Tunbridge Wells Borough Council

Treasury Management Policy and Strategy 2022/23

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1. Introduction and Background

1.1 Background

The Treasury Management Policy and Strategy is one of the Council's key financial strategy documents and sets out the Council's approach to the management of its treasury management activities.

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of treasury management is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments, commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return. The management of its cash flow has been particularly crucial to the Council since the coronavirus outbreak which resulted in a significant impact to the income levels received.

The second main function of the treasury management service is the funding of the Council's capital programme. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, arising usually from capital expenditure, and are separate from the day to day treasury management activities. This Council has one investment property and one investment with the Churches, Charities and Local Authorities (CCLA) Property Fund.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *'the management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions;*

> *the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'*

1.2 Reporting Requirements

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

1 - Prudential and treasury indicators and treasury strategy (this report) is forward looking and covers:

- the capital plans (including prudential indicators)
- a minimum revenue provision policy (MRP) showing how capital expenditure is charged to revenue over time
- the treasury management strategy showing how investments and borrowings are to be organised, including treasury indicators
- an investment strategy showing the parameters on how investments are to be managed

2 – A mid year management report – this is primarily a progress report and will update Members on the capital position, amending any prudential indicators as necessary and whether any policies require revision. This Council additionally provides quarterly report updates.

3 – An annual treasury report – this is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This Council produces this as the fourth quarter monitoring report.

2 CIPFA Requirements

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management Code.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement stating the policies, objectives and approach to risk management of the Council's treasury management activities (Section 3).

- Creation and maintenance of suitable Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities (Section 4).

- Receipt by Full Council of an annual Treasury Management Strategy Statement (Section 5) including the Annual Investment Strategy (Section 6) and the Minimum Revenue Provision Policy (Section 7) for the year ahead.

- Production of a mid year review report and an annual report covering activities during the previous year (this Council presents a quarterly monitoring report to Cabinet with the fourth quarter taking the form of an annual review).

- Delegation by the Council of responsibilities for implementing and regular monitoring of its treasury management polices and practices and for the execution and administration of treasury management decisions. This Council delegates responsibility for implementation and monitoring treasury management to Cabinet and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer. The role of the Section 151 Officer in treasury management is described in Section 8.

- Delegation by the Council of the role of scrutiny for treasury management strategy and policies to a specific named body (this Council delegates this responsibility to the Audit and Governance Committee).

3 Treasury Management Policy Statement

The policies and objectives of the Council's treasury management activities are as follows:

This Council defines its treasury management activities as:

> *'the management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'*

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

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

4 Treasury Management Practices

The Council has created and maintains the following Treasury Management Practices (TMPs). These TMPs set out the manner in which the Council will seek to achieve its policies and objectives and how it will manage and control these activities.

TMP 1: Risk Management

TMP 2: Performance Management

TMP 3: Decision making and analysis

TMP 4: Approved instruments, methods and techniques

TMP 5: Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6: Reporting requirements and management information arrangements

TMP 7: Budgeting, accounting and audit arrangements

TMP 8: Cash and cash flow management

TMP 9: Money laundering

TMP 10: Training and qualifications

TMP 11: Use of external service providers

TMP 12: Corporate governance

The Treasury Management Practices are regularly updated and further details of these can be found within the Finance Section.

5 Treasury Management Strategy

5.1 Current Portfolio Position

As at 30 November 2021 the Council had £64.2 million within its investments and bank account monies. The forecast equated principal (average funds throughout the year) for 2021/22 is estimated to be £48.4 million. The forecast average interest rate to be earned in 2021/22 is estimated at 0.89% and will earn the Council approximately £432,000 in interest.

The cash profile during 2021/22 has followed a different pattern from previous years due to the continuing impact of Covid-19. The 2021/22 budget was set with a requirement of funding from reserves of £3 million, due to losses in sales, fees and charges income and this will therefore effect cash balances. However, a couple of schemes to support business throughout the pandemic have resulted in the Council holding surplus cash balances as a temporary measure.

