APPENDIX B

Treasury Management Strategy for 2019/20

Introduction

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). The Investment Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested treasury management strategy for 2019/20 is based upon the treasury officers' views on interest rates and information from other market forecasts.

The strategy covers:

1. External Economic Background to the Strategy
2. Borrowing Requirement & Strategy
3. Annual Investment Strategy
4. Prudential Indicators and Treasury Management Limits
5. Other Related Entities
6. Training
7. External Service Providers
8. MRP Strategy

It is a statutory requirement under Section 32 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

1. Increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. Any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

This affordability limit is assessed in the Prudential Indicators which calculate the impact of capital investment decisions on the budget requirement and therefore the Council Tax.

1. External Economic Background to the Strategy

Economic Background

In August 2018 the Bank of England raised bank rate from 0.5% to 0.75%. UK economic growth of 0.1% was poor in quarter 1, although this was attributed to adverse weather and was followed by improved levels of 0.4% and 0.6% in quarters 2 and 3. Growth in quarter 4 is expected to weaken significantly.

Prospects for Interest Rates

The minutes of the MPC's meeting on 19 December 2018 conclude that the next movement in bank rate could be in either direction. Previous statements have expected the next rate movement to be upwards, but slow and gradual.

The biggest reason for this change is the increased uncertainty surrounding the UK's exit from the European Union (EU). These uncertainties are weighing on financial markets, sterling has depreciated further and its volatility has risen. The shifting expectations about the UK's exit from the EU amongst financial markets, businesses and households could lead to greater than usual volatility in UK economic data in general.

The downside risk to global growth has also increased. Oil prices have declined significantly reducing inflation.

Domestic inflationary pressures have however continued to build. Unemployment is historically low at 4% and the labour market remains tight and is now translating into upward pressure on pay.

Overall the Bank of England's view is still that if there is a smooth adjustment to the average of a range of possible outcomes for the UK's eventual trading relationship with the EU the scenario will be for a slow tightening of monetary policy to return inflation sustainably to the 2% target in the medium term.

The Council's former advisers Link's view as to the potential movement in interest rates over the next three years is as follows:

	March 2019	March 2020	March 2021	March 2022
	%	%	%	%
Bank Rate	0.75	1.25	1.50	2.00
3 months LIBID	0.90	1.30	1.60	2.00
6 months LIBID	1.00	1.50	1.80	2.20
12 months LIBID	1.20	1.60	2.00	2.40
5 years PWLB	2.10	2.30	2.60	2.80
10 years PWLB	2.50	2.80	3.00	3.20
25 years PWLB	2.90	3.20	3.40	3.60
50 years PWLB	2.70	3.00	3.20	3.40

2. <u>Borrowing Requirement and Strategy</u>

The Council's external borrowing position at 31 December 2018 comprised:

External Borrowing

	PWLB	Other Public Sector	Money market	TOTAL	Average Interest Rate
	£m	£m	£m	£m	%
Temporary borrowing	0.0	1.6	0.0	1.6	0.80
Long term borrowing	118.5	1.6	5.0	125.1	3.34
TOTAL	118.5	3.2	5.0	126.7	3.32
Of which:					
Variable rate	0.0	3.2	0.0	3.2	0.80
Fixed rate	118.5	0.0	5.0	123.5	3.39

The Council has the power to borrow for any purpose relevant to its functions or for the prudent management of its financial affairs. This includes:

- Short term to cover a liquidity gap (i.e timing difference between income and expenditure)
- Long term for projected capital spend in the year. This is for schemes financed by borrowing in the capital programme. The Council can choose which schemes to finance from borrowing, as the Council can borrow for any capital purpose. The financing decision is led by the principle to "borrow as a last resort" and all borrowing should be affordable and sustainable in line with the Prudential Code (covered in more detail later in this Strategy).
- Up to 3 years in advance of need, as per capital estimates. This is explained further below.

The Council does not have the power to borrow for investment purposes (to on-lend) which would (under normal circumstances) be an abuse of the Council's access to relatively low-cost borrowing. The purpose of Treasury Management in local authorities is to prioritise security and liquidity first then maximise yield within that framework. The Council will borrow only in line with its statutory powers.

