Capital Strategy

2022 to 2023

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1. Introduction

1.1. The Council's Capital Strategy outlines the principles and framework that underpin our long term capital investment and expenditure proposals. The Capital Strategy was a new requirement for Councils to produce from April 2018 following the publication of the revised Prudential Code for Capital Finance in Local Authorities 2018.

1.2. New development and regeneration in Cheltenham are necessary and essential to:

- Help facilitate economic growth and recovery
- Help meet our housing needs
- Help create commercial space that supports our key employment sectors
- Stimulate a positive climate for inward investment into Cheltenham
- Help to deliver on our climate and environmental commitments

1.3. The Council's Capital Strategy forms a key part of our overall Corporate Planning Framework. It provides a mechanism by which our capital investment and financing decisions can be aligned with our over-arching corporate priorities and objectives over a medium term planning horizon.

1.4. In refreshing the Capital Strategy, it is important that we reset this within the current wider corporate strategy context, together with our priorities for investment, growth, climate change and social value. In setting the vision and key principles around how we plan to invest in the delivery of homes, commercial space and supporting infrastructure with the outcome of creating new places and investing and regenerating in existing places.

1.5. The Strategy has direct links to the Council's Asset Management Strategy, Commercial Strategy, Investment Strategy, Treasury Management Strategy and emerging Housing Investment Plan. It forms a key part of the Council's Medium Term Financial Strategy (MTFS) as presented in the table on the next page.

1.6. Collectively these plans and strategies will develop a diverse investment programme that allows cross subsidy across the programme to balance the social, economic and environmental outcomes set out in the councils Corporate Plan and Recovery Strategy.

Category	Overall	Revenue	Capital	Treasury Management	Risk Management
Strategies	Medium Term Financial Strategy				
	Commercial Strategy	Investment Strategy	Capital Strategy	Treasury Management (TM) Strategy	Risk Management
			Asset Management Strategy		
Guidance	CIPFA and Technical Guidance	Budget Guidance	Capital Guidelines	CIPFA Code for Practice for TM	Risk Management Guidance
Plans	MTFP Projection	Annual Budget	Capital Programme & Asset Management Plan	Treasury Policy Statements	Risk Register
Governance	Constitution and Annual Governance Statement	Quarterly Performance Reports		Prudential Indicators and Annual Report	Risk Register reporting and regular review
	Contract and Finance Procedure Rules				Audit Committee and Cabinet Reports
	Internal and External Audit Plans and our response to audit review				
Decision making	Cabinet/Council				

2. Our vision and ambitions for recovery

2.1. Covid-19 has tested Cheltenham's communities and economy over the last two years. As a Council, we have recognised in our Covid-19 Recovery Strategy and Medium Term Financial Plan that rebuilding the strength of our town will require both innovation, ambition and a bold vision. To respond to this the Council will need to be agile in the way it responds and how it works with stakeholders and potential investors.

2.2. Our vision is grounded in the belief that Cheltenham should be a place in which everyone can thrive. In order that we can lead the economic recovery of our town, we will continue to invest in Cheltenham for the benefit of Cheltenham both in terms of sustainable Council finances, but also in terms of the way we invest both commercially and for regeneration.

2.3. The capital investments outlined in this document are the beginning of our approach to shaping and re-prioritising for Cheltenham. To drive longer term economic recovery in the town will take a fully integrated, whole Council approach focused on strategic outcomes within an understanding of place, commerciality, regeneration and our overarching contribution to climate change.

2.4. With that in mind, we need to take an approach to future investment decisions and our management of our asset portfolio which balances social value, sustainability, regeneration, commercial and housing needs at a strategic level to ensure a positive direction of travel to economic recovery continues.

2.5. A review of our approach to investment activity and the use of our assets and capital resources has been undertaken and the Council's asset management strategy was refreshed and reviewed by Full Council in February 2022. This provides the strategic vision and delivery framework that will help guide management of our current portfolio and, together with our investment strategy, will guide future potential investment by establishing a clear vision, objectives and selection criteria.

3. Purpose of this strategy

3.1. The key aims of this Capital Strategy are:

- To outline the capital programme in the MTFS and how it has been developed in alignment with the key priorities outlined in the 2019-2023 Corporate Plan and to support the recovery of the town after Covid-19 (see Section 4, page 5).
- To set out the required and available funding options for the programme, including how these have been appraised to ensure we are able to achieve the best outcomes for our town and are maximising the benefit of our assets and resources. This includes indirect benefits such as increase in jobs, skills, inclusive growth, increase in tax revenues, place shaping outcomes, climate change deliverables, accelerating delivery of the Cheltenham Plan and Joint Core Strategy. (See Section 5, page 11)
- To present the arrangements that enable a programme wide approach for managing and monitoring the capital schemes in the programme, and assessing potential new schemes; including assessment of outcomes, the use of any financial returns and the continual alignment to our Corporate Plan (See Section 6, page 15).

What is capital expenditure?

Capital expenditure is where the Council spends money on assets, such as land, property or vehicles, which will be used for more than one year. The Council has a minimum threshold of £10,000 for capital and spend below £10,000 is not capitalised and are charged to the revenue budget.

4. How we invest our money

4.1. In 2022/23, the Council is planning capital expenditure of £48.432m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2020/21 actual £000	2021/22 forecast £000	2022/23 budget £000	2023/24 budget £000	2024/25 budget £000
General Fund services	2,087	7,026	4,913	1,918	518
Council housing (HRA)	17,136	15,823	28,327	35,577	37,686
Capital investments	1,770	5,925	8,075	4,500	4,500
TOTAL	**20,993**	**28,774**	**41,315**	**41,995**	**42,704**

What is the HRA?

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services.

4.2. The 2019-2023 Corporate Plan outlines our strategic priorities for Cheltenham, what we have chosen to focus on and why we think these are important for our town. The sections below summarise the key commitments made in the capital programme to support the key priorities in the Corporate Plan.

Priority One

Making Cheltenham the Cyber Capital of the UK; a national first, which will deliver investment in homes, jobs, infrastructure and enable the Council to deliver inclusive growth for our communities.

- At the end of August 2019, we completed the purchase of 112 acres of strategically important land for £37.5m which forms part of the Cyber Central Golden Valley development. This was the most expensive land purchase ever made by the Council. It will enable the delivery of the Cyber Central vision and has been specifically named in the Government's National Cyber Strategy launched in February 2022. Work is ongoing to close the contract with our preferred development partner and submit outline planning permission in 2022/23.
- In addition to the flagship Golden Valley development, the Council are also working in partnership with the Workshop Group responsible for Hub8 to establish a brand new business and cultural hub in the town centre. The Minister Innovation Exchange will be a critical strand of our economic recovery strategy; continuing the momentum created at Hub8 ahead of the opening of Cyber Central at Golden Valley and establishing Cheltenham as the UK's foremost cyber tech cluster with a global reach.
- The £5.2m scheme will move forward quicker than originally planned and will now deliver an enhanced scheme following a successful bid for £3.114m of funding via GFirst LEP from the Government's 'Getting Building Fund'. **The Council has committed £5.3m of funding in the 2021-22 and 2022/23 capital programme for the project which also allows the redevelopment of the Minister Gardens.**
- In February 2021, approval was granted by Tewksbury Borough Council's planning committee for the closure of a runway at Gloucester City Airport to build a business park and a new access road from the B4063. The Airport is jointly owned by Gloucester City Council and Cheltenham Borough Council and is a vital partner in regenerating our town and delivering on our vision to be the cyber capital of the UK. The creation of the business park nearby to the Golden Valley development will create jobs, infrastructure and vital economic links in the area. **In order to fulfil this vision, the Council has committed £7.25m in the 2021/22 and 2022/23 capital programme to provide a loan to the Airport to fund the delivery of this project.**