Throughout the coronavirus pandemic the Council has been administering business grants schemes provided by the Government to support small business, and businesses in the retail, hospitality and leisure sectors. The Government provided the funding for these schemes up front and therefore, until the sums were able to be passed on to businesses, the Council held additional funds. As at 30 November 2021 the Council still held £2.7 million of these grants but it is expected that they will be paid to businesses or repaid to Government by the end of the financial year.

The Council was compensated for a loss in business rates income during 2020/21 as the Government provided eligible retail, hospitality and leisure properties with 100% business rates relief. The compensation was through the payment of Section 31 grants. The Council, as the billing authority, suffered the full loss of the business rates income in terms of cashflow, rather than just its 40% share, and was compensated for this by receiving 100% of the Section 31 grants due. It needs to repay government the 60% relating to the other preceptors, which is a sum of £16.6 million, but this will not be paid until February 2022. This has therefore increased the average funds available throughout the year.

All the Council’s investments are held within the United Kingdom.

The Council currently has no external borrowing. There is approval for £3.6 million of projects in the 2021/22 capital programme to be funded through borrowing but to date this has been managed through internal borrowing using surplus working capital.

5.2 Prospects for Interest Rates

The coronavirus pandemic has done huge economic damage to the UK and to economies around the world. The bank interest rate set by the Bank of England's Monetary Policy Committee was cut to 0.10% following emergency action in March 2020. At subsequent meetings it remained unchanged until the meeting held on 15 December 2021 where it was increased by 0.15% to 0.25%.

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates which are shown in the table below.

	Forecast Base Rate
Dec 21	0.25%
Mar 22	0.25%
Jun 22	0.50%
Sep 22	0.50%
Dec 22	0.50%
Mar 23	0.75%
Jun 23	0.75%
Sep 23	0.75%
Dec 23	0.75%
Mar 24	1.00%
Jun 24	1.00%
Sep 24	1.00%
Dec 24	1.00%
Mar 25	1.25%

With a high level of uncertainty, it is likely that these forecasts will be revised again over the next few months.

5.3 Borrowing Strategy

The Council currently has no external borrowing and is maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Against this background, and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Director of Finance, Policy & Development will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

The Council is able to borrow from a variety of sources including financial institutions, other local authorities, and insurance and pensions funds. The interest rates charged by these organisations is unaffected by the cost of borrowing from the PWLB.

Link Asset Services forecast for the PWLB borrowing rates is as follows:

	5 year	**10 year**	**25 year**	**50 year**
Dec 21	1.50%	1.80%	2.10%	1.90%
Mar 22	1.50%	1.90%	2.20%	2.00%
Jun 22	1.60%	1.90%	2.30%	2.10%
Sep 22	1.60%	2.00%	2.40%	2.20%
Dec 22	1.70%	2.00%	2.40%	2.20%
Mar 23	1.70%	2.10%	2.40%	2.20%
Jun 23	1.70%	2.10%	2.50%	2.30%
Sep 23	1.80%	2.20%	2.50%	2.30%
Dec 23	1.80%	2.20%	2.60%	2.40%
Mar 24	1.80%	2.20%	2.60%	2.40%
Jun 24	1.90%	2.30%	2.60%	2.40%
Sep 24	1.90%	2.30%	2.60%	2.40%
Dec 24	2.00%	2.30%	2.70%	2.50%
Mar 25	2.00%	2.40%	2.70%	2.50%

These rates include a government reduction of 0.20% which is given to authorities who provide information on their plans for long-term borrowing and associated capital spend, of which we are one.

As the table shows there is likely to be a steady rise over the forecast period. In order to borrow from the PWLB, local authorities will now be required to submit a summary of their planned capital spending and PWLB borrowing for the following three years.

