Report to the Audit & Governance Committee

Epping Forest District Council

Report reference: AGC-018-2020/21

Date of meeting: 23rd November 2020

Portfolio:	**Finance & Economic Development**	
Subject:	**Treasury Management Mid-Year Update 2020/21**	
Responsible Officer:	**Andrew Small**	**(01992 564278).**
Democratic Services:	**Laura Kirman**	**(01992 564243).**

Recommendations/Decisions Required:

(1) To note the Treasury Management Mid-Year Update 2020/21 ***(Appendix A)*** and pass comment for full Council.

(2) To consider and recommend for approval to full Council, the Minimum Revenue Provision Statement (MRP) 2020/21 ***(Appendix B)***.

Executive Summary:

The Council's current Treasury Management Strategy was considered at a meeting of the Audit and Governance Committee on 28th January 2019 and was subsequently agreed by full Council on 21st February 2019; it was a three-year strategy covering the financial years 2019/20, 2020/21 and 2021/22.

In accordance with CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) and generally accepted good practice, the Treasury Management Mid-Year Update for 2020/21 (presented in *Appendix A*) sets out the Council's actual Treasury Management activity for the first six months of 2020/21 (i.e. April to September 2020).

Appendix A begins by setting the external context for first half of 2020/21 by exploring the Economic Background, Financial Markets and Credit Ratings; this includes a discussion on the fundamental impact of the Covid-19 Pandemic.

The Borrowing and Investment position for Epping Forest DC as at 30th September 2020 shows the following:

- Borrowing – external borrowing rose by £16.0 million (from £224.5 million to £240.5 million) during the period April to September 2020; and

- Investments – there was a reduction of £20.9 million (from £22.1 million to £1.2 million) during the same period.

CIPFA's revised Code now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds, primarily for financial return. The report therefore also considers the Council's Commercial Property Portfolio, which delivered Net Income of £3.717 million during the first six months of 2020/21 and continues to be a key part of the Council's strategy to minimise Council Tax increases. There is however a risk of some future commercial income losses due to economic uncertainty caused by the Covid-19 pandemic affecting tenants.

Appendix A concludes by considering compliance with the Council's adopted Treasury Management indicators. Full compliance was achieved with most indicators. However, the cash flows experienced during the early part of 2020/21 were completely un-precedented as the Government suddenly distributed huge emergency support funding for Covid-19 to billing authorities. This led to some unavoidable breaches of the Council's Investment Limits. Cash flows have subsequently stabilised with the Council holding total bank deposits of £1.2 million as at 30th September 2020.

In addition, *Appendix B* presents a draft updated Minimum Revenue Provision (MRP) Statement for 2020/21, for consideration by the Committee. This provides essential clarification in the light of the Council's recently expanded capital investment activities. In particular, the treatment of external loans is considered, including the treatment of capital receipts arising from principal repayments.

Reasons for Proposed Decision:

To enable the robust scrutiny the Council's Treasury Management performance in 2020/21 in compliance with CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) and generally accepted good practice.

Legal and Governance Implications:

The Local Government Act 2003 created a framework for the financing of capital investments in local authorities which came into operation from April 2004. Alongside this, the Prudential Code was developed by CIPFA as a professional Code of Practice to support local authority decision making in capital investment and financing. Local authorities are required by regulation to have regard to the Prudential Code.

Safer, Cleaner and Greener (SCG) Implications:

None.

Background Papers:

Treasury Management Strategy Statement 2019/20 (Audit and Governance Committee, 28th January 2019).

(MHCLG) Statutory Guidance on Local Government Investments (3rd Edition). Issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1st April 2018.

Risk Management:

There are a range of inherent financial risks associated with Treasury Management activity; not least the potential for loss of interest and/or deposits. The Council therefore engages the services of external Treasury Management advisors, Arlingclose Ltd.

Borrowing and Investment decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. The Strategy includes several Risk Management features, including – for example – the overriding priority that security of deposit takes precedence over return on investment.

Appendix A

Treasury Management Mid-Year Update 2020/21

Introduction

The Council has adopted CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve Treasury Management semi-annual ("mid-year updates") and annual reports.

The Council's current Treasury Management Strategy was considered at a meeting of the Audit and Governance Committee on 28th January 2019 and was subsequently agreed by full Council on 21st February 2019; it was a three-year strategy covering the financial years 2019/20, 2020/21 and 2021/22. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 21st February 2019.

