

### **ANNEX 3 - GUIDANCE ON TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY (TMSS)**

#### **Prudential Code**

The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice for capital finance, to which local authorities must have regard.

#### **Capital Expenditure**

The Capital Expenditure table (section 2.1 of report) is split between the Council's Housing Revenue Account (HRA) and General Fund (GF or non-HRA).

The table also shows the resources used to fund the capital expenditure (being capital receipts from the sale of assets, capital grants, capital reserves and revenue) and any shortfall in resources. This shortfall is described as the 'net financing need' and represents the Council's borrowing need.

#### **Borrowing Need (Capital Financing Requirement)**

The Capital Financing Requirement (CFR) represents the Council's aggregate borrowing need. i.e. the element of the capital programme that cannot be funded.

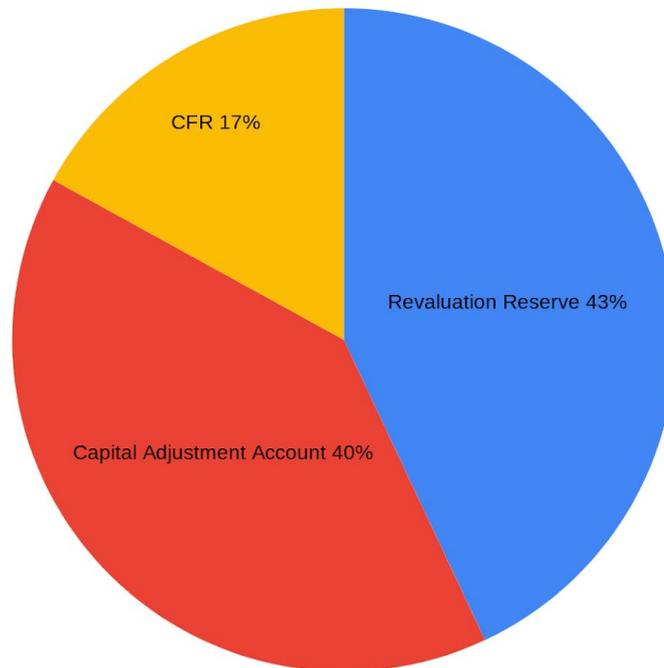
The table (section 2.2 of report) shows how the net financing need (borrowing requirement) increases the CFR.

So that the CFR does not increase indefinitely, an annual resource contribution from revenue must be set against it (called the Minimum Revenue Provision or MRP), which is shown in the table.

The Fixed Asset Analysis chart below shows that, using the council's draft accounts as at 31 March 2020, 17% of the council's capital / long-term assets had yet to be funded (CFR) and 40% had effectively been paid off or funded (Capital Adjustment Account). The remaining 43% represented the aggregate increase in value of these assets since acquisition by the council.

<b>Fixed Asset Analysis</b>	<b>£m</b>	<b>%</b>
Capital Financing Requirement	50	17
Capital Adjustment Account	116	40
Revaluation Reserve	124	43
Other Adjustments	1	0
<b>Fixed Assets (total of above)</b>	<b>291</b>	<b>100</b>

## Fixed Asset Analysis



### Core Funds and Expected Investment Balances

This table (section 2.3 of report) shows that the Council may satisfy its net financing need by borrowing from its own reserves or cashflow (internal borrowing) rather than from an external provider (external borrowing).

Either form of borrowing may only be undertaken for capital expenditure purposes.

### MRP Policy Statement

This describes the method for calculating the annual MRP contribution described above (section 2.4 of report).

### Borrowing

Current portfolio position – this table (section 3.1 of report) shows that the Council's debt is not more than the CFR because, as above, the CFR represents the Council's aggregate borrowing need.

Borrowing limits (section 3.2 and annex 1 of report) – there are various general controls on the Council's borrowing activity (operational boundary, authorised limit and maturity profiles).

### Basis Points

The report may refer to basis points, which is a unit of measure for interest rates. 1 basis point is equal to 0.01%, so 100 basis points is 1%.

### Annual Investment Strategy

This section (section 4 of report) sets out general controls on the Council's investment activity to safeguard the security and liquidity of its investments, including:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.

#### Ratio of Financing Costs to Net Revenue Stream

This table (annex 1 of report) shows (separately for HRA and GF) the percentage of the Council's revenue stream that is used to finance the CFR (net interest payable and MRP).