Birmingham City Council
Resources Overview and Scrutiny Committee
8 September 2022

Subject:	Birmingham City Council's Long-term Debt Briefing
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Does the report contain confidential or exempt information? ☐ Yes ☒ No

If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential: N/A

1 Purpose

1.1 To update members on the Council's long-term debt including the Council's reasons to borrow and the strategies and polices that are in place to manage borrowing and the associated costs and risks.

2 Recommendations

2.1 That the Resources Overview and Scrutiny Committee notes and considers the Council's reasons to borrow and the strategies and polices that are in place to manage borrowing and the associated costs and risks.

Appendices

Appendix 1: Report on Birmingham City Council's Long-Term Debt

Appendix 2: Sources of external loan debt

Appendix 3: Debt repayment (MRP) policy

Appendix 1: Report on Birmingham City Council's Long-term Debt

1. Introduction

1.1 This report explains the Council's reasons to borrow and the strategies and polices that are in place to manage borrowing and the associated costs and risks. The Council's latest Capital and Treasury Management Strategies, approved as part of its Financial Plan 2022-26, provide further detail where appropriate.

2. Executive Summary

2.1 The Council is not allowed to borrow to fund day to day revenue expenditure but can borrow to manage temporary cashflow needs and to fund long term capital expenditure.

2.2 According to statute and the Prudential Code, local authorities have the powers to fund capital expenditure from borrowing in order to deliver their key priorities, under the premise that borrowing remains affordable, prudent and sustainable.

2.3 Capital Expenditure is a necessary function of the Council delivering its priorities and borrowing is a common and accepted practice to finance such capital expenditure, along with other sources of capital financing.

2.4 The Council's Financial Plan 2022-26 outlines that capital expenditure financed through prudential borrowing makes up 30% of the capital programme. The Council primarily ensures that borrowing remains at an affordable and sustainable level by seeking to manage new prudential borrowing for normal service delivery, at a level which is close to the amount which it sets aside from the revenue account each year for debt repayment or Minimum Revenue Provision (MRP). This ensures that the Council's debt does not rise over the medium term.

2.5 Prudential borrowing can be made up of internal borrowing (using reserves and cash balances) and external borrowing (external loan debt). As at 30 June 2022, the Council had total external loan debt of £3,035m; although this number is a nominally large, it needs to be considered according to the size of the Council and the services that it provides. The Council's debt per head of population of £2,661 was 41st in the ranking out of 480 UK local authorities. When adjusted for the level of services that local authorities provide, Birmingham's debt position falls to 130th.

2.6 Annual financing costs as an average over the Financial Plan period 2022-2026 are likely to be around £238m or 27.3% of General Fund Net Revenue Budget. This includes both debt repayment and interest cost. The Council manages the financing costs of its external loans portfolio by maintaining a balance between lower cost short term (variable rate) borrowing and higher cost long-term (fixed rate) borrowing. The Council will also look to refinance existing loans where opportunities become available and where they provide a cost saving or a reduction in risk.

2.7 The Council can reduce its borrowing requirements by using capital receipts to repay debt or by amending its loan repayment provisions (MRP) in a prudent manner. Ultimately the size of the Council's future capital programme and the amount funded from borrowing will have a greater impact on its long term debt and loans portfolio.

3. Why Councils borrow - Capital Financing

3.1 Capital investment is an important function for local authorities as it allows us to deliver key priorities such as economic regeneration, transport, housing and school improvements, and to support service transformation. Local authority capital investment programmes can be funded from government grants, revenue resources, capital receipts from asset sales and prudential borrowing.

3.2 It is appropriate for local authorities to borrow to fund capital expenditure. A local authority will receive long term service benefit over a number of years so it should be able to fund the capital expenditure over the number of years the benefit is received, rather than in one go. The most efficient policy is not always the quickest possible repayment period but has regard to the prudent financial planning for the authority, the flow of benefits from the capital expenditure, and other relevant factors.

3.3 Local authorities are not allowed to borrow to fund day to day expenditure (i.e. capital financing cannot be used to support the revenue budget). Councils can borrow to manage day to day cash flow – but this by its nature is short term so the long term debt of the council relates to its capital expenditure. Also local authorities are prevented by law from using their property as collateral for loans.