Priority Two

Continue the revitalisation of the town ensuring its longer-term viability as a retail and cultural destination

- Over the last three years, we have made strategic inward investment in the town which has safeguarded much needed office space to ensure Cheltenham continues to be a vibrant and prosperous location for businesses.
- In the outturn report for 2020/21, £250k was set aside for Green Economic Investment to support the town through post pandemic recovery. Of this funding, £100k has been committed to refurbish the Montpellier Gardens toilets to include a Changing Places facility and £95k has been committed to improving the environment around the Clarence Fountain in the town centre.
- We have also invested in the revitalisation of the high street, complemented by the flagship concept store opening for John Lewis, and the redevelopment of the Brewery Quarter. We recognise the devastating impact the pandemic has had on our town centre and how we need to continue to invest positively to support businesses and communities to recover.
- **The 2022/23 capital programme commits £413k to undertake phase two of this redevelopment. The public realm investments will be focused on the Strand and Cambray Place. The aim is to make this area a more attractive destination and encourage greater linkage with the rest of High Street, with initial work due to start in the autumn.**
- **Additionally, £115k has been committed to improving the links to the high street and signage in the Grosvenor Terrace car park in the east of the town centre.**
- The pandemic has also had a significant impact on our partners, in particular The Cheltenham Trust with venues and leisure facilities being forced to close and events cancelled. We have worked closely with the Trust throughout 2020-21 to support and protect the cultural legacy of the town.
- We have previously committed £500k of capital funding to support investments made by the Trust into their venues and infrastructure. **The 2022/23 capital programme includes an additional £400k of funding to continue to support their recovery.**

Priority Three

Achieving a cleaner and greener sustainable environment for residents, businesses and visitors

- In 2019, the Council declared a climate emergency and an objective to be a carbon neutral Council and Borough by 2030. The roadmap to achieving this goal includes action on leadership, engagement, energy, transport and buildings. Achieving carbon neutrality cannot be done alone and we are continuing to work together with our partners across the town, as well as with Vision 21 across Gloucestershire on the joint vision for sustainability.
- **To demonstrate our commitment to this vision and lead the response to the climate challenge in Cheltenham, £350k of capital funding was committed to the Carbon Neutrality programme in 2021/22 which is being carried forward to 2022/23. Additionally, the Council also successfully secured £382k of capital funding from the central Government's Public Sector Decarbonisation Scheme which will be completed in 2022/23.**
- **Additionally, in 2022/23 we have committed £75k to invest in an off-street electric vehicle charging point pilot in our car parks. The objective is to identify providers and infrastructure requirements to increase provision across the town.**

Priority Four

Increasing the supply of housing and investing to build resilient communities

- Together with our partner Cheltenham Borough Homes (CBH) we are committed to delivering the affordable homes which the market fails to provide and we will prioritise those people on our Housing Register.
- No more so is this demonstrated than by the Housing Investment Plan which has now committed £100m of borrowing to fund mixed tenure housing in the private rented sector and £80m from the Housing Revenue Account capital programme to fund affordable housing. The purpose of these investments is to shape sustainable and resilient communities and allow residents secure homes in which they and their families can thrive.
- Additionally, the Council will continue to work with the private sector to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. **The 2022/23 capital programme commits a further £4.5m a year for three years to 2024/25 to increase the supply of housing in the town.**

Priority Five

Delivering Services that meet the needs of our communities

- Beyond the above, our Capital Strategy also helps us meet our need to upgrade and maintain:
    - Operational buildings;
    - Infrastructure in the Borough;
    - Our vehicle fleet;
    - Our ICT infrastructure.

Put simply, our Capital Strategy aims to invest and deliver for the residents, communities and businesses in Cheltenham.

5. How we fund capital spending

Capital Programme Funding Overview

5.1. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the current capital programme is as follows:

Table 2: Capital financing

	2020/21 actual £000	2021/22 forecast £000	2022/23 budget £000	2023/24 budget £000	2024/25 budget £000
External sources	3,229	6,485	1,843	818	818
Own resources	14,979	9,691	13,648	15,783	15,295
Debt	2,786	12,598	25,824	25,394	26,591
TOTAL	**20,993**	**28,774**	**41,315**	**41,995**	**42,704**

5.2. In order to maximise the resources available to us, we look to fund new capital programmes from external resources and capital receipts from disposal of surplus assets where possible. The Council would only look to fund schemes through borrowing if no other funding source was available. Taking account of our experience being developed through projects such as Golden Valley Development and Minster innovation Exchange, this includes investigating opportunities to work alongside investment partners.

5.3. Council resources will be allocated to programmes based on asset values to manage the long term yield and revenue implications. Capital receipts and reserves will be focused on those assets with short term life span (e.g. vehicles and IT investments) and the unsupported borrowing on long term assets (e.g. land and buildings). In assessing value, those outside capital receipts will be fully taken into account.

Capital Programme Funding Overview

5.4. There are a number of external sources of capital funding which are proposed to be used to fund the 2021-22 capital programme. The most significant are:

- Funding through the Local Enterprise Partnership (LEP) from the Government's 'Getting Building Fund';
- Better Care Fund grant funding;
- Funding from the Government's Public Sector Decarbonisation Scheme
- External funding from partner organisations

5.5. Throughout the financial year, available sources of funding will continue to be reviewed as new schemes are announced by the Government to support Covid-19 recovery.

Capital Funding from our own Resources

General Funding from Capital Receipts

5.6. Capital receipts from the disposal of assets represent a finite funding source and it is important that a planned and structured manner of disposals is created to support our priorities and fully considered within the context of our strategic context and wider place shaping outcomes. The Council's estate is managed through the Asset Management Plan which identifies property requirements and, where appropriate, properties which are surplus to requirements and which may be disposed. This strategy is under review and will be assessed within the vision and principles of economic recovery and place vision.

5.7. The capital receipts target for the 2022/23 financial year is:

Table 3: Capital receipts

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 budget £m	2024/25 budget £m
GF capital programme	1,079	2,016	3,070	1,300	-
HRA capital programme	1,695	1,211	1,511	1,511	1,511
TOTAL	**2,774**	**3,227**	**4,581**	**2,811**	**1,511**

5.8. As part of the November 2015 Spending Review, the Government announced greater flexibility in the use of capital receipts to fund the revenue costs of service reform and transformation. In February 2021, the Government announced that this policy will be extended to 2025/26.

5.9. The Council approved the flexible use of capital receipts policy for 2022/23 on 21 February 2022 which outlined the definition of qualifying expenditure but did not identify any specific initiatives that would require the use of this funding for 2022/23.

5.10. We will continue to maintain a policy of not ring-fencing the use of such capital receipts to fund new investment in specific schemes or service areas, but instead, to allocate resources in accordance with key aims and priorities, subject to the following exceptions:

- capital receipts received in respect of right to buy sales will be wholly invested in the provision of additional housing;
- any receipts from the sales of properties previously acquired for site assembly where borrowing has previously incurred will be used to repay the debt incurred on that particular acquisition.

Capital Funding from Borrowing

5.11. The Prudential Code for Capital Finance in Local Authorities ("the Code") was introduced throughout Great Britain in April 2004. The Code allows Councils to undertake borrowing to meet its objectives if this is considered to be affordable, prudent and sustainable, measured using prudential indicators. When undertaking borrowing, we must make sure we are satisfied that these conditions are met.

5.12. The schemes included in our capital programme have been assessed as clearly focused on our corporate priorities, attract significant third party investment and generate financial and non-financial benefits to our residents and communities in future financial years.

5.13. The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and we seek to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.5% to 3.5%).

5.14. Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. We plan to borrow in 2022/23 only to provide capital loans. Any funds borrowed will be in relation to specific schemes and based upon the cash required for the chosen schemes. There are no plans to borrow in advance of need.