The Council will consider borrowing from the following:

- Temporary Borrowing from the money markets or other local authorities
- Public Works Loans Board (PWLB)
- Long term fixed rate market loans at rates significantly below PWLB rates
- Other financial institutions including banks, insurance and pension funds.
- Municipal Bonds Agency

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

The Council will continue to take a flexible approach with regards to the funding of capital acquisitions. These schemes may involve the use of borrowing where it is considered to be advantageous and such decisions will be taken by the Director of Finance, Policy and Development in accordance with market conditions at that time.

5.4 Prudential Indicators 2022/23 to 2024/25

The Council's capital expenditure plans are a key driver of treasury management activities. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Member's overview and confirm capital expenditure plans.

The Prudential Indicators for 2022/23 to 2024/25 are set out below:

Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously:

	2020/21 Actual £000	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**
Capital Expenditure	11,567	17,767	3,009	854	854

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall results in a funding borrowing need.

	2020/21 Actual £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Capital Receipts	6,963	2,539	0	0	0
External Contributions	4,472	8,744	2,346	824	824
Earmarked Reserves	36	2,600	663	30	30
Net Financing Need	96	3,884	0	0	0
Total	**11,567**	**17,767**	**3,009**	**854**	**854**

The Council’s Borrowing Need

This prudential indicator is the Council’s Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for either from revenue or capital resources. It is essentially a measure of the Council’s indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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 the economic consumption of capital assets to income and expenditure accounts as they are used.

	2020/21 Actual £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Capital Financing Requirement					
Opening CFR	5,799	5,605	9,141	8,694	8,247
Movement in CFR	-194	3,536	-447	-447	-447
Closing CFR	5,605	9,141	8,694	8,247	7,800
Movement in CFR represented by					

Net financing for year	96	3,884	0	0	0
Less MRP	-290	-348	-447	-447	-447
Movement in CFR	-194	3,536	-447	-447	-447

Core Funds and Expected Investment Balances

The application of resources to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources. Detailed below are estimates of the year end balances for each resource and anticipated day-to-day cash flow balances.

	2020/21 Actual £000	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**
General fund	4,301	4,301	4,301	4,301	4,301
Reserve balances	29,060	10,423	4,693	1,906	1,070
Capital receipts	3,324	1,000	1,000	1,000	1,000
Other	2,781	2,781	2,781	2,781	2,781
Total Usable Reserves	**39,466**	**18,505**	**12,775**	**9,988**	**9,152**
Adjust Collection Fund Deficit	15,398	2,602	1,301	0	0
Total Core Funds	**24,068**	**15,903**	**11,474**	**9,988**	**9,152**
Working Capital	10,562	17,097	9,826	6,312	5,148
Investments Estimate	**34,630**	**33,000**	**21,300**	**16,300**	**14,300**

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, borrowing and long-term obligation costs net of investment income, against net revenue stream. As can be seen in the table below the budget does not include borrowing costs for 2021/22 onwards but these will be added in future years if the Council enters into external borrowing. The £7,210, borrowing cost incurred in 2020/21 was the interest on the final £1 million, of a £20 million loan from the Public Works Loan Board.

	2020/21 Actual £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Net Cost of Services	18,214	14,766	14,633	16,103	16,602
Borrowing Costs	7	0	0	0	0
Percentage	0.04%	0.00%	0.00%	0.00%	0.00%

5.5 Treasury Indicators 2022/23 to 2024/25

The Treasury Management Code requires that Local Authorities set a number of indicators for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code.

The Treasury Indicators for 2022/23 to 2024/25 are set out below:

Limits to Borrowing Activity

The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under borrowing by other cash resources.

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Debt	20,000	20,000	20,000	20,000
Other long-term liabilities	5,000	5,000	5,000	5,000
Total	**25,000**	**25,000**	**25,000**	**25,000**

The authorised limit for external debt represents a control on the maximum level of borrowing. It represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, whilst not desired, could be afforded in the short term, but is not sustainable in the longer term.

