £46.4m in gross rental income in 2025/26. After operating costs this reduces to £39m. The forecast is for rental income to peak at c.£49.5m in 2026/27, which after operating costs would generate net income of £45.7m.
- 3.42 Operational performance is good as set out in Table 9 below.

Table 9 Investment property operational performance

	2024/25 Actual %	Position to 30/9/2025 %
Void rate	9.01%	9.33%
Rent collection rate	98.84%	99.86%

4. Options analysis and proposal

- 4.1 Not applicable.

5. Financial implications

- 5.1 The financial implications are detailed in the main body of the report. The ability to maximise interest returns, whilst keeping risk within acceptable tolerances, is crucial to being able to generate sufficient income to support the General Fund and the Capital Programme. Small adverse movements in

interest rates can mean a significant reduction in cash returns. Therefore, it is our aim to continue to maintain flexibility with a high level of security, liquidity and minimal risk when making investment decisions.

6. Risk considerations

6.1 The Local Government Act 2003, the Prudential Code and the Treasury Management Code of Practice include a key principle that the Council's appetite for risk is included in their annual Treasury Management Strategy and this should include any use of financial instruments for the prudent management of those risks and should ensure that priority is given to security and liquidity when investing.

6.2 The principal risks associated with treasury management are set out below:

	Risk	Mitigation
1	Loss of investments as a result of failure of counterparties.	Limiting the types of investment used, setting lending criteria for counterparties, and limiting the extent of exposure to counterparties.
2	That the Council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or new borrowing (Liquidity risk).	Ensuring that a minimum proportion of investments are held in short-term investments for cashflow purposes.
3	Increase in the net financing costs of the Council due to borrowing at high rates of interest.	Planning and undertaking borrowing and lending considering assessments of future interest rate movements, and by undertaking mostly long-term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).
	Risk	Mitigation
4	Higher interest rates increase borrowing making it more difficult to self-finance capital schemes. Debt servicing becomes less affordable and less sustainable and crowds out revenue spend.	To pause, delay or defer capital schemes. Also consider opportunities to borrow in the future at current interest rates.
5	Return on non-treasury investments lower than expected.	Review and analysis of risk prior to undertaking non-treasury investments.
6	The Council's Minimum Revenue Provision policy charges an insufficient amount to the General Fund to repay debt at a prudent level.	Align the Minimum Revenue Provision policy to the service benefit derived from the Council's assets.

7	Fraud associated with cash management.	<p>These risks are managed through:</p> <ul style="list-style-type: none"> • Treasury Management Practices covering all aspects of treasury management procedures, including cashflow forecasting, documentation, monitoring, reporting and division of duties • All treasury management procedures are transactions are subject to inspection by internal and external auditors. The Council also employs external treasury advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.
8	Increase in capital financing costs due to inflationary forces resulting in increased cost pressures on current capital projects and higher costs compared to approved budgets.	Regular monitoring of the Capital Programme through comparison to budgets.

7. Procurement considerations

7.1 None.

8. Legal considerations

- 8.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 impose certain obligations with regards to financial reporting by local authorities. In exercising powers under the Local Government Act 2003 the Council is required to give regard to the CIPFA Prudential Code for Capital Finance in Local Authorities.
- 8.2 This report assists the Council to comply with the obligations in the relevant legislation.

8 S151 Officer comments

- 8.1 The report complies with the regulatory requirement for a six-month Treasury Management update report to be provided to councillors and summarises Treasury Management Activity and highlights the impact of changes to Minimum Revenue Provision approach.

9 Monitoring Officer Comments

- 9.1 The Monitoring Officer confirms that all relevant legal implications have been taken into account.

10 Other considerations

- 10.1 The Council fully complies with best practice as set out in Chartered Institute of Public Finance and Accountancy (CIPFA) 2019 Treasury Management and Prudential Codes and in the Government's Guidance on Investments effective from April 2018.

10.2 Nothing in the Council's current strategy is intended to preclude or inhibit capital investment in local projects deemed beneficial to the local community, and which have been approved by the Council.

11 Equality and Diversity

11.1 No impact.

12 Sustainability/Climate Change Implications

12.1 The Council continues to review its ESG position with its advisers on a regular basis and has asked them to assist the Council to manage a transition over time towards a more environmentally sustainable portfolio.