4. Borrowing under the Prudential Code

4.1 Under Part 1 Chapter 1 of the Local Government Act 2003 covering capital financing, a local authority may borrow for any purpose relevant to its functions or for "the prudent management of its financial affairs". The Local Government Act 2003 also requires that local authorities have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when carrying out their capital investment plans.

4.2 The Prudential Code has been developed as a professional code of practice to allow local authorities to determine their own capital programmes and borrowing needs so that they are affordable, prudent and sustainable.

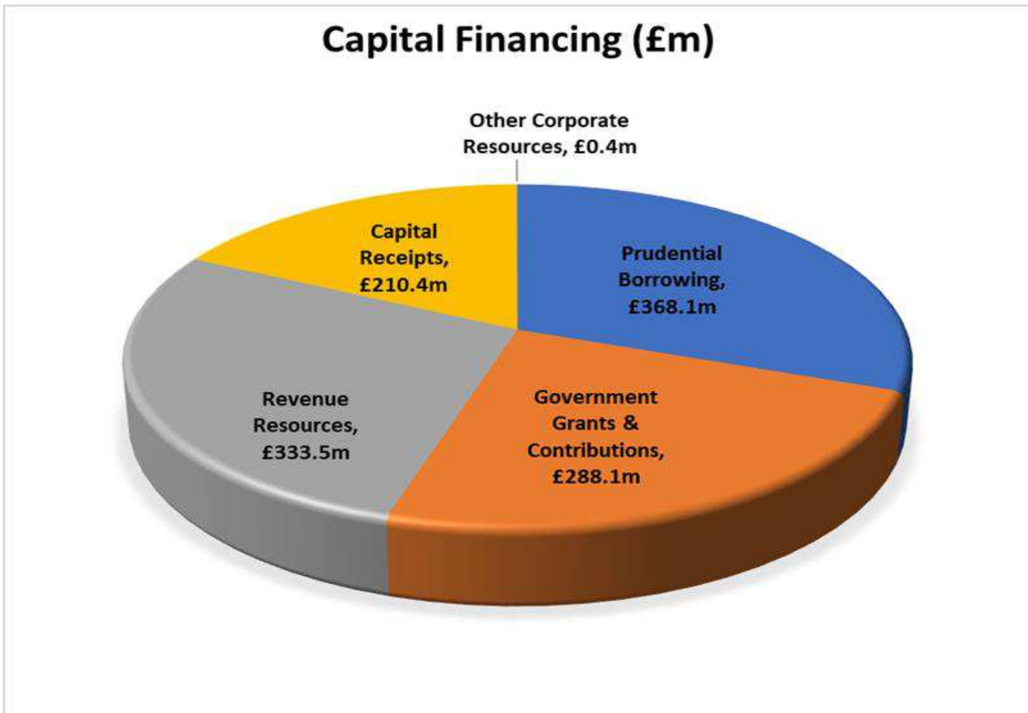
4.3 Each authority must set a total borrowing limit for itself in accordance with the principles of the Prudential Code. The borrowing limit should be related to the revenue streams available to the local authority, with which it can repay the debt and must not be exceeded.

4.4 The Council's proposed limit allows for risks, uncertainties, and potential changes during the year which may need to be accommodated within this overall limit. On this basis, the Council has set its Prudential Limit for Debt at £4,500.0m for 2022/23, £4,600.0m in 2023/24, £4,700.0m in 2024/25 and £4,700.0m in 2025/26.

4.5 In December 2021, CIPFA published its revised Prudential Code where it highlighted the requirement that local authorities must not borrow to invest primarily for financial return. Any borrowing must be directly and primarily related to the functions of the authority and any financial return must be incidental to the investments primary purpose. The Council's current programme has no plans for investing primarily for yield and all investments are linked to Service objectives.

5. The Council's prudential borrowing strategy

5.1 The Financial Plan 2022-26 identified £1,200.4m of resources would be needed to fund the four-year capital programme as follows:



5.2 Capital expenditure financed through prudential borrowing makes up 30% of the capital programme. The Council distinguishes prudential borrowing between self-financing borrowing and borrowing that requires net budget (corporate) support. Self-financed borrowing, where the interest and repayments are intended to be supported by income generation or savings from that capital investment, amounts to 69% of the planned prudential borrowing. The remaining 31% of borrowing requires net budget support. Income or savings from capital investments are often received over a number of years and there are risks that the actual amount generated may fall below forecast.