The Council can borrow from the public sector which includes the Public Works Loans Board (PWLB), which is part of the Government, other local authority bodies, the South West Middlesex Crematorium Board and various Trust Funds (effectively these bodies have invested money with the Council). The shared staffing arrangement with Wandsworth means there is now the possibility of one Council avoiding a brokerage fee by borrowing from the other on the rare occasions when short term borrowing is needed to cover a liquidity gap. The joint Treasury Management Team will calculate any rate based on that day's market conditions and any trade must be mutually beneficial to both authorities.

Money market borrowing includes banks, building societies and other financial institutions. Currently the Council has 1 loan from Barclays for £5m.

Since 2014 new loans have been taken on an annuity basis, meaning interest and principal are paid every year (as with a repayment mortgage) and this principal repayment will count as the provision for loan repayment. This has the advantage of matching cash resources to the principal repaid each year.

The Council is required to make prudent provision for the repayment of its debt. This is the Minimum Revenue Provision which is detailed in its own section later in this report.

The implications of the forecast borrowing rates can be summarised as:

- Investment returns are likely to remain low during 2019/20 and for the foreseeable future, with the most likely outcome to be on a gently rising trend over the next few years.

- Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Sensitivity of the forecast

Normally, the main sensitivities of the forecast would be the two economic environment scenarios noted below. The Council officers will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- *if it was felt that there was a significant risk of a sharp fall in long and short- term rates,* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper rise in long and short-term rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Use of Balances and Borrowing

The Council holds both debt and investments. The Council needs to review this position to make decisions on whether investments could be used to repay debt, or whether new borrowing should be taken. This should take account of the difference between costs of borrowing and return on investments, projected future interest rate movements and projected future cash flows. The table below shows the summary cash flow projections based on assumptions in the capital programme and other relevant spending plans. Figures quoted are at year end, which is usually a “low water mark” due to timing of Council Tax instalments and the majority of grant funding:

	Actual 2017/18	Estimate 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
	£m	£m	£m	£m	£m	£m	£m
External borrowing (long and short term)	118.1	129.2	140.4	145.2	143.9	148.9	150.7
Investments	-25.4	-32.1	-27.1	-30.7	-31.9	-37.1	-38.0
Net borrowing	92.7	97.1	113.3	114.5	112.0	111.8	112.7

The Council currently holds cash balances of more than £60m (increased from £56m at end of December), although this is projected to reduce over the next five years as reserves are applied for their specific purpose and as loans fall due for repayment. The Council had internal borrowing of £34m at the start of 2018/19 which is forecast to increase marginally over the next 5 years. In addition, there is a further requirement for external borrowing of £47m over the period to fund the capital programme.

The Council has evaluated the level of balances held in relation to its balance sheet position. A decline in balances is projected in line with the Council's plans to spend reserves and lower than anticipated grant receipts. This will limit the risk inherent in investing with market counterparties, although reduction below a certain point would increase the risk of the Council needing to borrow at an inopportune time. The cash flow projections used to calculate these estimates are based on the borrowing required in future years and take account of the need for a level of liquidity. The Council has the power to borrow temporarily to cover a liquidity gap, and this facility is likely to be used more frequently as cash balances reduce.

A significant part of the cashflow projections is based on the capital programme for the borrowing and use of reserves to fund capital spend. Variances in the capital programme will change these figures. Any underspent Treasury Management budget will continue to be used for capital financing, thereby generating reduced interest costs in future years.

To summarise:

- The Council intends to borrow both internally and externally to cover its current borrowing requirement. This reduces the likelihood of the Council needing to borrow as rates go up, while also controlling the amount of investments at risk and so represents a balance between two risk control measures.
- The Director of Resources will monitor interest rates and take any necessary decisions during the year regarding borrowing required for 2019/20 and future years. These decisions will be made on the basis of limiting the Council's exposure to future rate rises, limiting counterparty risk from investments held and prudent projections of capital borrowing requirements.
- Long-term external borrowing will be taken on an annuity basis. This spreads maturity over the life of the loan which limits refinancing risk as well as controlling the costs of borrowing as far as is possible in the current and future years.
- Long-term external borrowing is anticipated to be taken at below 3.00% for 2019/20. The Director of Resources will take the decision on what rate is acceptable in light of information available at the time and with a view to limiting the Council's risks relating to delaying borrowing.

