

## Treasury Management Strategy 2022/23

The Treasury Management Strategy is a critical component of the way Thurrock Council manages cash-flow. It also supports the management of investments and borrowing to enable the net revenue returns to be allocated to spending on the services for Thurrock residents.

Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

In accordance with the above Codes, this report:

- a) sets out the Treasury Management strategy for 2022/23; and
- b) sets out the Treasury Management projections for 2022/23.

## 2 Introduction and Background

- 2.1 The Treasury Management Strategy and Annual MRP Statement are prepared under the terms of the CIPFA Prudential Code for Capital Finance in Local Authorities (the Code).
- 2.2 The report also includes a forecast for Interest Receivable from Investments and the indicative Interest Payable on Borrowing.

### Borrowing Activity 2021/22 to 2023/24

- 2.3 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with the level of balances and reserves, are the core drivers of Treasury Management activity. The estimates, based on the current revenue budget and capital programmes are:

	<b>31/3/2022 Estimate £m</b>	<b>31/3/2023 Estimate £m</b>	<b>31/3/2024 Estimate £m</b>
General Fund Borrowing CFR	291,979	340,761	375,996
Housing Revenue Account Borrowing CFR (includes effects of Housing Finance Reform based on current available figures)	229,972	258,233	263,447
Capital Investments (Including TRL)	915,759	915,759	872,759
TRL Investments	28,630	35,532	71,882

<b>Total Borrowing CFR</b>	1,466,340	1,550,285	1,590,984
Less: External Borrowing	1,460,385	1,533,932	1,552,137
<b>Under/(Over) CFR</b>	5,955	16,343	38,847

- 2.4 The figures above reflect the proposed changes to the council's capital programmes in both the general fund and the HRA. Repayments of prudential debt are made through the annual Minimum Revenue Provision (MRP) and where surplus cash balances are accumulated. However, where the amounts needed to finance the capital programme, even just essential operational requirements, are in excess of these repayments this leads to an annual increase in net debt.
- 2.5 The Council's levels of borrowing and investments are calculated by reference to the current balance sheet and projected forward based on planned capital activity. The deprioritisation of the Council's Investment Strategy means there are no planned new investments included in the figures above. The Council's key objectives when borrowing money are to balance low interest costs with cost certainty over the period for which funds are required. A further objective is to provide sufficient flexibility to review the level and type of borrowing should the Council's long-term plans change.
- 2.6 In the context of the level of funding, the Council can access from the Local Government finance settlement, the Council's focus on the treasury management strategy remains on the balance between affordability and the longer-term stability of the debt portfolio. Subject to the availability of low short-term interest rates, it remains cost effective to borrow over short-term periods or utilise internal balances to fund specific activity.
- 2.7 Where available this further enables the Council to reduce borrowing costs and hence the overall treasury management risk. While this strategy is beneficial over the next year or two as official interest rates remain low, this depends on the availability of this funding means this will be supplemented by PWLB borrowing which will provide the balance of the funding. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. This will help inform whether the Council borrows additional sums at long-term fixed rates in 2022/23.
- 2.8 In addition, the Council expects this will be supplemented by wider borrowing to enable the operational management of the Council's cash flow. Reasons can include DLUHC transactions, COVID grant payments to businesses – as examples.
- 2.9 The Council will keep under review the following sources for long term and short term borrowing:
- Public Works Loan Board (PWLB) loans and its successor body;
  - UK Local Authorities;
  - Any institution approved for investments;