5.3 To ensure borrowing remains at an affordable and sustainable level, the Council seeks over the medium term, to manage its new prudential borrowing for normal service delivery, at a level which is close to the amount which it sets aside from the revenue account each year for debt repayment or Minimum Revenue Provision (MRP). This ensures that the Council's debt does not rise over the medium term.

5.4 Borrowing for the Enterprise Zone (EZ) and the Perry Barr Regeneration Schemes are an exception to this policy, because this is mostly planned to be repaid from increased Business Rates and the disposal of dwellings and land respectively.

5.5 Prudential borrowing can be made up of internal borrowing (using reserves and cash balances) and external borrowing (external loan debt). In the past, the Council has borrowed externally to finance its prudential borrowing and is likely to continue to borrow externally for its forecast prudential borrowing needs.

6. Financing cost of loan debt

6.1 The cost of loan debt is made up of two parts:

- The actual interest paid on debt which is determined by the interest rate set at the time the loan was taken.
- An annual provision which the Council must, by statute, set aside from its revenue budget to repay the outstanding debt (MRP) – see Appendix 2 for the latest MRP policy.

6.2 MRP (or the revenue charge for loan debt repayment) is an important part of prudent debt management and ensures a prudent provision is made from revenue to repay the Council's debt each year. There are a number of methods which demonstrate prudence and the Council can choose the method that best meets the prudence requirement.

6.3 The budgeted interest cost in each year, as shown in the following table, reflects a view of borrowing costs and the cost of additional borrowing in the Financial Plan. Actual interest costs will be affected by:

- future interest rates,
- the Council's cash flows,
- the level of its revenue reserves and provisions, and
- any debt restructuring.

Table 1. Treasury Management Revenue Budget

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Net interest costs	128.809	129.839	127.411	128.043
Revenue charge for loan debt repayment	108.067	112.776	117.998	133.314
Other charges	(10.394)	4.182	2.102	1.998
Total	226.482	246.797	247.511	263.355
Met by the HRA	46.705	46.953	47.331	56.507
Met by the General Fund	179.777	199.844	200.180	206.848
Total	226.482	246.797	247.511	263.355

*Other charges include pensions early payment discount, debt management expenses and premiums/discounts from refinancing

6.4 The Council monitors the affordability of debt through the prudential indicator of General Fund financing costs as a percentage of the net revenue budget in the Financial Plan. This is reported quarterly to Cabinet. Current forecasts, as shown in the following table, indicate annual General Fund financing costs are likely to be 27.3% of the General Fund net revenue budget as an average over the Financial Plan 4 year period 2022-2026.

Table 2. General Fund Financing Costs

GENERAL FUND	**22/23**	**23/24**	**24/25**	**25/26**
	£m	**£m**	**£m**	**£m**
General Fund Affordability				
Total General Fund financing costs	223.0	242.1	241.1	246.8
General Fund net revenue budget	759.2	879.7	919.4	940.4
General Fund financing costs (% of net revenue budget)	29.4%	27.5%	26.2%	26.2%

6.5 The Council's General Fund financing costs as a percentage of net revenue budget can be perceived to be relatively high. However, this indicator needs to be considered with the view that it:

- includes MRP as well as interest costs and so a relatively high figure may reflect a strong repayment provision being made for the Council's debt.
- is expressed as a percentage of net revenues where the Council's net revenues have been reduced significantly in recent years; so a higher figure is partly

attributable to this. This is the case in 2022/23 where the revenue budget is expected to be significantly lower than subsequent years (see previous table).

- includes financing costs for PFI, finance leases and transferred debt.
- reflects costs of significant capital investment which is benefiting the Council and its residents
- includes self-financing borrowing

7. The Council's external loan debt

7.1 The Council's own capital programme has been large and complex meaning it has historically used a significant amount of external loans to deliver its priorities. As at 30 June 2022, the Council had total external loan debt of £3,035m as follows:

Table 3. External loans portfolio as at 30 June 2022

	Amount (£m)	**Average rate (%)**
Long term loans (by lender)		
Public Works Loans Board (PWLB)	2,489.2	4.18
Loan Stock – what is this?	288.0	9.14
Fixed Bonds	85.0	3.06
LOBO loans	71.1	5.30
Other long term	2.5	1.92
Salix	0.4	0.00
Total Long-term loans	**2,936.2**	
Short term loans	99.0	0.25
Total Loan debt	**3,035.2**	**4.51**

7.2 From data provided to the Department for Levelling Up, Housing & Communities (DLUHC), the Council's loan debt as at 30 June 2022 was the highest for local authorities in the UK (excluding the Greater London Authority). However, the Council is also the largest local authority by some way and given the population of Birmingham, a more suitable comparison would be debt per head of population.