5.15. The role of public estate management and investment can act as a lever that maximises co investment from other public funding sources or the private sector. Our focus will therefore be on clear commercial investment aligned to our priorities as opposed to speculative development.

5.16. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing. Alternatively, proceeds from selling capital assets may also be used to replace debt finance. The planned replacement of our borrowing is outlined in the table below:

Table 4: Replacement of debt finance

	2020/21 actual £000	2021/22 forecast £000	2022/23 budget £000	2023/24 budget £000	2024/25 budget £000
Own resources	2,269	3,739	2,103	2,198	2,362

5.17. The cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases when new borrowing is taken out and reduces when debt is repaid through revenue or other capital receipts. Statutory guidance is that our debt should remain below the capital financing requirement, except in the short-term.

5.18. Our projected total outstanding debt from borrowing is shown below, compared with the CPR.

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement

	31.3.2021 actual £000	31.3.2022 forecast £000	31.3.2023 budget £000	31.3.2024 budget £000	31.3.2025 budget £000
General Fund	104.687	106.873	112.845	115.147	117.386
HRA	73.42	80.093	97.843	118.737	140.828
Total	**178.107**	**186.966**	**210.688**	**233.884**	**258.214**

5.19. To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. The liability benchmark is the total amount borrowed less investments held at year end or forecast. This assumes that cash and investment balances are kept to a minimum level of £17m at each year-end. This benchmark is currently £17m and is forecast to remain the same over the next three years. More information is provided in the Treasury Management Strategy.

5.20. The Council is also legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Authorised limit and operational boundary for external debt

	2021/22 limit £000	2022/23 limit £000	2023/24 limit £000	2024/25 limit £000
Authorised limit – total external debt	317,000	274,000	292,000	291,000
Operational boundary – total external debt	307,000	264,000	282,000	281,000

5.21. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to our net revenue spending to assess affordability of the borrowing we have.

Table 7: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020/21 actual	2021/22 forecast	2021/22 forecast	2023/24 budget	2024/25 budget
Financing costs (£m)	4,363	5,712	4,220	4,315	4,479
Proportion of revenue	4.49%	5.11%	3.90%	3.99%	4.14%

6. How we monitor the capital programme

6.1. The staff responsible for making capital expenditure, borrowing and investment decisions are professionally qualified and experienced. We are led by an Executive Director for Finance and Assets with over 20 years of experience in the sector and a Head of Finance and supporting team of qualified accountants committed to the financial sustainability of the Council. We are passionate about investing in the training and development of our staff and ensure that those involved in the planning and delivery of capital programmes have the relevant knowledge and skills to be successful.

6.2. Use is also made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and other specialist advisers to advise upon specific, extra-ordinary transactions as required. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills aligned with its risk appetite.

6.3. We have various mechanisms in place to monitor and continually assess how the capital programme continues to meet the key priorities in our Corporate Plan. These include:

- The Council which is ultimately responsible for approving investment and the capital programme;
- The Cabinet who are responsible for setting the corporate framework and receive and scrutinise regular performance and monitoring reports;
- Officer Groups which bring together a range of service interests and professional expertise;
- An integrated service and financial planning process, including the corporate performance management framework. Within this framework, all proposals for capital investment are required to demonstrate how they contribute to the achievement of the Council's aims and priorities. This includes an evaluation process for investment proposals which ensures cross-cutting appraisal of projects which are aligned to the Council's key aims and priorities and deliver on the efficiency and value for money agendas.

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Investment Strategy

2022 to 2023

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1. Introduction

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1.2. New development and regeneration in Cheltenham is both necessary and essential to:

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2.4. With that in mind, we need to take an approach to future investment decisions and our management of our asset portfolio which balances social value, sustainability, regeneration, commercial and housing needs at a strategic level to ensure a positive direction of travel to economic recovery continues.

2.5. A review of our approach to investment activity and the use of our assets and capital resources has been undertaken and the Council's asset management strategy was refreshed and reviewed by Full Council in February 2022. This provides the strategic vision and delivery framework that will help guide management of our current portfolio and, together with this investment strategy, will guide future potential investment by establishing a clear vision, objectives and selection criteria.

3. Purpose of this strategy

3.1. The key aims of this document are::

- To outline how we invest our money to ensure we continue to be aligned to the key priorities outlined in the 2019-2023 Corporate Plan and to support the recovery of the town after Covid-19 (see Section 4, page 4).
- To set out the required and available funding options for the programme, including how these have been appraised to ensure we are able to achieve the best outcomes for our town and are maximising the benefit of our assets and resources. This includes indirect benefits such as increase in jobs, skills, inclusive growth, increase in tax revenues, place shaping outcomes, climate change deliverables, accelerating delivery of the Cheltenham Plan and Joint Core Strategy. (See Section 5, page 9)
- To present the arrangements for managing and monitoring the investment portfolio, including assessment of outcomes and the continual alignment to our Corporate Plan (See Section 6, page 12).

4. How we invest our money

4.1. The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments)
- to directly support local public services by lending to other organisations (service investments), and
- to invest in community led and sustainable place shaping, regeneration and economic development of our town (known as growth investments).

Our treasury management strategy outlines the principles and arrangements in place for the first category of investment. This strategy focuses on our approach to the second and third of these categories.

4.2. The 2019-2023 Corporate Plan outlines our strategic priorities for Cheltenham, what we have chosen to focus on and why we think these are important for our town. The sections below summarise the investments we have made and areas of focus for 2022/23 to support the key priorities in the Corporate Plan.

Priority One

Making Cheltenham the Cyber Capital of the UK; a national first, which will deliver investment in homes, jobs, infrastructure and enable the Council to deliver inclusive growth for our communities.

Growth investment

- At the end of August 2019, we completed the purchase of 112 acres of strategically important land for £37.5m which forms part of the Cyber Central Golden Valley development. This was the most expensive land purchase ever made by the Council. It will enable the delivery of the Cyber Central vision and has been specifically named in the Government's National Cyber Strategy launched in February 2022. Work is ongoing to close the contract with our preferred development partner and submit outline planning permission in 2022/23.

Service Investment

- In addition to the flagship Golden Valley development, the Council are also working in partnership with the Workshop Group responsible for Hub8 to establish a brand new business and cultural hub in the town centre. The Minister Innovation Exchange will be a critical strand of our economic recovery strategy; continuing the momentum created at Hub8 ahead of the opening of Cyber Central at Golden Valley and establishing Cheltenham as the UK's foremost cyber tech cluster with a global reach.

- The £5.2m scheme will move forward quicker than originally planned and will now deliver an enhanced scheme following a successful bid for £3.114m of funding via GFirst LEP from the Government's 'Getting Building Fund'. **The Council has committed £5.3m of funding in the 2021-22 and 2022/23 capital programme for the project which also allows the redevelopment of the Minister Gardens.**

- In February 2021, approval was granted by Tewksbury Borough Council's planning committee for the closure of a runway at Gloucestershire Airport to build a business park and a new access road from the B4063. The Airport is jointly owned by Gloucester City Council and Cheltenham Borough Council and is a vital partner in regenerating our town and delivering on our vision to be the cyber capital of the UK. The creation of the business park nearby to the Golden Valley development will create jobs, infrastructure and vital economic links in the area. **In order to fulfil this vision, the Council has committed £7.25m in the 2021/22 and 2022/23 capital programme to provide a loan to the Airport to fund the delivery of this project.**

Priority Two

Continue the revitalisation of the town ensuring its longer-term viability as a retail and cultural destination

Growth investment

- Over the last three years, we have made strategic inward investment in the town which has safeguarded much needed office space to ensure Cheltenham continues to be a vibrant and prosperous location for businesses. We have also purchased retail premises to support the ongoing economic development of the town. **In 2019/20 investment of £40.673m was made for the purposes of revitalising the town and this property was valued at £66.438m at 31 March 2021.**

- We have also invested in the revitalisation of the high street, complemented by the flagship concept store opening for John Lewis, and the redevelopment of the Brewery Quarter. We recognise the devastating impact the pandemic has had on our town centre and how we need to continue to invest positively to support businesses and communities to recover.