- Any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK;
  - Public and private sector pension funds;
  - Capital market bond investors;
  - UK Municipal Bonds Agency;
  - Special purpose companies created to enable joint local authority bond issues;
  - Local Authority bills; and
  - Structured finance, such as operating/finance leases, hire purchase, Private Finance Initiative or sale and leaseback.
- 2.10 With regards to debt rescheduling, the PWLB allows Councils to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some lenders may also be prepared to negotiate premature repayment terms. In 2021/22 the Council has continued to review the debt portfolio to identify opportunities expected to lead to an overall saving or reduction in risk. For longer-term debt – such as LOBO debts from the mid-2000's there have not still been opportunities to renegotiate terms given the associated fees. For shorter-term debt, the Council has taken the opportunity to replace short-term debt borrowed from other local authorities with PWLB debt. This has led to an increase in interest cost and reflects the lack of availability of funding in the local authority market.
- 2.11 Borrowing and rescheduling activity will continue be reported to Cabinet on a regularly during 2022/23.
- 2.12 In August 2010, the Council repaid its entire PWLB portfolio of loans (£84 million) to obtain significant interest savings. The re-financing was undertaken by utilising short term funds from the money markets. This was largely taken from other Local Authorities with surplus funding which was available at substantially lower rates than taking longer term fixed debt. This reduced the Council's borrowing costs and ensured the wider partners in the sector benefitted from the additional income. To the end of 2020/21 the rescheduling had saved £32.3m of interest costs and is estimated to have saved £34m by the end of 2021/22. Currently financing from short term money market debt is expected to continue, where available, into 2022/23 and beyond supplemented by borrowing from the PWLB should it be required. The inherent risk of this strategy is noted with potentially higher rates and increased debt costs in the future.
- 2.13 The Council retains the ability to fix interest rates. This can be achieved within a matter of days of the decision being made or profiled against the maturity schedule of the short term debt. The current base rate stands at 0.10% with short term rates standing at between 0.10%-0.40% and it is estimated that there will be increases in the base rate to around 0.50%-0.75% during 2022/2023. The future course of interest rates largely depends on macroeconomic factors such as inflation and wider economic impacts on the UK and global economies. Hence, future interest rate estimates are made in this context. Current PWLB rates at the shorter end of the market range between 1%-1.25% that will be accessed if funding is not available in the short-term money market. However, even if the base rate increases to 0.75% this will still be below the level of current long term rates that the Council could

borrow at. In addition, as the Council borrows from other public bodies, rates are not fixed to the bank base rate and are generally lower. The normalised level of the bank base rate post this period is expected to be between 2.50% to 3.50%.

- 2.14 Based on this outlook, the council may borrow on a short term basis when deemed beneficial to the taxpayer while monitoring interest rates to ensure borrowing is fixed if required. Prudently, the Medium Term Financial Strategy (MTFS) does assume rate increases over the three year period and this is included a part of the budget report to Council in February 2022.
- 2.15 The Council has £29 million of loans which are LOBO loans (Lenders Option Borrowers Option) where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these loans, excluding one with Barclays, could now be amended at the request of the lender only and, although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. In the event the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan by borrowing from the PWLB or capital markets. Barclays have taken out the option to increase the rate of their loan thereby effectively turning the loan into a fixed rate deal. LOBO loans have become less attractive to Banks and there may be opportunities in the future to redeem these loans. Officers will continue to monitor any developments in this area.
- 2.16 On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and Housing Revenue Account (HRA) pools. New long-term loans will be assigned in their entirety to one pool or the other. Interest payable and other costs and income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged or credited to the respective revenue account. The Council will credit interest to the HRA based on the average balances of its reserves and revenue account balance at the average 7 day LIBID rate for the year.
- 2.17 The Council continues to undertake a series of new housing related schemes utilising borrowing and the abolition of the cap on housing debt has increased the funding flexibility available to the Council to deliver its investment in both existing housing stock and new housing schemes.
- 2.18 Finally, the general fund capital project programme is approved by members annually. The need to borrow to support the programme is approved as part of the annual budget setting process. Significant schemes are, as required, further considered by Cabinet in detail on a case by case basis that considers the financial risk alongside the individual project risks.

### **Investments**

- 2.19 Where the Council holds excess funds, they may be invested with any of the counterparties detailed in Appendix 1 to this Annex. The balance is expected to meet only essential requirements at any specific time.

- 2.20 The Council holds a £103m investment in the CCLA Property Fund that is estimated to provide a gross return in 2021/22 of 4.25% with income in the region of £4.3m. The Council has also invested in a number of bonds of various durations since 2016/17 that provides finance to the private sector for, as an example, the purchase of solar farms, whilst providing significant net returns to the council to support front line services in a move towards financial sustainability, as well as aiding the climate agenda (underscored by the fact that Thurrock declared a Climate Emergency in 2019). However, following changes to the Prudential Code and PWLB borrowing regulations the Council will not be making further investments of this type and maturing investments will be repaid. Whilst this will mean that the associated level of debt is repaid, it needs to be taken in the wider context that the interest received from the investments will also cease, meaning an end to the arrangements of the last half decade which has provided resources of circa £115m to fund services above the statutory minimum.
- 2.21 Local Authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over Authorities use of standalone financial derivatives. The CIPFA code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.
- 2.22 The Council will only use standalone derivatives (such as swaps, forward, futures and options) where they can be clearly demonstrated to reduce the Council's overall exposure to financial risks. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall Treasury Management strategy.
- 2.23 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit. The Local Authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.
- 2.24 The Authority has opted up to professional client status with its providers of financial services, including, banks, brokers and fund managers, allowing it access to a greater range of services, but, without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities the Corporate Director of Finance, Governance and Property believes this to be the most appropriate status.
- 2.25 The Council complies with the provisions of s32 of the Local Government Finance Act 1992 to set a balanced budget.
- 2.26 The needs of the Council's Treasury Management staff for relevant training are assessed as part of the annual staff appraisal process and additionally

where the responsibilities of individual members of staff change. Staff attend courses, seminars and conferences provided by the Council's advisors and CIPFA. Corporate Finance staff are encouraged to study for professional accountancy qualifications from appropriate bodies.