7.3 At 30 June 2022, Birmingham had debt per head of population of £2,661, this is 41st in the ranking for all 480 UK local authorities that reported to DLUHC. This was well below the highest debt per head for Woking Borough Council (£18,887) and Spelthorne Borough Council (£11,205).

7.4 Population on its own may not always be a fair reflection of the size of an authority, as different local authorities have different responsibilities. The Council's treasury advisor, Arlingclose, provide further analysis whereby each local authority's debt per head figure is adjusted by the proportion of gross service expenditure that the authority is responsible for. When debt per head figures are adjusted for the level of local services that authorities provide, Birmingham's debt position falls even lower to 130th out of the 480 local authorities.

8. Type of external loan debt

8.1 Table 3 above shows that the Council's external loans are split between short-term loans (with maturities of less than 12 months) and long-term loans (that have maturities of greater than 1 year).

8.2 As per its Treasury Management Strategy, the Council will normally target a short term loans balance of around £500m-£600m; this is mainly because:

- Short-term borrowing rates are likely to be lower than long term borrowing rates so this reduces the financing costs for the Council.
- Short term loans provide added flexibility for the Council should it not require the level of planned borrowing and thus forgo the costs of long term loans e.g. during the Covid pandemic when the Council used internal borrowing to finance some of its capital expenditure.
- Short-term loans allow the Council to manage its operational cash flow needs.

8.3 Operating short-term loans (variable rate borrowing) in place of long-term loans (fixed rate borrowing) does include an element of refinancing risk in that rates may rise to levels when it might have been cheaper to take out long term loans earlier. However the Council ensures the proportion of debt exposed to short-term (or variable) rates does not exceed 30% of its loans portfolio so the benefit of lower short term rates should still outweigh any refinancing risks.

8.4 The Council ensures its budget provides for a potential increase in variable rates by 1% which is considered to be prudent in this context. The Council will determine its optimal split for variable and fixed rate borrowing based on cost, interest rate forecasts, debt repayment profiles and other Treasury considerations.

9. <u>The Council's loan debt strategy</u>

9.1 The Council's loan debt strategy aims to support the delivery of the Council's key priorities. Although financing or borrowing costs associated with the Council's loan debt reflect a substantial investment in capital, the Council will ensure borrowing for the capital programme remains at an affordable and sustainable level. The Council manages its loan debt in the following ways:

- by not allowing debt to rise over the medium term
- by seeking to reduce interest costs when possible

- by seeking, prudently, to reduce debt and repayment charges when possible

9.2 **Debt to not rise over medium term:**

- As stated in para 5.3, the Council primarily does this by managing its new prudential borrowing for normal service delivery over the medium term at a level which is close to the amount which it sets aside from the revenue account each year for debt repayment (i.e. MRP). This ensures that the Council's debt does not rise over the medium term. The Council will actively aim to use non borrowing sources of financing (capital receipts, grants, revenue contributions) before it uses borrowing.

- There may be exceptions to this strategy, as described in para 5.4, and when the Council needs to temporarily increase its borrowing to fund advance pension payments for which it receives a significant discount.

9.3 **Reducing interest costs:**

9.3.1 Balanced loan debt portfolio

- The Council currently aims to have a balanced strategy for its loan debt (managing repayment of debt with the cost of debt). The Council has targeted a short term or variable rate loans balance (less than 12 months) of around £500m-£600m, to take advantage of the prevailing low short-term borrowing rates. The balance of the Council's borrowing needs will be met through long term borrowing (i.e. for periods of one year or more), to maintain an appropriate balance between the risks of fixed rate and variable rate borrowing.