Policy on Borrowing in Advance of Need

The prime objectives of the Council's investment activities are the security and liquidity of funds. Authorities are not allowed to borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council will consider carefully whether it can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds. These principles should be borne in mind when investments are made, particularly for the medium to long term.

The Council will make use of borrowing in advance of need as it feels appropriate to limit risk and reduce future costs to the Council.

The decision to borrow in advance of need would be taken after consideration of all the aspects of any decision to borrow, as well as the additional risks being taken on by taking the borrowing in advance. This includes:

- Demonstrating the link between the capital programme and maturity profile of existing debt which supports the need to take funding in advance of need.
- Ensuring the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluating the economic and market factors that might influence the manner and timing of any decision to borrow.
- Considering the merits and demerits of alternative forms of funding.
- Considering the alternative types of borrowing available, and the most appropriate periods to fund and repayment profiles to use.
- Considering the impact on temporarily increasing investment cash balances (until required to finance capital expenditure) and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to monitor them.

Given the discussion of borrowing options above it is unlikely that the Council would borrow in advance of need in the near future, especially given the opening level of internal borrowing (delayed borrowing) which would need to be covered before this could happen. This position will be kept under review as information changes, with the Director of Resources authorised to make any decisions required and report these decisions to Members as appropriate.

Debt Rescheduling

As mentioned in the Borrowing section, the Council will repay or reschedule debt if there is a clear opportunity to improve the ongoing debt position in terms of financing costs or maturity.

The PWLB difference between new borrowing and repayment rates means that significant premiums would be incurred by such action; such levels of premiums are unlikely to be justifiable on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

The Council will undertake rescheduling where it is anticipated to:

- Generate savings (in year or ongoing)
- Manage risk by spreading maturity (unlikely due to move to repayment loans)
- Manage risk by changing exposure to fixed, step or variable interest rates

The Director of Resources will make any decision to repay or reschedule debt on the basis of information available at that time in line with the objectives stated above. All decisions on rescheduling will be reported to Members via the Quarterly Monitoring reports.

3. Annual Investment Strategy

The Council's treasury portfolio at 31st December 2017 and 31 December 2018 comprised:

	31st December 2017		31st December 2018	
Investments (all managed in house)	£m	Average rate	£m	Average rate
Short term (up to 1 year)	46.20	0.38%	54.90	0.86%
Long term (over 1 year)	0.75	11.25%	0.75	11.25%
Total Investments	**46.95**	**0.52%**	**55.65**	**1.00%**

The Council will have regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") issued in April 2010, any revisions to that guidance and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

(a) security of capital and

(b) liquidity of its investments.

The Council will also aim 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 security of its investments. This has been demonstrated in the reduced counterparty list which has been used in recent years. The Council will continue to limit investments to counterparties with a high perceived creditworthiness (low perceived risk of loss of principal) but will have more flexibility in the duration of any potential investments. The risks associated with treasury management are identified in the Council's Treasury Policy. The Council's treasury practices, including the approved counterparty criteria and operational procedures, are set with a view to minimising these risks.

Within the Investment Strategy, the main controls on risk are:

- Creditworthiness assessment which includes sovereign ratings
- Limits on duration of investment
- Limits on investment within a group (e.g. Lloyds group includes Bank of Scotland)
- Spreading investments across countries

Borrowing purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. This does not include the investment of borrowing taken in advance of need on the basis of minimising the risks associated with delaying borrowing decisions, such as market intelligence suggesting an increase in borrowing costs.

All Council investments are managed in-house. The total therefore includes "core" cash, or cash backed reserves, which can be invested for longer durations without threat to liquidity. Previously, the Council has set a limit of no more than 40% of investments to be placed for over 1 year. Cash flow projections show that average balances are expected to reduce over the next 5 years as internal borrowing continues and reserves are applied for their specified purpose. Schools' reserves of £9m are included in these figures but if schools become Academies their reserves balances are no longer held by the Council. Therefore, it would be prudent to set a cash limit of £10m for investments over 1 year to match the General Fund Reserve which is expected to be maintained at this level.

Where the Council is providing a treasury function on behalf of another body, such as managing the investments of the Pension Fund or Home Loans Unit, this cash flow will be managed separately to the Council's own and will not count as an investment by the Council. These organisations will have their own counterparty limits (with institutions meeting the Council's creditworthiness criteria). Investments made will be taken as the Council acting as an agent of the organisation and not in any way related to investments by the Council of its own balances.