External Context: April to September 2020

Economic Background: The spread of the Covid-19 pandemic dominated during the first six months of this financial year, as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the Government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

GDP growth contracted by a huge 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year on year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme.

In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay).

Financial Markets: Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

Credit Review: Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on Arlingclose's counter party list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

Local Context

On 31st March 2020, the Council had net borrowing of £202.314 million arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/20 Actual £m
General Fund CFR	96.394
HRA CFR	153.815
Total CFR	**250.209**
Less: Other Debt liabilities	0
Borrowing CFR	**250.209**
Less: External borrowing	-224.456
Internal borrowing:	
Less: Usable reserves	-47.538
Less: Working capital	-0.357
Net Investments	**22.142**

Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council has pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk.

The Treasury Management position as at 30th September 2020 and the change during the first six months of the financial year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/03/20 Balance £m	Movement £m	30/09/20 Balance £m	30/09/20 Rate %
Long-term Borrowing	210.5	+30.0	240.5	2.86
Short-term Borrowing	14.0	-14.0	0	N/A
Total Borrowing	**224.5**	**+16.0**	**240.5**	
Long-Term Investments	0	0	0	N/A
Short-term Investments	0	0	0	N/A
Cash and Cash Equivalents	22.1	-20.9	1.2	0.01
Total Investments	**22.1**	**-20.9**	**1.2**	
Net Borrowing	**202.4**		**239.3**	

The Council's cash flows during April to September 2020 were unprecedented, primarily due to the Covid-19 pandemic, although things were beginning to settle down by September. Thus:

- *Long-Term Borrowing* – the £30 million increase in long-term borrowing presented above represents a PWLB loan taken out in September, to finance a capital investment loan to Qualis for the same amount

- *Short-Term Borrowing* – short-term borrowing of £14.0 million from other local authorities secured in late March 2020, was repaid in April 2020; and

- *Cash and Cash Equivalents* – following an unprecedented peak in cash holdings during April 2020 (especially due to the impact of the Covid-19 pandemic), cash balances gradually stabilised and had returned to more normal levels by the end of the period.

Borrowing Update

On 9th October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears relatively very expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields (the value of this discount is 1% below the rate at which the Council usually borrows from the PWLB), available from 12th March 2020 and £1.15 billion of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

The "Future Lending Terms" consultation allowed key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals on allowing authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

The consultation closed on 31st July 2020 with the announcement and implementation of the revised lending terms expected in the latter part of this calendar year or early next year.

Borrowing Strategy

At 30th September 2020 the Council held £240.5 million in loans (an increase of £30.0 million compared to the position as at 31st March 2020), as part of its strategy for funding the Capital Programme. Outstanding loans on 30th September 2020 are summarised in Table 3 below.

Table 3: Borrowing Position

	31/03/20 Balance £m	Net Movement £m	30/09/20 Balance £m	30/09/20 Weighted Average Rate %	30/09/20 Weighted Average Maturity (years)
	210.5	+30.0	240.5	2.86%	22.3
Public Works Loan Board	0	0	0	N/A	N/A
Banks					
Local authorities (long-term)	0	0	0	N/A	N/A
Local authorities (short-term)	0	0	0	N/A	N/A
	14.0	-14.0	0	N/A	N/A
Total Borrowing	**224.5**	**16.0**	**240.5**		

The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

With short-term interest rates remaining much lower than long-term rates, the Council considered it more cost effective in the short term to use internal resources or borrowed rolling temporary / short-term loans instead. The net movement in temporary / short-term loans is shown in Table 3 above.

Other Debt Activity

The Council did not raise any other capital finance in the first six months of 2020/21.

Treasury Investment Activity

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held, and money borrowed in advance of need. During the first six months of 2020/21, the Council's investment balances ranged between circa £1 million and £70 million; this was due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Treasury Investment Position

	31/03/20 Balance £m	Net Movement £m	30/09/20 Balance £m	30/09/20 Income Return %	30/09/20 Weighted Average Maturity Days
Banks & building societies (unsecured)	22.1	-21.5	1.2	0.01	Instant Access
Government (incl. local authorities)	0	0	0	N/A	N/A
Money Market Funds	0	0	0	N/A	N/A
Total Investments	**22.1**	**-20.9**	**1.2**		

Both the CIPFA Code and Government guidance requires local authorities to invest funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government (MHCLG), in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Council also holds a significant commercial property portfolio on its Balance Sheet, which are summarised in Table 5 below.