- 2.27 Under the new IFRS standard the accounting for certain investments depends on the business model for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

### **Annual Minimum Revenue Provision Statement**

- 2.28 Local Authorities are required to prepare an Annual Statement of their policy on making MRP for each financial year. Appendix 2 to Annex 1 outlines the assessment of the Council's Annual MRP Statement for 2022/23, which is included in the Annual Strategy in paragraph 2.30.
- 2.29 Officers have reviewed the current strategy and recommend no changes for the 2022/23 strategy.
- 2.30 Consequently the following paragraphs on Borrowing Activity and Investments form part of the Council's Treasury Management Strategy with effect from 1 April 2022:
- 2.30.1 To obtain any long term borrowing requirement from the sources of finance set out in paragraph 2.9;
  - 2.30.2 A preference to continue to fund the ex-PWLB debt via short term funds from the money markets unless circumstances dictate moving back into longer term fixed rate debt. The borrowing sources mentioned in paragraph 2.9 will then be assessed as to their suitability for use;
  - 2.30.3 To repay market loans requiring renewal by concluding ('realising') equivalent amounts of investments. If it is not possible to 'realise' investments then the borrowing sources in paragraph 2.9 will be assessed as to their suitability for use as replacements;
  - 2.30.4 To undertake short term temporary borrowing when necessary in order to manage cash flow to the Council's advantage;
  - 2.30.5 To reschedule market and PWLB loans, where practicable, to achieve interest rate reductions, balance the volatility profile or amend the debt profile, dependent on the level of premiums payable or discounts receivable;
  - 2.30.6 To ensure security and liquidity of the Council's investments and to then optimise investment returns commensurate to those ideals;
  - 2.30.7 To contain the type, size and duration of investments with individual institutions within the limits specified in Appendix 1 to this Annex.;
  - 2.30.8 To move funds into externally managed funds if it is felt prudent to do so following appropriate due diligence; and in consultation with the Cabinet Member for Finance;

- 2.30.9 To meet the requirements of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 the Council's policy for the calculation of MRP in 2022/23 shall be that the Council will set aside an amount each year which it deems to be prudent and appropriate, having regard to statutory requirements and relevant guidance issued by DCLG; and
- 2.30.10 To ensure all borrowing and investment activities are made with due reference to any relevant Prudential Indicators.

### **Interest Projections 2021/22 Revised and 2022/23 Original**

- 2.31 The CIPFA document Treasury Management in the Public Services: Code of Practice places a requirement on the Council to publish estimates relating to the operation of the borrowing and investment function.
- 2.32 The 2021/22 budget, the projected position are shown as at November 2021 in the table below along with an initial projection for 2022/23. Surpluses are indicated in brackets – i.e. the Projection 2022/23 shows a surplus of (20,172m) once interest is repaid:

	Budget 2021/22	Projected 2021/22	Projection 2022/23
	£'000's	£'000's	£'000's
<b>Interest payable on External Debt</b>			
Debt Interest	19,421	19,510	22,921
Total internal interest	<u>96</u>	<u>96</u>	<u>96</u>
Interest payable	<u>19,517</u>	<u>19,706</u>	<u>23,017</u>
<b>Investment Income</b>			
Interest on Investments	<u>(45,161)</u>	<u>(45,504)</u>	<u>(43,189)</u>
<b>Net interest credited to the General Fund (for use in service delivery)</b>	<u>(25,644)</u>	<u>(25,798)</u>	<u>(20,172)</u>
MRP- Supported/Unsupported Borrowing	<u>8,214</u>	<u>8,050</u>	<u>9,496</u>

- 2.33 It is noted that the figures shown above for 2022/23 include assumptions made about the level of balances available for investment; any anticipated new long-term borrowing and the level of interest rates achievable. They may be liable to a significant degree of change during the year arising from variations in interest rates, other market and economic developments, and Council's response to those events.
- 2.34 In accordance with the requirements of the revised CIPFA Treasury Management Code, the Council will report on treasury management activity

and the outturn against the treasury related Prudential Indicators at least bi-annually.