Investment instruments and limits are listed in Appendix C under the 'Specified' and 'Non-Specified' Investments categories.

<u>Investment balances / Liquidity of investments</u>

Based on its cash flow forecasts, the Council anticipates its average balances to be £57m in 2019/20, although the daily balances will vary, with the lowest balance expected at 31st March.

As the Council has decided to restrict most of its investments to call accounts and term deposits, it will maintain liquidity by maintaining detailed cash flow projections to ensure adequate funds are on call or have equivalent same day access.

Investments defined as capital expenditure and other Policy driven investments

The acquisition of share capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'.

A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by this Council. It is therefore important for this Council to clearly identify if the loan has been made for policy reasons (e.g. to the registered social landlord for the construction/improvement of dwellings) or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Council for 'specified' and 'non-specified' investments.

The Council does not currently plan to use the purchase of shares or any other tradable financial instrument in its treasury management. The capital programme may include grants to registered social landlords or other similar grant or loan arrangements in line with policy objectives. Any such capital expenditure would be subject to approval by Members as with other proposed capital schemes.

Provisions for Credit-related losses

If any of the Council's investments appeared at risk of loss due to default (i.e. this is a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make provision of an appropriate amount in line with accounting guidance.

4. Evaluating Security of Potential Investments (Creditworthiness Policy)

The Council uses ratings from all three rating agencies (Fitch, Moody's, and Standard and Poor's). The ratings agencies use a range of information including:

- Economic risk (including country's economics and political situation)
- Industry risk (including regulatory considerations)
- Market position
- Asset quality
- Funding and liquidity
- Capital adequacy
- Risk management
- Financial performance and ratio analysis

Ratings agencies do not have access to any information other than that in the public domain, but they do have a standard method of analysis and weighting for this information. The Council uses information from the three main credit rating agencies: Fitch, Moody's and Standard and Poor's. The Council uses all 3 ratings in assessing whether to invest with a counterparty, setting minimum acceptable levels for each. The agencies formally review their ratings regularly (between 6 months and 2 years) although unscheduled reviews will be undertaken if significant new information becomes available. A counterparty can also be placed on a "ratings watch" which suggests there will be a positive or negative change to the rating once information is analysed. When a counterparty is on negative watch, and a negative movement would put them below the rating required, further investment with the counterparty is suspended pending the outcome.

The Council does not rely solely on the current credit ratings of counterparties but also uses the following as additional information:

- credit watches and outlooks from above credit rating agencies (early notification of likely future direction of change in ratings).
- sovereign ratings (where government support is a criterion, this must be backed by the ability to honour that support).
- market data and information, information on government support for banks and other recognised public sources.

The Council sets its own minimum investment criteria for the 3 agencies, with limits on value and duration of investment based on these criteria. The 3 agencies issue different ratings based on difference methods of assessment and offering judgments on different areas of credit risk. While they can be judged to be similar in some areas, they are not identical. Institutions being assessed must meet the minimum criteria for all three agencies.

The responsibility for the Council's investment decisions lies wholly with the Council. Richmond may choose to make investments or other spending decisions in line with its role as a community leader, after having considered and accepted the associated risks.

The Council will continue to hold a category of "Banks with over 20% UK Government Ownership" with the judgment that the government's significant ownership will lead to continued support.

No limit is proposed for investments within the UK, as being part of the government sector, any failure of the UK Government is not a risk we can reasonably address. UK institutions are also exempt from sovereign rating requirements for the same reason.

All credit ratings are monitored monthly and are reviewed before making investment decisions.

If a downgrade results in a counterparty no longer meeting the Council's minimum criteria for any of the 3 agencies, its further use as a new investment will be withdrawn immediately. Officers will enquire about early repayment of any existing investments, and the Director of Resources is authorised to make a decision on whether to take the option if it is offered (although early repayment is rarely offered).

- If a negative "rating watch" is issued which suggests a counterparty will fall below minimum investment criteria when the rating is reviewed, additional limits will be placed on that institution, such as restricted duration or a short- term freeze on new investment, pending the issuance of the revised rating.

The Director of Resources can impose additional criteria within the formally approved policy if he deems it prudent to do so. If such action is taken, it will be reported to Cabinet at the next opportunity. He can likewise decide to remove such restriction with the same reporting requirements.