13 Timetable for implementation

13.1 Not applicable.

Appendices:

Appendix A – Strategic Pooled Funds

Appendix B - MRP Policy

Appendix A – Summary of Prudential Indicators

PI ref	Para ref	Prudential Indicator	2024/25 Actual £m	2025/26 estimate £m	2025/26 forecast @ 30/9/2025 £m	RAG Indicator
1	2.4	Capital expenditure	33.1	7.4	7.4	G
2	2.8	Capital Financing Requirement	1,152.8	1,166.6	992.6	G
3	2.12	Net debt v. CFR - (under)/over borrowed	(83.6)	(146.6)	(404.3)	G
		Ratio of financing costs to net revenue stream (Affordability):				
4a	2.15	Excluding investment property income	315%	256%	318%	R
4b	2.16	including investment property	83%	67%	83%	R
5a	2.24	Authorised limit for external debt	1072.0	1,270.0	1,270.0	G
5b	2.24	Operational boundary for external debt	1072.0	1,170.0	1,170.0	G
6	2.29	Limit on surplus funds held for more than 364 days (i.e. non-specified investments)	56.0	70.0	70.0	G
		Maturity structure of borrowing				
7a	2.26	Upper limit under 12 months	2%	10%	2%	G
7b	2.26	Lower limit 10 years or more	85%	0%	83%	G

Appendix B – Minimum Revenue Provision Policy Statement for Spelthorne Borough Council

Introduction

1. Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.
2. MRP is sometimes referred to as the mechanism for setting aside monies to repay external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the Council's own cash resources and no new external borrowing or other credit arrangement has been entered into.
3. Regulation 27 of the 2003 Regulations sets out a duty for local authorities to make a Minimum Revenue Provision (MRP) and Regulation 28 requires full Council to approve a MRP Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. This statement is designed to meet that requirement.
4. Regulation 27 (the duty to make revenue provision) was amended in April 2024 and takes effect from 7 May 2024, following a number of consultations. Key changes address some common practices used to underpay MRP, namely:
 - using proceeds from asset sales to replace the revenue charge; and
 - not making MRP on debt associated with investments.
5. In addition, the amendments to Regulation 27 include provisions for making MRP where a local authority borrows to lend the money onto a third party as a capital loan.
6. In setting a prudent level of MRP local authorities must "have regard" to guidance issued by the Secretary of State for Housing, Communities and Local Government. The latest version of this statutory MRP guidance, *Capital finance: guidance on minimum revenue provision* (5th edition), was issued by DLUHC (as it then was) in April 2024 to accompany the amendments to Capital Finance Regulations.
7. Paragraph 26 of the above statutory MRP Guidance explains that where a local authority proposes to deviate from statutory guidance and underpinning Codes of Practice, this has to be justified and agreed through the local authority's governance processes:

Under statute, local authorities must have regard to these codes; "have regards to" has a specific meaning that local authorities should comply with the guidance unless, having duly considered the guidance, there is justifiable reason to depart from it. Decisions that do not "have regard to" relevant guidance may be susceptible to challenge.
8. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.
9. The Guidance sets out four "possible" options for calculating MRP, as set out below,

Option	Calculation method	Applies to
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred before 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred before 1 April 2008
3: Asset life method	Amortises MRP over the expected life of the asset	Expenditure incurred after 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred after 1 April 2008

10. Two main variants of Option 3 are set out in the 2024 Guidance:
 - (i) the equal instalment method and
 - (ii) the annuity method.
11. The annuity method weights the MRP charge towards the later part of the asset's expected useful life. Whilst this method is increasingly becoming the most common MRP option for local authorities, paragraph 42 of the Informal Commentary on the Statutory MRP Guidance explains that this method could be used where the flow of benefits from an asset are expected to increase in later years and should not be used solely to resolve budgetary issues.
12. The 2024 Guidance also includes specific recommendations for setting MRP in respect of finance leases, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include capitalised redundancy costs, loans or grants to third parties for capital purposes, and the purchase of shares in limited companies. Other approaches are not ruled out however they must meet the statutory duty to make prudent MRP provision each financial year.
13. With effect from 1 April 2024, MRP set aside requirements will also apply to "right of use" leased assets, following the introduction of IFRS 16.

Key changes from the 2024 amendments to Regulation 27

14. The key changes to Regulation 27 are:
 - explicit prohibition from using capital receipts in place of charging MRP to revenue,
 - a clear requirement to charge MRP on investments where these meet the statutory definitions of capital expenditure set out in Regulation 25,
 - a requirement to set aside MRP on all elements of the CFR.
15. Where loans have been advanced to third parties for a capital purpose on or after 7 May 2024, a local authority is now required to determine whether the loan is for a commercial purpose (i.e. principally advanced for financial return) or is a non-commercial loan:
 - for commercial loans MRP will be set aside using an asset life approach based on the expected useful life of the underlying assets being financed;
 - for non-commercial loans MRP will comprise:

- (i) the principal element of any loan repayments received during the financial year and
- (ii) the amount of any expected credit loss (ECL) recognised during the financial year. Any ECL recognised will not be spread over future years.