## Approved Investment Counterparties:

Credit Rating	Banks/Building Societies Unsecured		Bank/Building Societies Secured		Government		Corporates		Registered Providers	
	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period
<b>UK Govt</b>	N/A	N/A	N/A	N/A	£unlimited	50 years	N/A	N/A	N/A	N/A
<b>AAA</b>	£10m	5 years	£20m	20 years	£20m	50 years	£10m	20 years	£10m	20 years
<b>AA+</b>	£10m	5 years	£20m	10 years	£20m	25 years	£10m	10 years	£10m	10 years
<b>AA</b>	£10m	4 years	£20m	5 years	£20m	15 years	£10m	5 years	£10m	10 years
<b>AA-</b>	£10m	3 years	£20m	4 years	£20m	10 years	£10m	4 years	£10m	10 years
<b>A+</b>	£10m	2 years	£20m	3 years	£10m	5 years	£10m	3 years	£10m	5 years
<b>A</b>	£10m	1 year	£20m	2 years	£10m	5 years	£10m	2 years	£10m	5 years
<b>A-</b>	£7.5m	13 months	£15m	13 months	£10m	5 years	£10m	13 months	£10m	5 years
<b>BBB+</b>	£5m	6 months	£10m	6 months	£5m	2 years	£5m	6 months	£5m	2 years
<b>BBB</b>	£5m	100 days	£10m	100 days	N/A	N/A	N/A	N/A	N/A	N/A
<b>BBB-</b>	£5m	100 days	£10m	100 days	N/A	N/A	N/A	N/A	N/A	N/A
<b>None</b>	£5m	6 months	N/A	N/A	£5m	25 years	N/A	N/A	N/A	N/A

Pooled Funds ,External Fund Managers and any other investment vehicle approved by the Section 151 Officer – Decisions are based on each individual case following appropriate due diligence work being undertaken.

The above limits are the maximum that the Council would expect to have in place at any time. However, in practice the actual duration limits in place are continually assessed and are often much shorter than the limits in the above table.

**Credit ratings:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

**Banks and Building Societies Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

**Banks and Building Societies Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements. These investments are secured on the bank's assets, which limits the potential loss in the unlikely event of insolvency and means that they are exempt from bail-in. Where there is no investment specific credit rating, but, the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multi development banks. These investments are not subject to bail-in and there is an insignificant risk of insolvency. Investments with the UK Central government may be made in unlimited amounts for up to 50 years.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but, are exposed to the risk of the company going insolvent.

**Other Organisations –** The Council may also invest cash with other organisations, for example making loans to small businesses as part of a diversified pool in order to spread the risk widely. Because of the higher perceived risk of unrated businesses such investments may provide considerably higher rates of return. The Council will also undertake appropriate due diligence to assist in all investment decisions.

**Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Community Agency and as providers of public services they retain a high likelihood of receiving Government support if needed.

**Pooled Funds:** Shares in diversified investment vehicles consisting of any of the above investment types plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks coupled with the services of a professional fund manager in return for a fee. Money market funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts while pooled funds whose value changes

with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but, are more volatile in the short term. These allow authorities to diversify into asset classes other than cash without the need to own and manage the underlying investments. These funds have no defined maturity date but are available for withdrawal after a notice period. As a result their performance and continued suitability in meeting the authority's investment objectives will be monitored regularly and decisions made on entering such funds will be made on an individual basis.

Risk assessment and credit ratings: Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made;
- Any existing investment that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade so that it may fall below the approved rating criteria then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but, can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the authorities cash balances then the surplus will be deposited with the UK Government via the Debt Management Office or invested in treasury bills for example or with other local authorities. This will cause a reduction in the level of investment income earned, but, will protect the principal sum.