- As part of the Treasury Management Strategy 2022-26, the Council proposed a balance between short term and long term borrowing to meet its total loan requirements as follows:

Table 4. Short-term and Long-term borrowing requirements

	2022/23	2023/24	2024/25	2025/26
cumulative new borrowing:	£m	£m	£m	£m
total long term loans	90.0	90.0	90.0	90.0
new short term loans	563.0	442.2	483.6	486.3
Required new/ replacement loan balance	653.0	532.2	573.6	576.3

9.3.2 Rescheduling loans

- Given the current relatively low interest rate environment and the desire to reduce debt costs, the Council will look to restructure existing loans, by premature repayment and replacement with new loans, where opportunities become available and where they provide a cost saving or a reduction in risk. The Council actively reviews its loan debt portfolio and the debt market for any such opportunities. The scope to reschedule loans can vary according to the type of loan.

- PWLB: The Council has less control in reducing a significant portion of its existing interest rate costs as the majority of its loan debt are historical long-term loans taken from the PWLB, fixed at the rates available at the time. To repay PWLB loans early, borrowers will incur a significant premium – therefore the Council would incur additional costs by repaying PWLB loans taken out at historically higher rates and replacing them with loans at the current lower rates.

- Loan stock: The Council's loan stock is related to the restructuring of the NEC, with £73m maturing in 2027 and £215m maturing in 2030. Restructuring this debt would only be worthwhile if the cost of the replacement loan i.e. from the PWLB, is lower than the discount rate for repayment. The loan stock is held by different bondholders so the Council could offer to buy their holdings back; however, this could be at different yields and there is no certainty the holders of loan stock would sell.

- LOBO loans: The Council has previously repaid some of its LOBO loans early, where the lender was willing to accept a lower premium for early repayment meaning savings for the Council. The remaining LOBO lenders are generally not looking to remove these loans from their portfolio, due to the higher rates they are receiving compared to the market today. However, the Council continues to liaise with its treasury advisors for any future scope to repay its LOBO loans early without financial detriment.

9.4 Reducing debt and repayment charges (MRP)

9.4.1 Reduce Capital programme

The Council can look to reduce the use of prudential borrowing in the future capital programme by reducing the size of the capital programme itself or the element that is funded by borrowing. Over the next 10 years, General Fund MRP is about £120m per annum. If the Council's capital programme has less than £120m prudential borrowing per annum, then its loan debt (and debt costs) should start to reduce. For example, new prudential borrowing could be restrained to £80m to £100m which would allow a progressive reduction in debt outstanding, as long as this did not impede delivery of the Council's key priorities.

9.4.2 Use of capital receipts

The Council could use more of its capital receipts to repay debt and thus reduce its future MRP (which is based on its debt level). In 2022/23 the Council has planned to use £80m of capital receipts to repay debt which should allow it to make savings in borrowing costs of around £4.5m a year in the following years. Using capital receipts to repay debt does mean that these resources would not be available for the capital programme.

9.4.3 Increasing MRP in the near term

The Council could increase its loan repayment provision or MRP which would have the effect of reducing its overall debt and thus financing costs in the future. However increasing MRP has the short-to-medium term effect of INCREASING the financing costs statistic (because it includes MRP costs) and costs to the annual revenue budget. Therefore less resources would be available for day to day services.

9.4.4 Review the Council's MRP policy

The Council can review and revise its MRP policy where it may be possible to reduce MRP costs in the short term whilst still maintaining its statutory duty to make prudent provision. DLUHC is currently undergoing a consultation on proposed changes to capital finance regulations in respect of MRP and the Council will need to be mindful of these changes during any review.

10. Loan maturity profile

10.1 As part of its loan debt strategy, the Council tries to ensure a consistent maturity profile for its loans due to the impact on its cash flow. Borrowing increases the cash available to the Council while debt repayment reduces cash available. The Council needs to manage its cash flow to ensure it has sufficient cash to meet its day to day commitments as well as repaying debt. Therefore it considers refinancing risk to ensure too many loans do not mature at one time which would have a detrimental effect on its cashflows. The Council monitors its maturity structure of borrowing through the following prudential indicator:

Table 5. Maturity structure of borrowing

	22/23 Indicators	23/24 Indicators	24/25 Indicators	25/26 Indicators
Maturity structure of borrowing (lower limit and upper limit)	**Forecast Year End**	**Forecast Year End**	**Forecast Year End**	**Forecast Year End**
under 12 months	16%	15%	16%	17%
12 months to within 24 months	2%	2%	2%	4%
24 months to within 5 years	7%	8%	10%	12%
5 years to within 10 years	15%	16%	15%	11%
10 years to within 20 years	22%	21%	22%	21%
20 years to within 40 years	35%	36%	35%	34%
40 years and above	2%	2%	1%	2%

11. HRA Borrowing strategy

11.1 The Housing Revenue Account (HRA) inherited a largely long-term fixed rate debt portfolio at the start of the current HRA finance system in 2012. New borrowing is currently planned through increased exposure to short term loans although long term loans will be considered when necessary. The General Fund and HRA exposures to short term and variable interest rates in accordance with the strategy are as follows:

Table 6. Split between HRA and General Fund net loan debt

(taking account of debt maturities and proposed long term borrowing)	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Housing Revenue Account				
Year end net exposure to variable rates	236.6	288.1	308.5	313.4
Closing HRA net loan debt	1,129.6	1,163.2	1,180.6	1,170.6
Variable exposure % of debt	20.9%	24.8%	26.1%	26.8%
General Fund				
Year end net exposure to variable rates	306.4	189.1	193.9	199.8
Closing General Fund net loan debt	2,367.0	2,192.6	2,141.6	2,095.5
Variable exposure % of debt	12.9%	8.6%	9.1%	9.5%
Year end variable interest rate assumption provided for in the budget	1.00%	1.25%	1.25%	1.25%

12. Conclusion

12.1 Historically, the Council has had a significant capital programme which has been used to deliver key priorities for its residents. As per the Prudential Code, the Council has considered it prudent to fund part of its capital programme through borrowing as this allows it to spread the cost of the capital expenditure over the number of years that the ensuing asset provides benefits.

12.2 The Council is mindful of the financing costs of external loan debt and the impact on its revenue budget and manages this through a wide-ranging and disciplined long-term debt strategy as part of its overall Treasury Management Strategy.

12.3 Loans are taken out when they are required from sources that provide the most value at the time i.e. with low risk and comparably low rates. As rate changes take place over time, long term loans taken out at historically higher rates may be perceived to provide lower value when compared to current lower rates. The Council will actively look towards restructuring or refinancing its historical loans where such opportunities provide a financial benefit or reduce risk.

12.4 The Council regularly reviews its capital programme and will consider reducing or amending this if in turn this reduces its borrowing needs, and as long as the delivery of the Council’s key priorities are not impeded.

Appendix 2: Sources of external loan debt

Short term borrowing (less than 1 year in duration)

- Short term borrowing is available largely from other local authorities and are primarily arranged using money market brokers.
- The availability of loans from the local authority lending market can tighten especially at financial year end as all councils face similar cyclical cash flow issues. To mitigate such liquidity risk, the Council has a Working Capital Facility with its current bankers Barclays, should it require loans for a short period from an alternative source.
- The Council is currently exploring the possibility of taking part in Commercial paper issuance via the UK Municipal Bonds Agency (UKMBA) to meet its short-term borrowing requirements.
- Short term and variable rate exposures remain within the prudential limit set at 30% of net debt.

Long term borrowing (more than 1 year in duration)

- The main source of long term borrowing for local authorities is the Public Works Loans Board (PWLB), managed by HM Treasury.
- At the end of November 2020, the Treasury introduced the condition that local authorities would not be able to access PWLB loans if their 3-year capital programme included capital expenditure primarily for yield. The Council's current programme has no plans for investing for yield and all investments are linked to Service objectives.
- The Council actively monitors market developments and seeks to use and develop other funding solutions if better value may be delivered. This may include other sources of long term borrowing if the terms are suitable, including public bonds and private placements, bilateral loans from banks, local authorities or others, Islamic forms of finance and sale and leaseback arrangements.
- The Council will consider the use of ESG bonds in sourcing long term borrowing, should they provide better value through lower costs and rates when compared to PWLB borrowing.