Table 5: Commercial Property Investments

Category	31/03/20 Balance Sheet Value	Net Income 2020/21 (6 months April - September) ***
Shops*	£94.765m	£2.855m
Industrial Units	£32.011m	£0.738m
Other**	£11.250m	£0.124m
Total Value/Net Income	**£138.026m**	**£3.717m**

*Includes Public Houses and a Petrol Station

**Includes North Weald Airfield and Tennis Centre

***Excludes (year-end) recharges

The Council received total net income of £6.216 million from Commercial Property Investments in 2019/20, so Table 5 shows a positive position for the first six months of 2020/21, with the numbers reflecting the additional revenue generated by new Commercial Property acquisitions in December 2019 at Loughton High Road (Shops) and Brooker Road (Industrial Units).

The Committee should note that the numbers reflect the accrued position currently in the Council's books, which does not take account of the collectability of income. So far, there have been no write-offs due to the affects of the Covid-19 pandemic, with the Council's portfolio appearing reasonably resilient at this stage (e.g. anecdotally, demand from prospective tenants for void properties seems to be holding up). However, an increase in write-offs cannot be ruled out in the future given the current economic climate.

Compliance

The Strategic Director and Section 151 Officer reports that all Treasury Management activities undertaken during the first six months of the year complied fully with the CIPFA Code of Practice. However – in 2020/21 –regarding the approved Treasury Management Strategy:

- *Debt Limits* – full compliance achieved

- *Investment Limits* – the £3.0 million limit on investing in any single organisation (except for the UK Government) was breached during the year, with the Council holding larger amounts of cash with NatWest, the Council's main bankers. With a peak cash holding £70.5 million held in mid-April 2020, this was a completely unprecedented event, and due to a combination of the Council's anticipated cash requirements in April 2020 and the unexpected receipt of a major funding allocation from central Government as part of the Covid-19 Business Support grant initiative; and

- *Liquidity Indicator* – the Council also briefly dropped below its £3.0 million Liquidity Indicator ("Minimum Available Cash Within 3 Months") at the end of September 2020. This was corrected by short-term borrowing in October 2020.

Compliance with the Operational Boundary and Authorised Limit for external debt is demonstrated in Table 7 below.

Table 7: Debt Limits

	2020/21 Maximum	30/09/20 Actual	2020/21 Operational Boundary	2020/21 Authorised Limit	Complied? (Yes/No)
Borrowing	£240.5m	£240.5m	**£280.0 million**	**£290.0 million**	**Yes**
Finance Leases	0	0			
Total Debt	**£240.5m**	**£240.5m**			

Since the Operational Boundary is a management tool for in-year monitoring it is not significant if it is breached on occasions due to variations in cash flow; this is not counted as a compliance failure. Total debt did not breach the Operational Boundary during the year.

Table 8: Investment Limits

	2020/21 Maximum	**30/09/20 Actual**	**2020/21 Limit**	**Complied?** (Yes/No)
Any single organisation, except the UK Government	**£70.5m**	**£1.2m**	**£3.0m each***	**No**
UK Government (including local authorities)	£8.0m	0	Unlimited	Yes
Any group of organisations under the same ownership	0	0	£3.0m per group	Yes
Any group of pooled funds under the same management	0	0	£5.0m per manager	Yes
Negotiable instruments held in a broker's nominee account	0	0	£2.0m per broker	Yes
Foreign countries	0	0	£3.0m per country	Yes
Registered providers and registered social landlords	0	0	£3.0m in total	Yes
Unsecured investments with building societies	0	0	£2.0m in total	Yes
Loans to unrated corporates	0	0	£2.0m in total	Yes
Money Market Funds (MMF)	**0**	**0**	**£10.0m in total***	**Yes**
Real Estate Investment Trusts	0	0	£5.0m in total	Yes

*The Investment Limits quoted in Table 8 are those adopted in the original Treasury Management Strategy. At its meeting on 29th October 2020, full Council resolved to:

- Increase the amount that the Council can invest in any single organisation, except the UK Government, from £3.0 million to £4.0 million; and

- Increase the MMF limit to £10 million *per fund*, with a maximum limit of 3 funds to be invested in at any one time. If operational requirements require the use of more funds, the S151 officer can authorise this in consultation with the Portfolio Holder for Finance and Economic Development, provided this is reported to the Chair of the Audit and Governance Committee, and a report is submitted to the next available meeting of the Audit and Governance Committee.