Specified Investments

Specified investments will be those that meet the criteria in the central government Guidance, i.e. the investment:

- is sterling denominated;
- has a maximum maturity of one year;
- meets the “high credit quality” as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council; and
- The making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

The Council defines ‘high credit quality’ organisations and securities as those having a credit rating of BBB- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds ‘high credit quality is defined as those having a credit rating of A- or higher

Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares

Non-Specified Investment Limits

	Cash Limit
Total Long Term Treasury Investments	£450m
Total Investments without credit ratings or rated below A- with appropriate due diligence having been performed	£70m
Total Investments in foreign countries rated below AA+	£30m
Maximum total non-specified investments	£550m

Investment Limits

The maximum that will be lent to any one organisation in the Approved Investment Counter Party list (except the UK Government) is £20m. For other investments approved by the Section 151 Officer the amount to be invested will be determined by the Section 151 Officer, taking into account the relevant merits of the transaction such as, for example, duration and risk following due diligence work undertaken. A group of banks under the same ownership, a group of funds under the same management, brokers nominee accounts, foreign countries and industry sectors will all have limits placed on them as in the table below:

## Appendix 1 to Annex 1

	Cash Limit
Any single organisation, except the UK Central Government	£20m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£40m
Any group of pooled funds under the same management	£50m
Any external Fund Manager	£750m
Negotiable instruments held in a brokers nominee account	£20m
Foreign countries (total per country)	£30m
Registered Providers in total	£30m
Building Societies in total (excluding overnight investments)	£40m
Loans to small businesses	£20m
Money Market Funds	£40m
Investments approved by the Section 151 Officer	Reviewed for each case

### Liquidity Management

The Council maintains a cash flow spreadsheet that forecasts the Council's cash flows into the future. This is used to determine the maximum period for which funds may be prudently committed. The forecast is deliberately compiled on a pessimistic basis, with receipts under estimated and payments over estimated to minimise the risk of the Council having to borrow on unfavourable terms to meet its financial commitments.

## THE MINIMUM REVENUE PROVISION STATEMENT

### **Introduction:**

The rules for Minimum Revenue Provision (MRP) were set out in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. These rules have now been revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.

Authorities are required to submit to a meeting of their Council an annual statement of their policy on making MRP.

### **Background:**

Each year the Council borrows money in order to finance some of its capital expenditure. The loans taken out for this purpose, unlike a mortgage which is repaid in part each month, are fully repayable at a future point in time. The repayment date is chosen to secure the best financial result for the Council.

The concept of Minimum Revenue Provision was introduced in 1989 to prescribe a minimum amount which must be charged to the revenue account each year in order to make provision to meet the cost of repaying that borrowing.

The detailed rules and formulae to be used in the more recent method of calculation were laid down in the Regulations mentioned in the introduction section.

This system has now been radically revised and requires an annual statement to full Council setting out the method the Council intends to adopt for the calculation of MRP.

### **Considerations:**

Under the old regulations Local Authorities were required to set aside each year, from their revenue account an amount that, in simple terms equalled approximately 4% of the amount of capital expenditure financed by borrowing. Local Authorities had no freedom to exercise any discretion over this requirement.

The amendment regulations introduce a simple duty for an authority each year to set aside an amount of MRP which it considers to be 'prudent'. The regulation does not define a 'prudent provision' but the MRP guidance makes recommendations to authorities on the interpretation of that term.

The MRP guidance document is a statutory document and authorities are obliged by section 21 of the Local Government Act 2003 to have regard to such guidance. The guidance aims to provide more flexibility and in particular for development schemes it is possible to have an MRP "holiday" for assets or infrastructure under construction.

In addition, it is accepted that where there is capital expenditure that will give rise to a capital receipts, either through the disposal of the asset or loan repayments, then

there is no need to set aside MRP on an annual basis but the capital receipt or loan repayments should be set aside on receipt for that purpose.

The operative date of the change was 31 March 2008, which means the new rules have applied since the financial year 2007/08.

### **The Annual MRP Statement**

As stated above, Local Authorities are required to prepare an annual statement of their policy on making MRP for submission to their full Council. This mirrors the existing requirements to report to the Council on the Prudential borrowing limits and Treasury Management strategy. The aim is to give elected Members the opportunity to scrutinise the proposed use of the additional freedoms conferred under the new arrangements. The statement must be made before the start of each financial year.

The statement should indicate how it is proposed to discharge the duty to make prudent MRP in the financial year in question for the borrowing that is to take place in that financial year. If it is ever proposed to vary the terms of the original statement during any year, a revised statement should be put to Council at that time.

The guidance includes specific examples of options for making a prudent provision. The aim of this is to ensure that the provision to repay the borrowing is made over a period that bears some relation to the useful life of the assets in question or where a capital receipt will be received to repay the debt in part or in full.

### **Proposals**

The Minimum Revenue Provision Policy Statement for 2022/23:

- In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 the Council's policy for the calculation of MRP in 2021/22 shall be that the Council will set aside an amount each year which it deems to be prudent and appropriate, having regard to statutory requirements and relevant guidance issued by DCLG. The policy will be reviewed on an annual basis.