APPENDIX 3: DEBT REPAYMENT POLICY

1. Minimum Revenue Provision Statement 2022/23

1.1. Introduction

1.1.1. The Government's Capital Finance and Accounting Regulations require local authorities to make 'prudent annual provision' in relation to capital expenditure financed from borrowing or credit arrangements. This is known as Minimum Revenue Provision or MRP, but it is often referred in shorthand as "debt repayment". Local authorities are required to have regard to the Government's statutory guidance on MRP.

1.1.2. This policy applies to the financial year 2022/23. Any interpretation of the statutory guidance or this policy will be determined by the Section 151 Officer (currently the Director of Council Management).

1.2. Principles of Debt Repayment Provision

1.2.1. The term 'prudent annual provision' is not defined by the Regulations. However, the statutory guidance says:

"the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant".

The guidance does not prescribe the annual repayment profile to achieve this aim, but suggests four methods for making MRP which it considers prudent, and notes that other methods are not ruled out. The Council regards the broad aim of MRP as set out above as the primary indicator of prudent provision, whilst recognising the flexibilities which exist in determining an appropriate annual repayment profile.

1.2.2. The Council considers that the above definition of 'prudent' does not mean the quickest possible repayment period, but has regard to the prudent financial planning of the authority overall, the flow of benefits from the capital expenditure, and other relevant factors.

1.2.3. Consistent with the statutory guidance, the Council will not review the individual asset lives used for MRP as a result of any changes in the expected life of the asset or its actual write off. Some assets will last longer than their initially estimated life, and others will not; the important thing is the reasonableness of the estimate.

1.3. General Fund MRP Policy: Borrowing pre 31 March 2008

1.3.1. The Council's policy is to charge MRP on the pre-2008/09 borrowing at 2% of the balance at 31 March 2008, fixed at the same cash value so that the whole debt is repaid after 50 years.

1.4. General Fund MRP Policy: Prudential Borrowing from 1 April 2008

1.4.1. The general repayment policy for prudential borrowing from 1 April 2008 is to repay borrowing within the expected life of the asset being financed, subject to a maximum period of 50 years. This is a change from previous practice which had a maximum period of 40 years. The amended policy should better reflect the life of the assets employed and is consistent with other Councils.

1.4.2. The Council's policy is in accordance with the "Asset Life" method in the guidance. The repayment profile will follow an annuity repayment method (like many domestic mortgages) which is one of the options set out in the guidance. This is subject to the following details:

- An average asset life for each project will normally be used. This will be based on the asset life normally used for depreciation accounting purposes (recognising that MRP is estimated at the start of the project, whereas depreciation is not determined until the project has finished, so there may be estimation differences).
- There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc.).
- A standard schedule of asset lives will generally be used, but where borrowing on a project exceeds £10m, expert property advice may also be taken into account.
- Asset life will be determined by the Section 151 Officer.

1.4.3. MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets where over £1m financed from borrowing is planned, where MRP may be deferred until the year after the asset becomes operational.

1.4.4. Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Section 151 Officer.

1.4.5. If appropriate, shorter repayment periods (i.e. less than the asset life) may be used for some or all new borrowing.

1.5. Housing Revenue Account MRP Policy

1.5.1. The statutory MRP Guidance states that the duty to make MRP does not extend to cover borrowing or credit arrangements used to finance capital expenditure on HRA assets. This is because of the different financial structure of the HRA, in which depreciation charges have a similar effect to MRP. The Council's policy is that net HRA debt will reduce over the medium term, in order to deliver a debt to revenues ratio of below 2:1 by 2039/40. This reflects reductions in property numbers through Right to Buy and demolitions and will support the maintenance of a balanced and sustainable HRA Business Plan with the capacity to meet investment needs in later years. The Council will also seek to deliver a reduction in HRA debt per dwelling.

1.5.2. The annual HRA Loan Redemption to achieve the above policy is projected as follows in the HRA Business Plan:

Year	Loan redemption £m
2022/23	-
2023/24	-
2024/25	-
2025/26	10.0
2026/27	10.3
2027/28	14.2
2028/29	12.5
2029/30	11.7
2030/31	21.0
2031/32	24.9

Additional voluntary HRA debt repayment provision may be made from revenue or capital resources.