- **The 2022/23 capital programme commits £413k to undertake phase two of this redevelopment. The public realm investments will be focused on the Strand and Cambray Place. The aim is to make this area a more attractive destination and encourage greater linkage with the rest of High Street, with initial work due to start in the autumn.**

- **Additionally, £115k has been committed to improving the links to the high street and signage in the Grosvenor Terrace car park in the east of the town centre.**

Priority Three

Achieving a cleaner and greener sustainable environment for residents, businesses and visitors

Service Investment

- In 2019, the Council declared a climate emergency and an objective to be a carbon neutral Council and Borough by 2030. The roadmap to achieving this goal includes action on leadership, engagement, energy, transport and buildings. Achieving carbon neutrality cannot be done alone and we are continuing to work together with our partners across the town, as well as with Vision 21 across Gloucestershire on the joint vision for sustainability.

- **To demonstrate our commitment to this vision and lead the response to the climate challenge in Cheltenham, £300k of capital investment has been committed to the Carbon Neutrality programme in 2021-22. Additionally, the Council have also successfully secured £382k of capital funding from the central Government's Public Sector Decarbonisation Scheme to move our work forward.**

- **Our treasury management investments are also performing strongly and generating a return on investment which is funding the £75k of revenue growth introduced in the 2021/22 budget to support resourcing of the Climate Change Pathway approved by Council in February 2022.**

Priority Four

Increasing the supply of housing and investing to build resilient communities

Service Investment

- Together with our partner Cheltenham Borough Homes (CBH) we are committed to delivering the affordable homes which the market fails to provide and we will prioritise those people on our Housing Register.

- **No more so is this demonstrated than by the Housing Investment Plan which has now committed £100m of service investment to fund mixed tenure housing in the private rented sector and £80m of investment from the Housing Revenue Account to fund affordable housing.** The purpose of these investments is to shape sustainable and resilient communities and allow residents secure homes in which they and their families can thrive.

- Additionally, the Council will continue to work with the private sector to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. In 2020-21, a service investment of £1.605m was provided to CBH in order to support this commitment. **The 2021-22 capital programme commits a further £4.5m a year for three years to 2023-24 to increase the supply of housing in the town.**

Priority Five

Delivering Services that meet the needs of our communities

Service Investment

- Subject to an approved business case, we may invest in our subsidiary companies or partners to directly support the provision of local services. There are two main forms these investments may take:
    - Purchase of shares in an organisation;
    - Loans to organisations within the Borough to support the running costs of the organisations
- The Council has a £1 shareholding in Ubico Ltd. Ubico Ltd is wholly-owned by seven local authorities and operates as a not for profit enterprise. Ubico Ltd is an environmental services company which provides household and commercial refuse collection, recycling, street cleansing, grounds maintenance and fleet maintenance services to the Council. Also the Council has £435,222 shareholding in Gloucestershire Airport (at cost) which equates to 50%. The other 50% is retained by Gloucester City Council.
- We have also included provision in our Treasury Management Strategy to loan up to £500,000 to both Ubico Limited and CBH and up to £100,000 to Publica Group (Support) Limited, Cheltenham Festivals, The Cheltenham Trust and Cheltenham BID should any company require our support.

Put simply, our Investment Strategy aims to invest and deliver for the residents, communities and businesses in Cheltenham.

It demonstrates to wider investors that Cheltenham is a destination for growth, innovation and investment.

5. Assessing the risk of our investments

5.1 Service Investments - Loans

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as below in table 1.

Table 1: Loans for service purposes in £

Category of borrower	31.3.2021 actual £			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approve Limit
Charities	356,171	-	356,171	350,000
Cheltenham Borough Homes	7,899,501	-	7,899,501	107,000,000
Gloucestershire Airport	1,457,433	-	1,457,433	9,000,000
Workshop Cheltenham Limited	-	-	-	1,700,000

Accounting standards require us to set aside loss allowance for loans, reflecting the likelihood of non-payment. The loans that the Council has made are limited to specific service areas and subsidiaries and the likelihood of non-payment is minimal. There is no history of non-payment and no evidence to suggest that there will be any default against the loans granted. As a result, no allowance for loss has been included against the loan balances. Should any indication be given that there is a risk of default then the risk will be assessed and a provision established at that time. Should a loan default, the Authority will make every reasonable effort to collect the full sum lent and recover any overdue repayments.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans by undertaking credit checks and ensuring that appropriate legal documentation is in place to secure the Council's money. The Council also receives independent financial advice on its financial dealings from Arlingclose Limited to assist in decision making.

Liquidity: We have not invested in the companies to generate a financial return but to support service provision. We support the strong financial management of each of the partner companies we invest in and monitor the cash flow as part of this. As such, the liquidity of these investments may be low if the funding has been used to enhance and asset or business for long term gain.

5.2 Service Investments - Shares

Security: One of the risks of investing in shares is that they could fall in value meaning that the initial outlay may not be recovered. The Council has no other shareholdings.

Table 2: Shares held for service purposes in £

Category of company	31.3.2021 actual £		
	Amounts invested at cost	Gains or losses	Value in accounts at 31.03.2020
UBICO	1	-	1
Gloucestershire Airport	435,222	(341,222)	94,000
TOTAL	**435,223**	**(341,222)**	**94,000**

Risk assessment: Ubico is a cost sharing company – any surplus generated within Ubico is returned to the partner Councils, similarly with any deficit met by the Councils. Through regular budget monitoring and sound financial management by Ubico and transparency within calculation of contract sums, the risk of any financial loss is mitigated. Gloucester City Aiport is also jointly owned by ourselves and Gloucester City Council and are consolidated in our group accounts.

Liquidity: We have not invested in the companies to generate a financial return but to support service provision. We support the strong financial management of each of the partner companies we invest in and monitor the cash flow as part of this. As such, the liquidity of these investments are low as the Council has no intention to dispose of its investment in the foreseeable future.

Non-specified Investments: Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

5.3 Service Investments - Shares

The Council owns a number of properties and assets within Cheltenham that have been purchased to support projects and programmes which are aligned to the key priorities in the Corporate Plan.

In line with the revised guidance on the use of the Public Works Loan Board (PWLB) borrowing, these investments are not held purely for yield but support our place vision for Cheltenham.

Table 3: Growth investments in £ (including HRA Investment properties)

	Purchase Price	01.04.20	31.3.2021 actual £	
		Value in accounts £	Purchases, Gains or (losses)	Value in accounts £
Growth Investments	Various	68,068	(1,630)	66,438

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. A fair value assessment of the Authority's investment property portfolio is made each year as part of the final accounts process. The fair value of the Authority's investment property portfolio is included in the Statement of Accounts, based upon 'market value'.

Risk assessment: It is understood that the fair value of property will fluctuate. Over the 2020/21 financial year we are forecast to have a reduction in rental income from these properties of 15% due to the impact of the pandemic. The long term impact of this is mitigated by having a diverse portfolio of secure tenants across a number of sectors on long leases. We continue to assess the movement in asset values before each year and our holdings will be reviewed as part of the ongoing work to achieve our strategic vision for Cheltenham.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the Council has cash funds that can be accessed when they are needed, the Treasury management policy includes the provision of liquid investments should the Council be in need of cash. It is not anticipated that the Council would need to sell any Investment Property at short notice.