Table 8 shows that, during the first six months of 2020/21, the Investment Limit in any single organisation (except the UK Government) was breached –
with peak investment occurring on 15th April 2020 – when a cash balance of £70.5 million was held with NatWest, the Council's main bankers. This was a totally unprecedented event, driven by two (unrelated) factors. Thus:

- *Closing Cash Balance 2019/20* – as reported to this Committee on 28th September 2020, the Council held an unusually high cash balance of £22.1 million on 31st March 2020, reflecting an increase in short-term borrowing and a reduction in short-term investments, partly due to Treasury Management advice (to carry higher balances in the light of the volatility and uncertainty caused by the Covid-19 pandemic). But also reflecting the assembling of funds in advance of an anticipated loan of £30.0 million to Qualis during April 2020; and

- *Covid-19 Business Support Grants* – the Council received £29.77 million from central Government on 1st April 2020, for distribution to local businesses as part of the Government's Covid-19 Business Support Grants initiative. The funding was received at very short notice (and added to, by previously arranged short-term borrowing of £10.0 million).

Exceptionally high cash balances were experienced by a vast majority of local authorities during April 2020 as the Government distributed emergency support funding for Covid-19; as a consequence, there were no opportunities at the time to temporarily invest surplus cash with other local authorities (as everyone was looking to lend, rather than borrow). In addition, Epping Forest District Council was very quick to distribute Business Support Grants to local businesses, which meant that very high cash balances were needed to cover rapidly outgoing commitments.

Treasury Management Indicators

The Council measures and manages its exposures to Treasury Management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30/09/20 Actual	2020/21 Target	Complied?
Portfolio average credit rating	A	A-	Yes

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	30/09/20 Actual	2020/21 Target	Complied?
Total cash available within 3 months	£1.2 million	£3.0 million	No

It should be noted that the Council took out short-term borrowing of £10 million on 20th October 2020 from another local authority. At no time during the first six months of 2020/21 (or subsequently at the time of preparing this report), did the Council go overdrawn at the Bank.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	30/09/20 Actual	2020/201 Limit	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates (Borrowing)	£318,000	£318,000	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates (Investments)	£12,000	£100,000	Yes

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The table shows that Interest Rate Exposure on Borrowing and Investments were within limits. Interest Rate Exposure on Borrowing is an especially important measure, with net variable rate exposure of £306,000 (£318,000 minus £12,000) focused on Borrowing.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	30/09/20 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	0%	100%	0%	Yes
12 months and within 24 months	19.5%	100%	0%	Yes
24 months and within 5 years	0%	100%	0%	Yes
5 years and within 10 years	12.5%	100%	0%	Yes
10 years and within 15 years	0%	100%	0%	Yes
15 years and within 20 years	37.5%	100%	0%	Yes
20 years and within 25 years	26.5%	100%	0%	Yes
25 years and above	4%	100%	0%	Yes

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2020/21 (April – Sept)
Actual principal invested beyond year end	£0
Limit on principal invested beyond year end	£1.0 million
Complied?	Yes

Other

IFRS 16: CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2021/22.

Appendix B

Minimum Revenue Provision Statement 2020/21

DRAFT

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as “Minimum Revenue Provision” (MRP), although there has been no statutory minimum since 2008.

The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government’s (MHCLG) Guidance on MRP (the MHCLG Guidance) updated in 2018.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement and recommends a range of options for calculating a prudent amount of MRP.

MRP Policy

No MRP is required to be charged for Housing Revenue Account (HRA) assets.

No MRP is required to be charged on any General Fund Capital Financing Requirement, which was in existence prior to the HRA Subsidy Reform exercise of 2012.

For General Fund capital expenditure incurred after the HRA Subsidy Reform exercise of 2012:

- MRP will be determined by charging the expenditure over the expected useful life of the asset, to a maximum of 50 years, on an annuity basis; and

- MRP on purchases of freehold land will be charged over 50 years.

The MRP payment is financed from revenue with an option that part, or all, of the payment could be financed from capital receipts to repay debt.

MRP will commence in the financial year following the asset coming into operational use or after purchase.

External Loans

For capital expenditure loans to third parties that are repaid in instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement.

Capitalisation Directions

For capitalisation directions on expenditure incurred after 1st April 2008 MRP will be made using the annuity method over 20 years.