<u>Country Ratings</u>

Other than the UK, the Council will only use counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide) at the time of the investment.

Other than the UK, there is a limit of £20m invested against any other country's sovereign rating with an overall limit of £50m for total overseas investment. This limit will exclude investments in Money Market Funds where risk is pooled by the nature of the fund.

<u>Group Limits</u>

The Council's counterparty limits will apply to all institutions within a group. For example, where the Council had investments with both Lloyds and Bank of Scotland, the limit for the Lloyds group will apply as if they were one institution.

End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5. Prudential Indicators and Treasury Limits

The introduction of the Prudential Code in the 2003 Local Government Act requires Councils to set their own limits on borrowing based on what they consider to be prudent, affordable and sustainable. This decision-making process is facilitated by the calculation of the Prudential Indicators defined by CIPFA. These are explained and approved by Members as an appendix to the 6- year Capital Programme report to Cabinet and Full Council.

These Indicators cover capital expenditure and financing and treasury items. The treasury limits are as follows:

	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Authorised Limit for External Debt	173	181	184	184	182	182
Operational Boundary	168	176	179	179	177	177
Net Fixed Rate Exposure						
- Upper Limit	168	176	179	179	177	177
- Lower Limit	124	134	137	134	135	134
Net Variable Rate Exposure						
- Upper Limit	-72	-67	-68	-69	-68	-71
- Lower Limit	3	8	7	6	7	4
Limit on Principal Invested beyond 365 Days	£10m	£10m	£10m	£10m	£10m	£10m

Maturity Structure of Borrowing

	Lower Limit 2019/20 %	Upper Limit 2019/20 %	Estimate 2019/20 %
Under 1 year	0%	30%	11%
1 to 2 years	0%	40%	3%
2 to 5 years	0%	50%	8%
5 to 10 years	0%	60%	9%
10 to 15 years	}	}	28%
15 to 25 years	} 20%	} 85%	32%
over 25 years	}	}	9%

The above table relates only to maturity loans. Repayment loans spread the maturity risk by definition as repayment is made over the life of the loan. Therefore, there is no need to take further action to avoid significant repayment in any one year.

6. Treasury Management for Other Related Entities

Richmond's Pension Fund has been merged into Wandsworth's Fund (SI 2016 No. 1241) as of 1 October 2016. The merged Fund will hold cash which will be managed within its own investment strategy.

The Council currently owns a 40% share of Achieving for Children community interest company (AfC) with Kingston and Windsor and Maidenhead Councils, set up to deliver children's services. This reduced from 50% with effect from 1 August 2017 when the Royal Borough of Windsor and Maidenhead became a co-owner. AfC are using counterparties which appear on each councils' approved investment lists, and each council is currently reducing their limits by their share of AfC's limit, to ensure the risk is not increased. There is the potential for the existing owners to agree to widen the ownership of AfC, and if this occurs, Richmond will continue to reduce its counterparty limits proportionately to its share of AfC's exposure.

The Council holds and invests balances on behalf of the South-West Middlesex Crematorium (Richmond is one of the constituent councils) and from trust funds that it administers. Interest earned on these balances is paid to these bodies.

7. Training

It is essential that officers involved in Treasury Management have the necessary skills and current knowledge to ensure that the Treasury Management function is carried out within guidance and regulation.

This is to be achieved by:

- Accountant, Senior Accountant and Head of Accounts to attend relevant training from CIPFA and other available sources.
- Use of quality press and other news media to maintain awareness of relevant current events between formal training events.
- Reference to new or amended guidance and other commentary on best practice from relevant sources (e.g. CIPFA Code of Practice, Audit Commission reports such as "Risk and Return" etc).
- Briefing notes to be provided to senior officers.

Members also have a role in approving the Treasury Management Strategy and Policy which sets the framework for officer's actions during the year, as well as receiving monitoring reports, updates and an end of year report on the achievements against this framework. To enable Members to fulfil their role it is necessary for them to have a certain level of knowledge of the relevant issues which would impact on their decision making.

This is achieved by:

- Provision of a guide to the basic principles and issues of Treasury Management for training and reference.
- Regular Treasury Update reports to keep members up to date on the current economic background and any specific issues facing the Council.