Minimum Revenue Provision (MRP) policy statement

16. Having regard to the new 2024 Guidance on MRP issued by DLUHC and the “options” outlined in that Guidance, the Council is recommended to approve the following MRP Statement to take effect from 1 April 2025:

MRP stream – General Fund	CFR at 31 3 2025 £000s	MRP 2025/26 £000s	Policy	Explanation	Change from previous policy?
Supported borrowing for capital expenditure incurred pre 2007/08	0	0	There is no MRP as the Council does not have any such borrowing	The Council has no such borrowing so no MRP requirement	The previous policy did not make clear that the Council did not hold any such borrowing and therefore no MRP would be due.
Unsupported capital expenditure incurred since 2007/08	1,069,757	57,644 (5.4%)	MRP will be calculated for: <ul style="list-style-type: none"> Investment property on a straight-line basis. All other asset categories on an annuity basis. Both approaches will use the expected useful lives of the assets (Option 3), subject to a maximum useful asset life of 50 years.	This complies with the Option 3 (Para 58(b)) of the Guidance and the requirement for maximum asset lives of 50 years.	The previous policy was based on an annuity approach which does not reflect the straight-line nature of the economic benefits provided by investment property to the Council.
MRP for “right of use” lease contracts.	2,692	607 (22.5%)	The amount of the MRP charge will be equal to the amount by which the balance sheet liability is written by the principal element of the annual payment (for leased assets)	This complies with para 80 of the MRP Guidance	The previous policy was to charge MRP on an annuity basis which did not reflect either the MRP Guidance or the pattern of expenditure under the contracts. The inclusion of liabilities in respect of right of use leased assets with effect from 1 April 2024 following the implementation of IFRS 16 will increase the amount of MRP charged but this will be offset by a reduction in the element of the unitary charge allocated to service cost.

MRP stream – General Fund	CFR at 31 3 2025 £000s	MRP 2025/26 £000s	Policy	Explanation	Change from previous policy?
Loans to third parties for a capital purpose advanced before 7 May 2024	44,846	950 (2.1%)	MRP will be calculated on a straight-line basis using the expected useful lives of the assets purchased by third parties (Option 3 – asset life), subject to a maximum useful asset life of 50 years and for modular/ prefabricated properties 40 years.	This complies with the Option 3 (Para 58(b)) of the MRP Guidance and the requirement for a maximum asset life of 50 years.	Hitherto MRP had not been charged and instead applied the principal element of any capital receipts received as MRP. In the years where with there was no principal repayment the policy was to charge MRP using the annuity method under Option 3. This policy did not comply with the statutory MRP Guidance then in force.
Loans to third parties for a capital purpose advanced on or after 7 May 2024	305	6 (2.0%)	<p>(a) Commercial loans – MRP will be calculated on a straight-line basis using the expected useful lives of the assets purchased by third parties (Option 3 – asset life), subject to a maximum useful asset life of 50 years</p> <p>(b) Non-commercial loans – the principal element of loan repayments will be set aside as MRP. Where any expected credit loss is recognised in respect of that year or any previous year, the expected credit loss shall be charged to the General Fund as MRP.</p>	<p>This complies with the Option 3 (Para 58(b)) of the MRP Guidance and the requirement for a maximum asset life of 50 years.</p> <p>This complies with paras 72-78 of the MRP Guidance.</p>	<p>This makes the policy clearer in respect of commercial loans advanced.</p> <p>This makes the policy clearer in respect of non-commercial loans advanced.</p>
General Fund CFR and MRP at 31 March 2025	1,167,359	59,956 (5.1%)			

17. Detailed policies applied to asset life identification, discount annuity rates and MRP commencement dates are set out below:

MRP stream – General Fund	Policy	Explanation	Change from previous policy?
Asset lives	Asset lives used for MRP calculations will be determined by the Council's RICS-registered valuers and will be consistent with the depreciation policies set out in the Council's annual Statement of Accounts. If no life can reasonably be attributed to an asset, such as freehold land, the estimated useful life will be taken to be a maximum of 50 years	This complies with para 65 of the MRP Guidance.	Previously standard asset lives had been used which differed from those used for depreciation calculations.
Discount rate for use when applying the annuity method for calculating MRP under Option 3	MRP will be discounted using the PWLB new loan annuity rate, relevant to the asset life period, applicable on 1 April in the year when MRP commences	The MRP Guidance does not suggest what discount rate(s) to use. By specifying the PWLB new loan annuity rate at 1 April of the year in which MRP commences this provides a clearly evidenced trail to the discount rate to be used and reflects the type of borrowing undertaken by the Council.	Previously the Council had not disclosed how it selected the discount rate used in annuity calculations.
MRP commencement	MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the statutory MRP Guidance, commencement of MRP may be deferred until the financial year following the one in which the asset becomes operational.	This approach complies with para 63 and 64 of the MRP Guidance	No change in policy

Conclusion

18. Based on the above the Council's view is that by complying fully with the 2024 Statutory Guidance, it is making a prudent provision for MRP in line with the requirements of Regulation 28.