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Debt	20,000	20,000	20,000	20,000
Other long-term liabilities	5,000	5,000	5,000	5,000

Total	**25,000**	**25,000**	**25,000**	**25,000**

6 Annual Investment Strategy

6.1 Investment Policy

The Council's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017
- CIPFA Treasury Management Guidance Notes 2018
- CIPFA Prudential Property Investment

The Council's investment priorities will be:

- the security of capital and
- the liquidity of its investments
- return

The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

- minimum acceptable credit criteria are applied in order to generate a list of high creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- Ratings will not be the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing and overlay that information on top of the credit ratings.

In accordance with guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council stipulates the minimum acceptable credit quality of counterparties for inclusion on the lending list. Furthermore, the Council recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector in relation to the economic and political environments in which institutes operate.

The Council will invest in property within the borough that is strategically important for the economic vitality of the borough and in doing so improves the longer-term revenue and capital position of the Council.

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all the organisation’s investments are covered in the capital programme and investment strategy and will set out, where relevant, the organisation’s risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation’s risk exposure.

The borrowing of monies purely to invest or on-lend and make a return may be ultra vires and this Council will not engage in such activity.

6.2 Creditworthiness Policy

The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure that:

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council’s prudential indicators covering the maximum principal sums invested.

The Director of Finance, Policy and Development will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Cabinet for approval as necessary.

This Council uses Fitch as its main agency but also monitors ratings from the other agencies, Moody’s and Standard and Poor’s. In line with Link Asset Services the Council focuses on the short and long-term ratings of an institution. These are defined as follows:

- Long-term ratings consider periods of longer than 13 months and are a benchmark measure of the probability of default.
- Short-term ratings place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

Link Asset Services provides the Council with information on Credit Default Swap spreads, which give an early warning of likely changes in credit ratings, which the Council also takes into account.

All credit ratings are monitored weekly and the Council is alerted to changes in ratings through its use of the Link Asset Services creditworthiness service. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

6.3 Proposed Limits 2022/23

The proposed investment criteria and limits for 2022/23 are:

- Banks – the Council will only use banks which are UK banks or are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AAA and have the following Fitch credit rating:

Long Term	Short Term	Maximum Investment	Maximum Duration
AA+ AA AA-	F1+	£20 million	5 years
A+ A A-	F1	£10 million	3 years

- The Council's own banker – Lloyds Banking Group

The Council has its bank account with Lloyds who as well as providing banking services accept Treasury Management Deposits. Having accepted that Lloyds is sufficiently secure to undertake our banking arrangements it is proposed to include them within the same top rating as banks. This will ensure that deposits and overnight current balances do not breach the current Treasury Management Policy.

Maximum Investment	Maximum Duration
£20 million	5 years

- It is proposed that the limit applies to investment deposits and is in addition to the amount held in the Lloyds current account. This is because the Council has negotiated an advantageous rate of interest paid by Lloyds for its current account balances which is often more favourable than placing a longer-term investment.

- Bank subsidiary and treasury operation - the Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building Societies – the Council will use all societies which meet the ratings for banks outlined above.

- Money Market Funds (rated AAA) – a maximum investment per body of £5 million up to a maximum duration of 5 years.

- Local Authorities - a maximum investment per body of £5 million up to a maximum duration of 5 years.

- UK Government DMADF account – a maximum investment of £30 million up to a maximum duration of 5 years.

- UK Government Gilts and treasury bills – a maximum investment of £10 million up to a maximum duration of 5 years.

- Bonds issued by multilateral development banks (AAA rated) – a maximum investment of £5 million up to a maximum duration of 1 year.

- Collective Investment Schemes (Pooled Funds) – on advice from Link Asset Services up to a maximum of £10 million.

- Investment in organisations for the purposes of improving the Council's Assets – following a satisfactory external credit report. A maximum investment of £5 million per body up to a maximum duration of 5 years.

- Derivatives – these will only be used for the management of risk and the prudent management of financial affairs. The Council will only use derivatives where they can clearly be demonstrated to reduce the overall level of financial risks the authority is exposed to. Additional risks presented such as exposure to derivative counterparties will be taken into account when determining the overall level of risk.