It is the Council's policy that those Members involved in the scrutiny of the Strategy should attend training to enable them to fulfil this role, and training will be arranged during 2019 as required.

8. Policy on the use of external service providers

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon any external service providers.

Until recently the Council used Link as its treasury management advisers. This contract came to an end in December and it has not been renewed.

The Council recognises that there can be value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Treasury Management advisers will be appointed at least once within the lifetime of each Council to carry out an independent review of the Council's Treasury Management activities. Advisers could also be appointed for advice on a one off specific treasury management activity if the Director of Resources considers that it is appropriate. He will ensure that any terms of appointment and the methods by which their value will be assessed are properly agreed and documented.

9. Minimum Revenue Provision

What is a Minimum Revenue Provision (MRP)?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs in Local Government is through an annual Minimum Revenue Provision.

How is MRP Calculated?

MRP was previously calculated assuming that the value of the Council's assets which have not been financed from Council or external resources is financed by taking out loans over 25 years. This was calculated as 4% of the Capital Financing Requirement, which is the cumulative value of capital works financed from borrowing at year end, whether this borrowing is actual new debt or notional borrowing from other cash balances. This calculation was set in the Capital Finance Regulations with no alternative options.

This position was changed by Statutory Instrument 2008 no.414 s4 which now requires:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.

The CFR increases when capital spend is unfinanced (financed from borrowing) and decreases when MRP is made. Fully financed (from grant, reserves etc) capital spend has no impact on the CFR. Richmond has low capital resources held on balance sheet as new resources are used to match new spend to keep growth in the borrowing requirement to a minimum. There is no option for Richmond to reduce its CFR to nil, and even if this were possible, it would not remain nil for long, as there is increasing use of borrowing to fund capital spend due to the low level of capital balances and lack of external funding.

Government Guidance

Government guidance issued in February 2008 and updated in 2018 requires a Statement on the Council's policy for its annual MRP to be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council are legally obliged to “have regard” to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements.

Although the guidance gives four main options, these are intended as exemplification and to inform Council decision making. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Richmond’s MRP Policy 2019/20

In prior years, the Council has chosen to use options within the MHCLG guidance, with a further option to account for debt repayment as MRP.

Richmond is committed to ensuring that prudent provision is made for debt repayment. In assessing prudence, the Council has regard to:

- The life of the assets being funded from borrowing. Future residents should not pay to fund works they will not benefit from. (This precludes the use of a reducing balance repayment, where the debt reduces by a fixed percentage every year but does not have a fixed repayment date).
- Whether repayment is already being made. Where there is a loan or other financing arrangement (lease) in place and is making scheduled payments against this financing, these payments could be considered to meet the requirement.

During 2017/18 the Council worked with EY to compare Richmond’s existing policy to MHCLG guidance and look for opportunities to smooth payments to aid financial planning. The Council was clear on the continuing requirement to make prudent provision for debt repayment and comply with regulations on MRP and proper accounting practice, as well as its own stated objectives. This resulted in some changes being incorporated into the policy from 2018/19 onwards.

MINIMUM REVENUE PROVISION POLICY STATEMENT 2019/20

The Council assess their MRP in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

All MRP will be calculated on a straight- line basis, to ensure debt is repaid within a fixed, prudent period.

The Council will calculate MRP on historic debt (the opening CFR for the year of implementation) and borrowing incurred for schemes described by the Government as being revenue Supported Capital Expenditure (SCEr) to ensure such debt is repaid on a straight-line basis within 50 years.

Borrowing incurred on schemes described by the Government as Prudential Borrowing will incur MRP:

- Where no external borrowing is taken, or where there is a formal loan, MRP will be calculated using the longer of the loan duration or asset life as the fixed repayment date.
- Where capital loans have been granted and financed from borrowing, the capital receipt generated as the loan is repaid will be taken to reduce the CFR in lieu of

MRP. This has the same effect on the CFR as making MRP and is therefore deemed prudent provision.

- For assets acquired under a finance lease there is both an existing debt payment being made as part of the lease and a useful life of the asset which could be used to spread the repayment provision. Many leased assets have lower values and shorter lives, so it is prudent to maintain provision through lease payments. Building assets have longer lives and higher values and these will be assessed individually and may use the option of the remaining life for provision.

Estimated life periods will be set based on life of existing assets and in line with accounting regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

If capital expenditure incurred by the Council is not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.