Proportionality: Table 4 below shows the extent to which the General Fund expenditure planned to meet the service delivery objectives of the Authority is dependent on achieving the expected income from treasury investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected income targets, the Authority will be required to draw additional balances from reserves, or generate savings elsewhere within the budget to continue to provide its services.

Table 4: Proportionality of Investments in £

	2020/21 Actual	2021/22 Forecast	2022/23 Budget	2023/24 Forecast	2024/25 Forecast
Gross service expenditure[1]	36,447,648	35,213,543	36,455,204	37,184,308	37,927,994
Investment income	4,361,329	4,186,666	4,569,381	4,569,381	4,569,381
Proportion	11.97%	11.89%	12.53%	12.29%	12.05%

1 Excluding Housing Benefit payments.

6. How we monitor the investment strategy

6.1. The staff responsible for making borrowing and investment decisions are professionally qualified and experienced. We are led by an Executive Director for Finance and Assets with over 20 years of experience in the sector and an Executive Director for Place and Growth with over 30 years' experience in regeneration and development.

6.2. Use is also made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and other specialist advisers to advise upon specific, extra-ordinary transactions as required. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills aligned with its risk appetite.

6.3. The Cabinet will make decisions or make recommendations to full Council on new investments that align to our key Corporate Plan priorities. The Cabinet also receive financial performance reports on a quarterly basis which allows the monitoring of our investments.

6.4. In particular, the following quantitative investment indicators have been set to allow our Officers, Elected Members and residents to monitor the risk exposure the Council have as a result of its investment decisions:

Indicator One

Total risk exposure to potential investment losses

This includes amounts the Authority is contractually committed to and any guarantees the Authority has issued over third party loans.

Table 5: Total investment exposure in £

Total investment exposure	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Forecast
Treasury management investments	14,992,000	10,000,000	10,000,000
Service investments: Loans	9,713,105	16,600,000	16,600,000
Service investments: Shares (at cost)	435,224	435,224	435,224
Commercial investments: Property	66,438,000	66,438,000	66,438,000
TOTAL INVESTMENTS	91,578,329	93,473,224	93,473,224
Commitments to lend[1]	-	-	-
TOTAL EXPOSURE	103,756,277	130,956,759	142,423,643

1This excludes the potential loan facility offered to Ubico Limited, Publica Group (Support) Limited and Cheltenham Trust for cash flow purposes.

Indicator Two

Total investments funded by borrowing.

Table 6: Investments funded by borrowing in £

Investments funded by borrowing	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Forecast
Treasury management investments	-	-	-
Service investments: Loans	7,310,167	7,031,060	7,531,060
Service investments: Shares	-	-	-
Commercial investments: Property	84,441,542	83,622,065	81,947,700
TOTAL FUNDED BY BORROWING	91,751,709	90,653,125	89,478,760

Indicator Three

Rate of return received

This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred. .

Table 7: Investment rate of return (net of all costs)

Total investment exposure	2020/21 Actual	2021/22 Forecast	2022/23 Forecast
Treasury management investments	1.77%	1.63%	1.55%
Service investments: Loans			
Cheltenham Borough Homes	3.63%	3.63%	3.63%%
Gloucestershire Airport	1.80%	1.80%	1.80%
Everyman Theatre	3.93%	3.93%	3.93%
St Margarets Hall	3%	3%	3%
Service investments: Shares	0%	0%	0%
Commercial investments: Property yield/ contribution (net of borrowing)	£2,025,672	£2,047,987	£2,062,267
Commercial investments: Property	4.52%	4.67%	4.81%

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Treasury Management Strategy

2022 to 2023

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1. Introduction

1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice revised 2017 and 2021 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.

1.2. The Council's Treasury Management Strategy forms a key part of our overall Corporate Planning Framework. It provides a mechanism by which our treasury management decisions can be aligned with our over-arching corporate priorities and objectives over a medium term planning horizon.

1.3. The Strategy has direct links to the Council's Asset Management Strategy, Commercial Strategy, Capital Strategy and Investment Strategy and forms a key part of the Council's Medium Term Financial Strategy (MTFS) as presented below:

Category	Overall	Revenue	Capital	Treasury Management	Risk Management
Strategies	Medium Term Financial Strategy				
	Commercial Strategy	Investment Strategy	Capital Strategy	Treasury Management (TM) Strategy	Risk Management
			Asset Management Strategy		
Guidance	CIPFA and Technical Guidance	Budget Guidance	Capital Guidelines	CIPFA Code for Practice for TM	Risk Management Guidance
Plans	MTFP Projection	Annual Budget	Capital Programme & Asset Management Plan	Treasury Policy Statements	Risk Register
Governance	Constitution and Annual Governance Statement	Quarterly Performance Reports		Prudential Indicators and Annual Report	Risk Register reporting and regular review
	Contract and Finance Procedure Rules				Audit Committee and Cabinet Reports
	Internal and External Audit Plans and our response to audit review				
Decision making	Cabinet/Council				

2. Purpose of this strategy

2.1. Our 2022/23 Treasury Management Strategy has been developed, with a focus on working with our partner organisations to lead in future place shaping, investment and regeneration in Cheltenham.

2.2. The key aims of this document are:

- To outline how we invest our money to ensure we have the financial resources to support the key priorities outlined in the 2019-2023 Corporate Plan and to support the recovery of the town after Covid-19 (see Section 4, page 2).
- To set out the key principles on which our borrowing and investment decisions are made, including how security and risk have been assessed in the development of our investments (See Section 5, page 5).
- To present the arrangements for managing and monitoring our treasury management decisions, including assessment of outcomes and the continual alignment to our Corporate Plan (See Section 6, page 11).

3. Why we invest our money

3.1. The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments)
- to directly support local public services by lending to other organisations (service investments), and
- to invest in community led and sustainable place shaping, regeneration and economic development of our town (known as growth investments).

Our Investment Strategy outlines the principles and arrangements in place for the second two categories of investment. This strategy focuses on our approach to the first category.

4. How we borrow money

Our Borrowing

4.1. At 31 March 2022, we are forecast to hold £172.685m of borrowing. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The net borrowing can be reduced from this total through the use of reserves and working capital.

4.2. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's external borrowing should be lower than its highest forecast CFR over the following three years.

4.3. To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

4.4. The total forecast net borrowing against the CFR and liability benchmark is set out in the table below for the period of the Medium Term Financial Strategy.

	31.3.21 Actual £m	31.3.22 Estimate £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
General Fund CFR	104.687	106.873	112.845	115.147	117.386
Housing (HRA) CFR	73.42	80.093	97.843	118.737	140.828
Total CFR	**178.107**	**186.966**	**210.688**	**233.884**	**258.214**
Less: External borrowing	(115.22)	(119.684)	(145.056)	(149.215)	(153.386)
Internal (over) Borrowing	**62.887**	**67.282**	**65.632**	**84.669**	**104.828**
Less: Usable reserves	(31.113)	(25.134)	(24.634)	(24.134)	(23)
Less: Working capital	(5.692)	(1.5)	(1.5)	(1.5)	(1.5)
Investments/ (New Borrowing)	**(26.082)**	**(40.648)**	**(39.498)**	**(59.035)**	**(80.328)**
Net Borrowing Requirement	152.025	146.318	171.19	174.849	177.886
Preferred year-end position Investments	10	10	10	10	10
Liability Benchmark (year-end)	**162.025**	**156.318**	**181.19**	**184.849**	**187.886**

4.5. The increase in external borrowing is because of the significant investments planned within the HRA capital programme to deliver on our affordable housing target which will require an increase in borrowing. Further information on our borrowing and the relevant indicators for measuring borrowing are included in the 2022/23 Capital Stategy.

Our Borrowing Strategy

4.6. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.7. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.8. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short-term 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 modestly. Ongoing monitoring may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.9. Alternatively, the Council may arrange forward starting loans during 2022/23, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. The Council may also borrow short-term loans to cover unplanned cash flow shortages.

Sources of Borrowing

4.10. The main sources of approved long-term and short-term borrowing for Cheltenham Borough Council are:

HM Treasury's PWLB lending facility (formally the Public Works Loan Board):

The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

Municipal Bonds Agency:

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

LOBOs:

The Council holds £7m of LOBO (Lender's Option Borrower's Option) loans 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. £2m of these LOBOS have options during 2022/23, 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. Also this loan is due to mature in 2024. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and variable rate loans:

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators. However the use of short term loans is currently very favourable as borrowing costs are still low compared with long term rates , and although rates are predicted to rise in 2022, Arlingclose forecast a slow increase in rates in 2022 and 2023.

Debt rescheduling:

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. How we invest money

Our Treasury Management investments

5.1. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has averaged from as high as £24.5m and as low as £8.5m over the last twelve months. On 31 December 2021, we held £21.281m of treasury investments which are outlined in the table below.

	31st December 2021 Actual Portfolio £m	31st December 2020 Average Rate %
Treasury investments:		
Glos Airport-Revolving credit facility	0.925	2.25
Glos Airport – Sub Station loans	0.165	2.00
Glos Airport – Working Capital loan	0.250	1.25
Cheltenham Borough Homes (St Georges Pl)	1.581	2.40
Money Market Funds/Call Accounts	11.360	0.14
Other pooled funds		
CCLA Property Investment Management	3.000	3.59
CCLA Diversified Income	2.000	2.17
Schroders Unit Trusts Ltd	2.000	5.67
Total treasury investments	**21.281**	**1.43%**

5.2. By the end of the 2022/23 financial year, it is forecast that our investment balance will have increased from last years, due to some additional borrowing required in Feb/March 2022. The table below shows the forecast between short and longer term holdings.

	31.3.2021 actual £000	31.3.2022 forecast £000	31.3.2023 budget £000	31.3.2024 budget £000	31.3.2025 budget £000
Near-term investments	7.990	13.425	2.000	2.000	3.000
Longer-term investments	8.758	8.951	8.556	8.530	8.504
Total	**16.748**	**22.376**	**10.556**	**10.530**	**11.504**

Our Treasury Management investments

5.3. The Council's policy on treasury investments, in line with the CIPFA Code, is to prioritise security and liquidity over yield; that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.4. Given the increasing risk and very low returns from short-term unsecured bank investments, we aim if possible to diversify into more secure and/or higher yielding asset classes during 2022/23. The majority of the Council's surplus cash is invested in bank instant liquidity accounts and money market funds. This diversification will represent a change in strategy over the coming year.

5.5. Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its 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.

5.6. The Council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved investment counterparites and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£6m 5 years	£6m 20 years	£7m 50 years	£5m 20 years	£5m 20 years
AA+	£6m 5 years	£6m 10 years	£7m 25 years	£4m 10 years	£5m 10 years
AA	£6m 4 years	£6m 5 years	£7m 15 years	£4m 5 years	£5m 10 years
AA-	£6m 3 years	£6m 4 years	£7m 10 years	£3m 4 years	£5m 10 years
A+	£6m 2 years	£6m 3 years	£7m 5 years	£3m 3 years	£5m 5 years
A	£6m 13 months	£6m 2 years	£6m 5 years	£3m 2 years	£3m 5 years
A-	£6m 6 months	£6m 13 months	£5m 5 years	£2m 13 months	£3m 3 years
None	£2m 6 months	£6m 6 months	n/a	n/a	n/a
MMF Pooled funds	£5m per MMF and Pooled Fund manager				

5.7. Treasury investments whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Bank & Building Society unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. 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. See below for arrangements relating to operational bank accounts.

Bank & Building Societies secured

Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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 higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty 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 multilateral development banks. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore 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. Loans to unrated companies will only be made either following an external credit assessment as part of a diversified pool in order to spread the risk widely.

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 Regulator of Social Housing (in England) and, as providers of public services; they retain the likelihood of receiving government support if needed.

Money Market funds
Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds
Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts
Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts
The Council banks with Lloyds (Lloyds Banking Group). On adoption of this Strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Councils intention that even if the credit rating of Lloyds Bank falls below the minimum criteria A- the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

Policy investments

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. Loans to unrated companies will only be made either following an external credit assessment as part of a diversified pool in order to spread the risk widely.

• Cheltenham Festivals	£100k up to one year duration
• Gloucestershire Everyman Theatre	£100k up to one year duration
• Gloucestershire Everyman Theatre	£442k Non specified duration
• Ubico Limited	£500k up to one year duration
• Cheltenham BID	£100k up to one year duration
• The Cheltenham Trust	£100k up to one year duration
• Publica Group	£100k up to one year duration
• Cheltenham Borough Homes	£97m Non-specified duration[1]
• Cheltenham Borough Homes	£10m Equity Non- Specified duration[2]
• Cheltenham Borough Homes	£500k up to one year
• Gloucestershire Airport Limited	£9m up to one year
• Gloucestershire Airport Limited	£7.250m Non-specified duration
• Folk2Folk (Peer to Peer lending)	£575k Non-specified duration[3]

1 Cheltenham Borough Homes is looking to borrow £90m and a further

2 £10m Equity Investment from the council to assist in three areas over the coming years to provide substantial new housing in the town by providing Private Rented Sector (PRS) housing, purchasing 106 sites and building new homes. The drawdown of the loans will be over a period of 40 years.

3 Folk2Folk is a peer to peer lending platform in which the council can lend to support local, rural and entrepreneurial businesses £575,000 with a capped limit of £100,000 per loan application, up to a maximum of 5 years. Interest rates earned can be between 4.5% and up to 9% per annum.

Renewable Energy investments

Over recent years significant investments from Local Authorities in the Renewable Energy markets has occurred by way of investing in an energy bond. Currently the council has approved the use of Corporate Bonds and has used them on a regular basis but only for a maximum of two years previously. To be able to potentially invest in Green Renewable energy recommendation was made following consultation with members of the Treasury Management Panel on the 5th June 2017 and approved by Council on 24 July 2017 that up to £2m in relation to Green Investment bonds can be invested up to five years.

Within our treasury management investments, it is critical to get the right balance between social, environmental and financial factors when assessing the investments we make. Full Council noted in November 2021 that our exposure to gas and oil investments currently stands at £280k. This is part of the Schroder Income Fund and makes up 4% of the £7m we have invested in Pooled Funds. Given our current climate priorities, assurance was provided to Council that we are looking to take steps to ensure our investments are contributing to these goals. We are committed in the longer term to divesting from oil and gas but need to balance these priorities with ensuring we are making the right financial decisions to safeguard our residents, businesses and communities. We will continue to closely monitor the performance of this fund and when it is financially prudent to do so, will consider the climate implications of how we invest this money in the future.

Monitoring our Treasury Management Investments

5.8. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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 investments 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 existing investments with the affected counterparty.

5.9. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") 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.

5.10. 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.

5.11. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, 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 Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.12. In order to monitor this, we have set cash limits on the credit quality of the investments.

	Cash limit
Total long-term investments	£20m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£10m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£10m

Investment Limits

5.13. The Council's revenue reserves available to cover investment losses are forecast to be £25 million on 31st March 2022. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £6 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£6m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£6m per group
Any group of pooled funds under the same management	£5m per manager
Foreign countries	£4m per country
Registered providers	£5m in total
Unsecured investments with building societies	£5m in total
Loans to unrated corporates – Renewable Energy	£4m in total - £2m max in each
Money Market Funds	£5m per MMF

5.14. The Council uses purpose-built cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

6. Treasury Management Indicators

6.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

Security

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

	Target
Portfolio average credit rating	A-

Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2021/22	2022/23	2023/24
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	75%	75%	75%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and above	100%	0%

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

Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£20m	£20m	£20m

7. How we borrow money

7.1. There are a number of additional items that the Council is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

Policy on the use of financial derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. 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 and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Policy on apportioning interest to the HRA

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/ income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each year and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive

The Council has opted up to professional client status with its providers of financial services, including advisers, 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 Chief Financial Officer believes this to be the most appropriate status.

Investment advisers

The Council appointed Arlingclose Limited as treasury management advisers for three years plus the option for a further two years after a joint tender with Gloucestershire County Council, South Gloucestershire Council and the Forest of Dean District Council back in December 2017. The option of an extension for two years was taken up. A full tender exercise will be required in 2022 to have a treasury advisory service in place for the 1st December 2022.

Investment of money borrowed in advance of need

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £317m. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Financial Implications

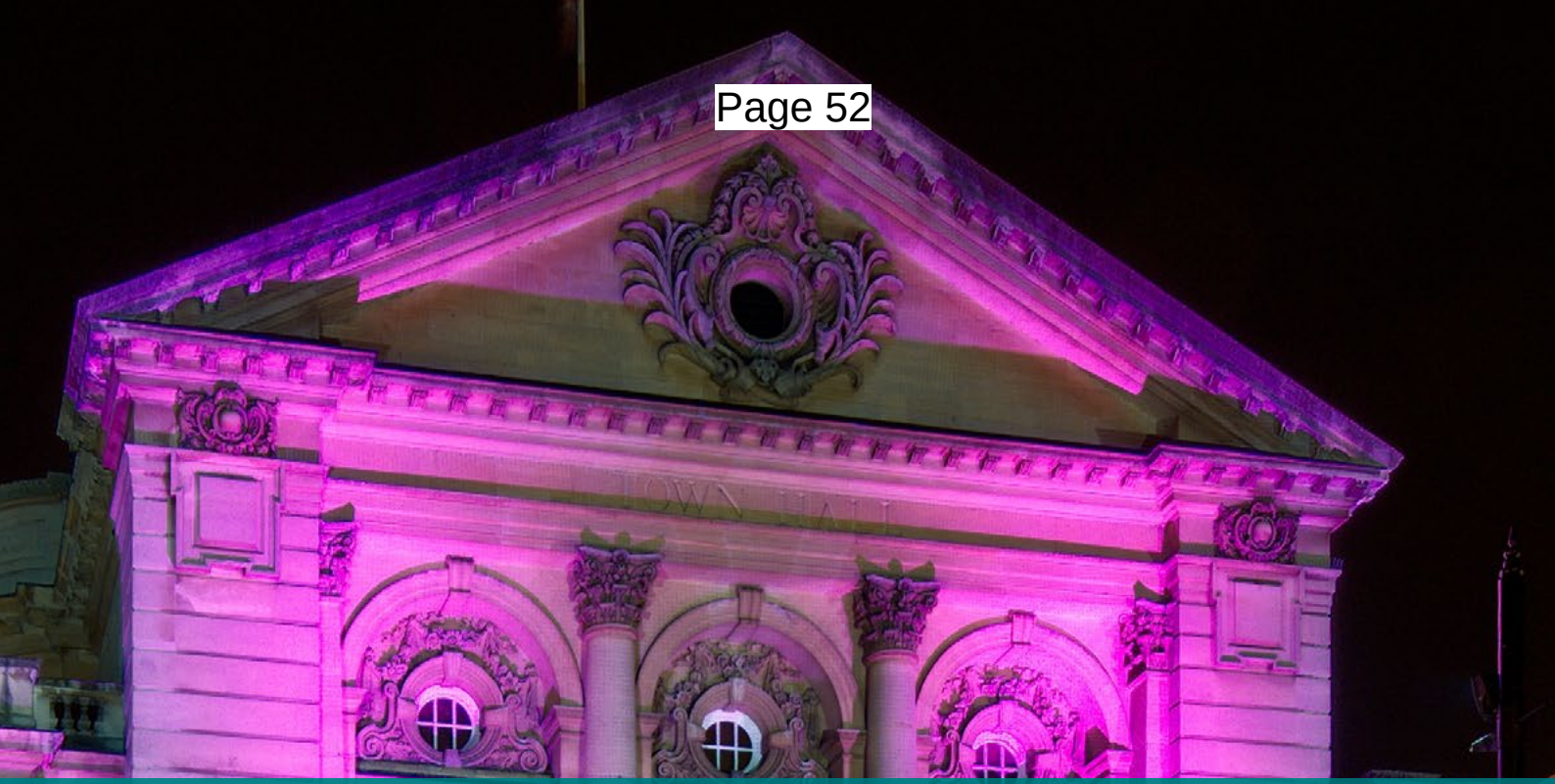
The budget for investment income in 2022/23 is £327k, based on an average investment portfolio of £19 million at an interest rate of 1.55%. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 0.15%, and that new long-term loans will be borrowed at an average rate of 2.00% to 2.5%.

On top of this interest received on third parties loans amounts to £252k.The budget for debt interest to be paid in 2021/22 is forecast to be £4.047 million, based on an average debt portfolio of £173m at an average interest rate of 2.21%.The HRA will reimburse the General Fund £1.930m for its share of the debt it holds as at 1 April 2021. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

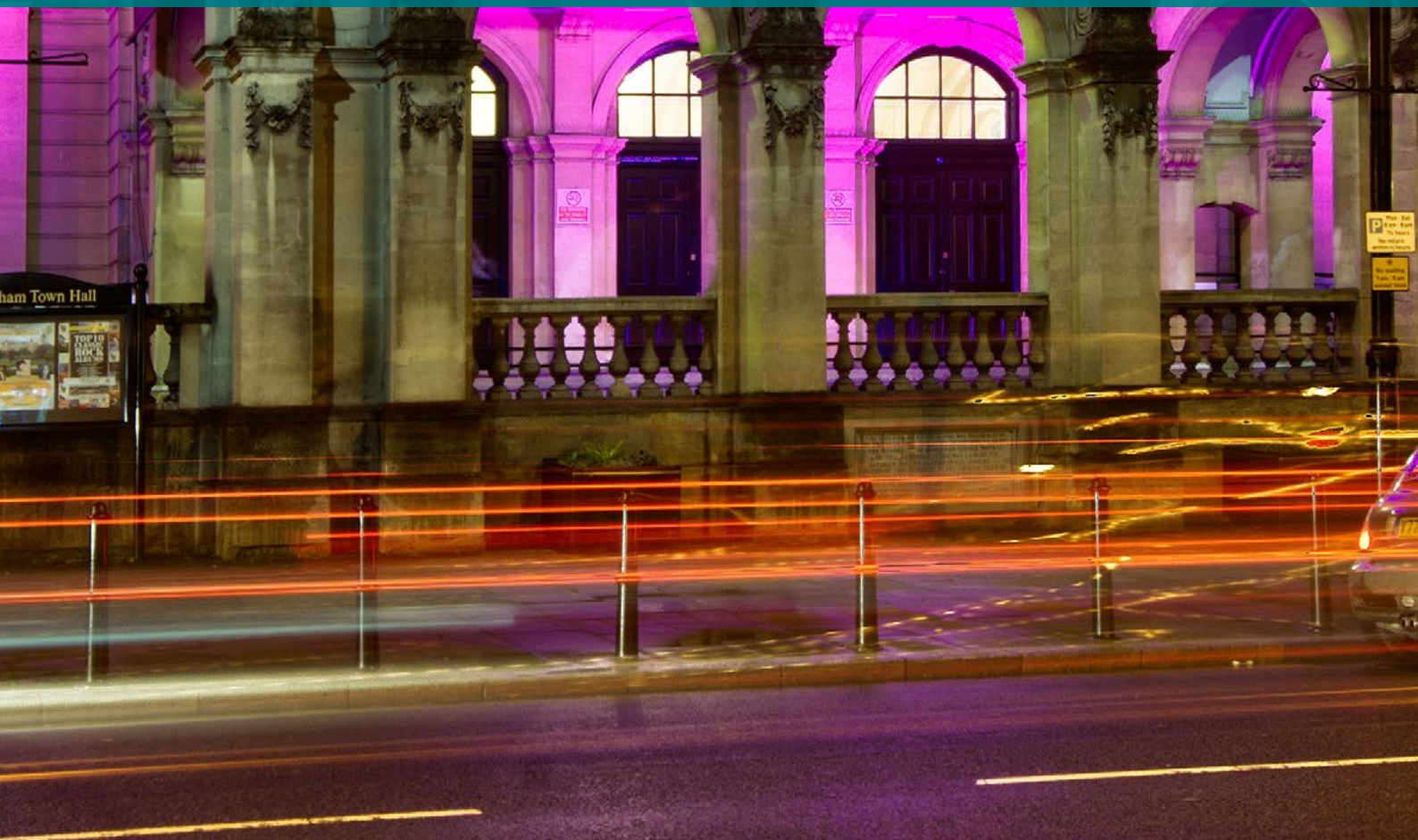
10.8 Alternative options

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Finance and Assets, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain



Appendix 1 - Arlingclose Limited Economic & Interest Rate Forecast February 2022



Economic Background:

The post COVID global economy has entered a higher inflationary phase, driven by a combination of resurgent demand and supply bottlenecks in goods and energy markets. Geopolitics are also playing a role, driving energy prices upwards which are being passed onto consumers. Tighter labour markets due to reduced participation rates have prompted concerns about wage driven inflation, leading central banks to tighten policy to ensure inflation expectations remain anchored.

Global inflation is riding high. While some indicators suggest supply bottlenecks in goods markets are easing, oil and gas prices have risen significantly and threaten a more sustained level of uncomfortably high inflation than previously expected In the UK, Ofgem has confirmed a significant rise in retail energy prices, which will maintain relatively high CPI rates throughout 2022.

Supply constraints are also evident in the labour market. Underlying wage growth is running above pre COVID levels despite employment being lower now than in early 2020. Evidence suggests that labour pools have diminished. Higher wage growth will be a contributory factor to sustain above target inflation this year.

The lower severity of Omicron means that the economic impact should be limited. The UK economy had a weak Q 4 2021 due to the virus, but growth is likely to bounce back in Q 1 2022.

However, higher inflation will dampen demand In the UK, households face a difficult outlook. Fiscal and monetary headwinds alongside a sharp reduction in real income growth will weigh on disposable income, ultimately leading to slower growth.

The Bank of England will tighten policy further over the next few months to ensure that aggregate demand slows to reduce business pricing power and labour wage bargaining power. Markets have priced in a significant rise in Bank Rate, but Arlingclose believe the MPC will be more cautious given the medium term outlook, assessing the impact of the first round of rises rather than following the market.

Bond yields have risen sharply to accommodate tighter monetary policy, including the run off of central bank bond portfolios The interplay between slowing growth and falling inflation, and tightening policy, will likely keep yields relatively flat.

Credit outlook:

Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast:

The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

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Minimum Revenue Provision Statement 2022/23

Background

Where the Authority finances capital expenditure by borrowing, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Levelling Up, Housing and Communities (DLUHC) formally known as the Ministry of Housing, Communities and Local Government's (MHCLG's) *Guidance on Minimum Revenue Provision* (the Guidance).

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

When applying the 'annuity' method, MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary (Paragraph 35 (b) of the Guidance)

Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred (Paragraph 23(b) of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003). The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but statutory guidance does not address how such a reduction should be calculated. The key principle in the calculation of MRP is that the amount applied each year is prudent.

Government Consultation on changes to the capital framework: Minimum Revenue Provision

In November 2021, DLUHC published a consultation on changes to the capital framework relating to Minimum Revenue Provision to which this authority made a formal response in addition to attending a roundtable event with a number of other attendees across the sector..

Having benefitted from direct discussions with the Department for Levelling Up, Housing and Communities (DLUHC) the Government has made it clear that they:

- **Want to understand the sector's views** on the issue identified by the government and the proposed reforms
- Be sure that the **changes are clear** and will appropriately **meet the government's objectives**.
- **Identify risks and potential unintended consequences** that could negatively impact the delivery of services or local and national priorities.
- Determine the **appropriate timing** for the changes to be implemented

The Government acknowledges that authorities have supported their practices with legal advice on interpretations of the Regulations. At the point that this statement is presented for approval, the consultation has not published its conclusions. Once clarity is provided the Council will review its application of receipts and amend its policy accordingly if it is deemed necessary.

The Government have reiterated that the changes are intended to apply prospectively only and to come into force from April 2023.

Our MRP Strategy

The Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods:

- For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, modified to a more prudent basis as permitted by the Guidance. Since 2016/17 such MRP has been based on repaying the non-housing debt in equal annual instalments over a 35-year period (this is Option 1 in the Guidance).

- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments *or* equal to the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the life of the asset, starting in the year after the asset becomes operational (Option 3 of the guidance).

- If capital receipts have been used to repay borrowing in the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by the amounts which have instead been repaid from capital receipts, subject to the MRP remaining above Nil. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Executive Director Finance and Assets (Section 151 Officer), taking into account forecasts for future expenditure and the generation of further capital receipts (Option 3 of the guidance).

- MRP on purchases of freehold land will be charged over 50 years, except where the land is subsequently held for sale as part of an Investment / economic development / regeneration project (in which case no MRP will be charged, the debt being repaid by applying the capital receipts / sale proceeds when received), or where the land is being held for future council development (in which case the MRP will be based on the asset life of the building(s) resulting from the development, commencing the year after those building(s) become operational).

- MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

- A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP (i.e. voluntary revenue provision (VRP) or 'overpayments'), can be reclaimed' in later years if deemed necessary or prudent by offsetting some or all of the 'overpayments' made against the current or future years' MRP. In order for these sums to be reclaimed for use in the budget, this policy must

disclose the cumulative 'overpayment' made to date. Up until the 31 March 2022 the total overpayments was £1.241m.

No MRP will be charged in respect of assets held within the Housing Revenue Account.

Capital expenditure incurred during 2022/23 will not be subject to a MRP charge until 2023/24 or until the year after an asset becomes operational.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31 March 2022 and the application of capital receipts to repay debt as described above, the budget for MRP and voluntary revenue overpayments (or VRP) has been set as follows:

	31.03.2022 Estimated CFR	**2022/23 Estimated MRP/VRP**	**2022/23 Capital Receipts applied**
	£m	**£m**	**£m**
Capital expenditure before 01.04.2008	6.664	0.222	0.000
Capital expenditure after 31.03.2008	87.670	0.359	0.869
Loans to other bodies repaid in instalments	12.547	0.000	0.400
Voluntary overpayment	n/a	0.188	0.000
Total General Fund	**106.873**	**0.769**	**1.269**
Housing Revenue Account	80.093	Nil	Nil
Total	**186.966**	**0.769**	**1.269**

Overpayments: In earlier years, the Authority has made voluntary overpayments of MRP that are available to reduce the revenue charges in later years, subject to the overall MRP charge in each year being not less than nil (i.e. negative) . It is planned to make a further £188,175 overpayment (known as Voluntary Revenue Provision or VRP) in 2022/23.

MRP Overpayments	**£**
Forecast balance 31.03.2022	1,240,625
Planned overpayment/(drawdown) 2022/23	188,175
Forecast balance 31.03.2023	1,428,800

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