1.6. Concession Agreements and Finance Leases

1.6.1. MRP in relation to concession agreements (e.g. PFI contracts) and finance leases will continue to be calculated on an asset life method for assets under contracts in place before 1 April 2018, using an annuity repayment profile, consistent with the method for prudential borrowing in paragraph 8 above. For assets under contracts entered into from 1 April 2018, the annual MRP charge will match the element of the rent/charge that goes to write down the balance sheet liability, to reflect accounting changes under IFRS16. The Section 151 Officer will determine the appropriate treatment, having regard to the MRP Guidance, in complex cases.

1.7. Transferred Debt

1.7.1. Transferred Debt is debt held by another local authority whose costs are recharged to the Council (usually as a result of earlier reorganisations, such as the abolition of the former County Council). MRP in relation to Transferred Debt will be charged in line with the MRP policy for borrowings pre 31 March 2008, as described in paragraph 6, as the transferred debt relates to that period.

2. SPECIFIC SITUATIONS

2.1. Statutory capitalisations

2.1.1. Expenditure which does not create a fixed asset, but is statutorily capitalised, will follow the MRP treatment in the Government guidance, apart from any exceptions provided for below.

2.2. Cashflows

2.2.1. Where a significant difference exists between capital expenditure accrued and the actual cashflows, MRP may be charged based on the cash expended at the previous year end, as agreed by the Section 151 Officer.

2.2.2. The reason for this is that, if expenditure has been accrued but cash payments have not yet been made, this may result in MRP being charged in the accounts to repay borrowing which has not yet been incurred.

2.3. Equal Pay settlements

2.3.1. The Council has plans in place to fund Equal Pay settlement liabilities, primarily from capital receipts. However, there are risks to the timing and quantum of future capital receipts. As a risk management mechanism, and as a last resort, MRP may be reduced if there are insufficient capital receipts to fund Equal Pay settlement costs in that year. The revenue saving will then be used to meet the settlement costs.

2.3.2. Any such reduction will be made good by setting aside equivalent future capital receipts to provide for debt repayment, when there is a surplus of capital receipts available after funding Equal Pay settlements. Any such reduction in MRP will be repaid over no more than 20 years on an annuity profile, including a charge to the revenue account to the extent that capital receipts are not available.

2.4. Capitalised loans to others

2.4.1. MRP on capitalised loan advances to other organisations or individuals will not be required. Instead, the capital receipts arising from the loan principal repayments will be used as provision to repay debt. Where principal repayments are not broadly spread over the life of the loan, the Section 151 Officer may determine that annual Revenue MRP must be made for reasons of prudence. Revenue MRP contributions would still be required equal to the amount of any default on the repayment of the loan advanced.

2.5. Enterprise Zone (EZ)

2.5.1. Borrowing by the Council related to the Greater Birmingham & Solihull Local Enterprise Partnership (GBSLEP), and which is supported by additional Business Rates from the EZ or from other GBSLEP income, will be repaid within the lifetime of the EZ or other associated income stream (or the estimated life of the assets being funded, if shorter). This was originally 2038 but has been extended to 2046. This means that the repayment period for EZ-supported borrowing will reduce each year so that all EZ debt can be repaid by 2046.

2.6. Voluntary repayment of debt

2.6.1. The Council may make additional voluntary debt repayment provision from revenue or capital resources. In this case, the Section 151 Officer may make an appropriate reduction in later years' levels of MRP.

2.6.2. Where it is proposed to make a voluntary debt repayment provision in relation to prudential borrowing from 2008/09 under the asset life method, it may be necessary to decide which assets the debt repayment relates to, in order to determine the reduction in subsequent MRP. The following principles will be applied by the Section 151 Officer in reaching a prudent decision:

- where the rationale for debt repayment is based on specific assets or programmes, any debt associated with those assets or programmes will be repaid

- where the rationale for debt repayment is not based on specific assets, debt representative of the service will be repaid, with a maturity reflecting the range of associated debt outstanding

2.6.3. Subject to the above two bullet points, debt with the shortest period before repayment will not be favoured above longer MRP maturities, in the interests of prudence, to ensure that capital resources are not applied for purely short term benefits.

2.6.4. Based on this policy, the Capital Financing Requirement (CFR) will be fully repaid by no longer than 50 years after any prudential borrowing is incurred (including PFI). Existing PFI contracts will be fully repaid 40 years after the final capital expenditure under the Council's PFI contracts. On new PFI / finance lease contracts it will be repaid in line with the contractual payments as set out in paragraph 14.