6.4 Interest Budget 2022/23

The interest income included in the 2021/22 budget was £362,000. The forecast has increased to £432,000 as at Quarter 2 due to an increase in the rate being achieved from the Property Fund investment compared to budget.

The estimated average funds available for investment in 2022/23 are £40.77 million. This includes money that it is expected to be kept in the Council's bank account throughout the year as well as that invested. This forecast takes into account the draft budget, in which a gap of £0.944 million is proposed to be balanced through the reallocation of existing reserves.

The Council currently has £9 million worth of units in The Local Authorities' Property Fund which pays a dividend to the Council on a quarterly basis. It is expected that the Council will keep the £9 million of units with the Fund during 2022/23. An estimated rate, net of fees, of 4.00% has been applied which results in interest of £360,000.

It is estimated that, on average, a rate of 0.27% will be achieved on the remaining funds of £31.77 million resulting in interest of £85,000. The rate is low compared to the rest of the portfolio as much of this money will need to be kept short term to meet the Council's cash flow requirements. This, along with the £360,000 from the Property Fund, brings the total interest budget to £445,000, an overall average rate of interest of 1.09%.

6.5 Treasury Management Targets 2022/23

The Treasury Management targets for 2022/23 are:

- To achieve an average investment rate of 1.09% in 2022/23;
- Longer term investment decisions (in excess of one year) to be made in the context of a minimum investment rate of 0.40% in 2022/23, 0.50% in 2023/24 and 0.75% in 2024/25; and
- Overall cash flow will be managed to achieve a nil borrowing requirement although borrowing will be considered an option where it is prudent to do so.

The annual strategy and targets will need to take into account changing market conditions. Therefore, the Director of Finance, Policy and Development will make investment decisions in accordance with market conditions prevailing at the time. Changes to the general strategy position will be reported to the next appropriate Cabinet.

7 Minimum Revenue Provision

Where a Local Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. This amount is charged to the revenue budget for the repayment of debt and is known as Minimum Revenue Provision (MRP). It is also allowed to undertake additional voluntary payments if required, Voluntary Revenue Provision (VRP).

DLUHC regulations have been issued which require the Full Council to approve an MRP statement in advance of each year. The Councils can choose its method for calculating MRP long as there is a prudent provision.

7.1 Minimum Revenue Provision Policy Statement

From 1 April 2008 for all unsupported borrowing (not supported by the Revenue Support Grant) there are two options for calculating MRP. They are:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the regulations
- Depreciation Method – MRP will follow standard depreciation accounting procedures

For capital expenditure financed from borrowing or credit arrangements, the MRP for this Council will be Asset Life Method, with the asset life determined from the outset and MRP charged in the year following the one in which the expenditure occurred. Where expenditure is incurred over more than one year, then the MRP shall commence in the year following the year in which the asset becomes operational. If no life can be reasonably attributed to an asset, such as freehold land, the life should be taken to be a maximum of 50 years.

It is thought that this is the most appropriate method as this provides for the Council to make revenue provision over the estimated life of the asset for which the borrowing is undertaken. In effect, the charge to the Comprehensive Income and Expenditure account will be the amount borrowed in respect of the asset, divided by the number of years of estimated life of the asset, and will result in an equal annual amount being charged as MRP.

The regulations require Full Council approval in advance of the year to which the MRP applies. The Council can change the method of calculating MRP on an annual basis but once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way. The Council cannot change the method of calculating MRP on individual assets.

7.2 MRP Overpayments

A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary provision or overpayments can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Up until 31 March 2021 the total VRP overpayments have been £89,071. Dowding House, which was funded through borrowing, was expected to become operational during 2017/18 and therefore an MRP budget was set for 2018/19 (the year following the year in which the asset was to become operational). The opening was delayed until 2018/19 so therefore there was no requirement to set aside MRP during 2018/19. The Council chose to make a VRP payment in 2018/19 instead as the budget was available to do this.

8 Role of the Section 151 Officer in Treasury Management

The Section 151 officer has the following role in treasury management:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers
- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- Creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed