

## Summary Sheet

### Council Report Audit Committee

#### Title

Mid-Year Treasury Management and Prudential Indicators Monitoring Report – 2015/16

#### Is this a Key Decision and has it been included on the Forward Plan?

Yes, included on the Forward Plan for this meeting.

#### Strategic Director Approving Submission of the Report

Stuart Booth – Acting Strategic Director of Finance & Corporate Services

#### Report Author(s)

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#### Ward(s) Affected

All

## Executive Summary

### 1. Mid-Year Treasury Review

The regulatory framework of treasury management requires that the Council receive a mid-year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.

This report meets that requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).

It is a requirement that changes to the prudential indicators for 2015/16 are approved by Full Council.

The review as set out in Appendix A to the report is structured to highlight the key changes to the Council's capital activity (the PIs) and the actual and proposed treasury management activity (borrowing and investment).

A technical and complex report the key messages for Members are:

- a. Investments - the primary governing principle remains **security** over return and the criteria for selecting counterparties continues to reflect this.
- b. Borrowing - overall this will remain fairly constant over the period covered by this report and the Council will remain under-borrowed against the borrowing requirement due to the cost of carrying debt. New borrowing will generally only be taken up as debt matures.
- c. Governance - strategies and monitoring are undertaken by Audit Committee

## 2. Minimum Revenue Provision Policy Statement Review

It is a requirement that the Council's Minimum Revenue Provision Policy for each financial year is approved by Full Council.

Following further discussions with the Council's external auditor it is recommended that further clarification should be included within the wording of the current policy statement.

### **Recommendations**

**The Audit Committee is asked to:**

1. **Note the contents of the report; and**
2. **Refer the report to Commissioner Manzie to consider recommending Council approve the changes to the 2015/16 prudential indicators and the update to the wording of the current Minimum Revenue Provision Policy Statement**

### **List of Appendices Included**

Appendix A – Mid-Year Treasury Review

Appendix B – Update to the Minimum Revenue Provision Policy Statement

### **Background Papers**

None

### **Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No

### **Council Approval Required**

Yes

### **Exempt from the Press and Public**

No

## **Mid-Year Treasury Management and Prudential Indicators Monitoring Report – 2015/16**

### **1. Recommendations**

The Audit Committee is asked to:

- 1. Note the contents of the report; and**
- 2. Refer the report to Commissioner Manzie to consider recommending Council approve the changes to the 2015/16 prudential indicators and the update to the wording of the current Minimum Revenue Provision Policy Statement**

### **2. Background**

- 2.1 Mid-Year Treasury Review** – Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid-year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.
- 2.2** This review as fully set out in Appendix A meets that revised requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and PIs were previously reported to Audit Committee and Commissioners in February 2015 and approved by Council on 4 March 2015.
- 2.3 Update to the Council's Minimum Revenue Provision Policy Statement** – Minimum Revenue Provision (MRP) arises because there is statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement - CFR), i.e. the borrowing taken out in order to finance capital expenditure.
- 2.4** Members will recall that the Council approved at the Council meeting on 9 July 2015 a change to the MRP policy for the annual MRP charges on pre 2007/08 debt applicable to the 2014/15 financial year and to be confirmed annually as required in respect of future years.
- 2.5** Following further discussions with the Council's external auditor it is recommended that further clarification should be included within the wording of the current policy statement.

### 3. Key Issues

- 3.1 **Mid-Year Treasury Review** – The review as set out at Appendix A keeps Members up to date and informs on performance against the plan.
- 3.2 The key messages for Members are:
  - a. Investments - the primary governing principle remains **security** over return and the criteria for selecting counterparties continues to reflect this.
  - b. Borrowing - overall this will remain fairly constant over the period covered by this review and the Council will remain under-borrowed against the borrowing requirement due to the cost of carrying debt. New borrowing will generally only be taken up as debt matures.
  - c. Governance - strategies and monitoring are undertaken by Audit Committee
- 3.3 **Update to the Council's Minimum Revenue Provision Policy Statement** – It is a requirement that the Council's Minimum Revenue Provision Policy Statement for each financial year is approved by Full Council.
- 3.4 Following further discussions with the Council's external auditor it is recommended that further clarification should be included within the wording of the current policy statement. Details of the proposal are included at Appendix B to this report.

### 4. Options considered and recommended proposal

- 4.1 **Mid-Year Treasury Review** – The review as set out at Appendix A indicates performance is in line with the plan and no proposals to vary the approach for the remainder of the year are proposed.
- 4.2 **Update to the Council's Minimum Revenue Provision Policy Statement** – The option and recommended approach is being put forward following discussions with the Council's external auditor, KPMG.

### 5. Consultation

- 5.1 Consultation with the Council's External Auditors KPMG has taken place with respect to the update to the wording of the Council's Minimum Revenue Provision Policy Statement.

## **6. Timetable and Accountability for Implementing this Decision**

- 6.1 Approval of the changes to the Prudential Indicators and the proposed change to the Council's Minimum Revenue Provision Policy Statement to be made in line with the Council's calendar of meetings.

## **7. Financial and Procurement Implications**

- 7.1 Treasury Management forms an integral part of the Council's overall financial arrangements.
- 7.2 The assumptions supporting the capital financing budget for 2015/16 and for future years covered by the Council's MTFS were reviewed in light of economic and financial conditions and the future years' capital programme.
- 7.3 The Treasury Management and Investment Strategy is not forecast to have any further revenue consequences other than those identified and planned for in both the Council's 2015/16 Revenue Budget and approved MTFS.

## **8. Legal Implications**

- 8.1 It is a requirement that changes to the Council's prudential indicators and approved by Full Council
- 8.2 It is also a requirement that the Council's Minimum Revenue Provision Policy Statement for each financial year is approved by Full Council.

## **9. Human Resources Implications**

- 9.1 There are no Human Resource implications arising from the report.

## **10. Implications for Children and Young People and Vulnerable Adults**

- 10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

## **11. Equalities and Human Rights Implications**

- 11.1 There are no implications arising from this report to Equalities and Human Rights.

## **12. Implications for Partners and Other Directorates**

12.1 There are no implications arising from this report to Partners or other directorates.

## **13. Risks and Mitigation**

13.1 Regular monitoring of treasury activity ensures that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

## **14. Accountable Officer(s)**

Stuart Booth (Acting Strategic Director of Finance & Corporate Services)

Approvals Obtained from:-

Acting Strategic Director of Finance & Corporate Services:- Stuart Booth

Director of Legal Services:- Stuart Fletcher

### **Mid-Year Prudential Indicators and Treasury Management Monitoring**

#### **1. Introduction and Background**

- 1.1 Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid-year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.
- 1.2 This report meets that revised requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and PIs were previously reported to Audit Committee and Commissioners in February 2015 and approved by Council on 4 March 2015.
- 1.3 The Council's revised capital expenditure plans (Section 2.2 of this Appendix) and the impact of these revised plans on its financing are set out in Section 2.3. The Council's capital spend plans provide a framework for the subsequent treasury management activity. Section 3 onwards sets out the impact of the revised plans on the Council's treasury management indicators.
- 1.4 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Communities & Local Government Investment Guidance. These state that Members receive and adequately scrutinise the treasury management service.
- 1.5 The underlying economic and financial environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with high quality counterparties. The downside of such a policy is that investment returns remain low.
- 1.6 The Acting Strategic Director of Finance & Corporate Services can report that the basis of the treasury management strategy, the investment strategy and the PIs are not materially changed from that set out in the approved Treasury Management Strategy (March 2015).

#### **2. Key Prudential Indicators**

- 2.1. This part of the report is structured to update:
  - The Council's capital expenditure plans;
  - How these plans are being financed;
  - The impact of the changes in the capital expenditure plans on the PIs and the underlying need to borrow; and
  - Compliance with the limits in place for borrowing activity.

## 2.2 Capital Expenditure (PI)

2.2.1 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The revised estimate reflects the latest position in the 2015/16 capital monitoring report presented to Commissioner Manzie on 7 October 2015.

<b>Capital Expenditure by Service</b>	<b>2015/16 Original Estimate £m</b>	<b>2015/16 Revised Estimate £m</b>
Children & Young People's Services	9.736	12.035
Environmental & Development Services	21.863	24.875
Neighbourhoods & Adult Services – Non-HRA	4.908	5.290
Resources	0.671	2.784
<b>Total Non-HRA</b>	<b>37.178</b>	<b>44.984</b>
Neighbourhoods & Adult Services – HRA	32.846	32.524
<b>Total HRA</b>	<b>32.846</b>	<b>32.524</b>
<b>Total</b>	<b>70.024</b>	<b>77.508</b>

## 2.3 Impact of Capital Expenditure Plans

### 2.3.1 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the expected financing arrangements of this capital expenditure.

<b>Capital Expenditure</b>	<b>2015/16 Original Estimate £m</b>	<b>2015/16 Revised Estimate £m</b>
Total spend	70.023	77.508
<b>Financed by:</b>		
Capital receipts	1.649	1.825
Capital grants, capital contributions & other sources of capital funding	48.559	54.554
Borrowing Need	19.816	21.129
<b>Total Financing</b>	<b>70.024</b>	<b>77.508</b>
Supported Borrowing	0.000	0.006
Unsupported Borrowing	19.816	21.123
<b>Borrowing Need</b>	<b>19.816</b>	<b>21.129</b>



The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision (MRP)). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

2.3.2 The increase in borrowing need for 2015/16 reflects the re-profiling of capital expenditure & financing and new approvals since the original estimate was approved (£1.313m).

### 2.3.3 **Changes to the Capital Financing Requirement (PI), External Debt and the Operational Boundary (PI)**

The table below shows the CFR, which is the underlying external need to borrow for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary which was set at the beginning of the financial year at £620.923m.

### 2.3.4 **Prudential Indicators – Capital Financing Requirement & External Debt / the Operational Boundary**

In addition to showing the underlying need to borrow, the Council's CFR has since 2009/10, also included other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets. No borrowing is actually required against these schemes as a borrowing facility is already included in the contract. The estimate for 2015/16 does not require any revision as there is no change in the borrowing need from such arrangements.

2.3.5 The revised CFR estimate for 2015/16 is £808.882m and this figure represents an increase of £27.269m when compared to the 2014/15 year-end position of £781.613m. The increase is due to:

- The estimated borrowing need for the year (£21.129m) net of the Minimum Revenue Provision charge for the year (£5.765m)
- the additional borrowing amount contained within PFI and similar schemes due to the Waste PFI scheme (£13.517m) net of repayments on all schemes (£1.612m).

<b>RMBC</b>	<b>2015/16 Original Estimate £m</b>	<b>Current Position £m</b>	<b>2015/16 Revised Estimate £m</b>
<b>Prudential Indicator – Capital Financing Requirement</b>			
CFR – Non Housing	325.496		367.157
CFR – Housing	306.445		304.125
Total CFR excluding PFI, finance leases and similar arrangements	631.941		671.282
Net movement in CFR	10.020		15.364
Cumulative adjustment for PFI, finance leases and similar arrangements	137.602		137.600
Net movement in CFR	11.853		11.905
Total CFR including PFI, finance leases and similar arrangements	769.543		808.882
Net movement in overall CFR	21.873		27.269
<b>Prudential Indicator – External Debt / the Operational Boundary</b>			
Borrowing	481.656	477.742	482.871
Other long term liabilities*	139.267	138.406	139.267
Total Debt 31 March	620.923	616.148	622.138

\* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

<b>Former SYCC</b>	<b>2015/16 Original Estimate £m</b>	<b>Current Position £m</b>	<b>2015/16 Revised Estimate £m</b>
<b>Prudential Indicator – External Debt / the Operational Boundary</b>			
Borrowing	96.121	86.709	96.121
Other long term liabilities	0	0	0
Total Debt 31 March	96.121	86.709	96.121

### **3. Limits to Borrowing Activity**

- 3.1 The first key controls over the treasury activity is a PI to ensure that over the medium term, gross and net borrowing will only be for a capital purpose. Gross and net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent to do so.

<b>RMBC</b>	<b>2015/16 Original Estimate £m</b>	<b>Current Position £m</b>	<b>2015/16 Revised Estimate £m</b>
Gross Borrowing	481.656	477.742	482.871
Plus Other Long Term liabilities*	137.602	138.406	137.600
Total Gross Borrowing	619.258	616.148	620.471
CFR*	769.543	802.007	808.882
Total Gross Borrowing	619.258	616.148	620.471
Less Investments	25.000	18.900	25.000
Net Borrowing	594.258	597.248	595.471
CFR*	769.543	802.007	808.882

\* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

- 3.2 The Acting Strategic Director of Finance & Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this PI.
- 3.3 A further PI controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt (RMBC)	2015/16 Original Indicator £m	Current Position £m	2015/16 Revised Indicator £m
Borrowing	648.657	477.742	683.381
Other long term liabilities*	139.267	138.406	139.267
Total	787.924	616.148	822.648

\* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Authorised limit for external debt (Former SYCC)	2015/16 Original Indicator £m	Current Position £m	2015/16 Revised Indicator £m
Borrowing	96.121	86.709	96.121
Other long term liabilities	0.000	0.000	0.000
Total	96.121	86.709	96.121

#### 4. Treasury Strategy 2015/16 – 2017/18

##### 4.1 Debt Activity during 2015/16

4.1.1 The expected borrowing need is set out below:

RMBC	2015/16 Original Estimate £m	Current Position £m	2015/16 Revised Estimate £m
CFR	769.543	802.007	808.882
Less Other Long Term Liabilities*	137.602	138.406	137.600
Net Adjusted CFR (y/e position)	631.941	663.601	671.282
Borrowed at 30/09/15	457.780	477.742	477.742
Under borrowing at 30/09/15	171.161	185.859	193.540
Borrowed at 30/09/15	457.780		477.742
Estimated to 31/03/16	23.876		5.129
Total Borrowing	481.656		482.871
Under borrowing at 31/03/16	150.285		188.411

\* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

4.1.2 The Council is currently under-borrowed. The delay in borrowing reduces the cost of carrying the borrowed monies when yields on investments are low relative to borrowing rates. There is also an interest rate risk, as longer term borrowing rates may rise, but this position is being closely monitored and the overall position carefully managed.

4.1.3 During the six months to 30 September 2015 the Council has borrowed the following amounts from Barnsley, Doncaster, Rotherham and Sheffield Combined Authority:

Principal	Type	Term	Interest Rate
£10,000,000	Fixed rate	3 years	1.25%
£15,000,000	Fixed rate	6 years	2.20%
£5,000,000	Fixed rate	9 years	2.54%

4.1.4 During the six months to 30 September 2015, the Council has repaid the following amounts:

Lender	Principal	Type	Interest Rate
PWLB	£20,000,000	Fixed rate	9.625%
PWLB	£1,000,000	Fixed rate (EIP)	3.46%
PWLB	£65,000	Fixed rate (EIP)	3.79%
PWLB	£77,086	Fixed rate (Annuity)	Various

One Equal Instalment of Principal (EIP) loan for £20m is being repaid in equal half yearly instalments of £1m over its 10 year term. A second EIP loan for £1.3m is being repaid in equal half yearly instalments of £65,000 over its 10 year term. There are 5 Annuity loans on which variable amounts of principal are repaid each six months.

4.1.5 There has been no restructuring or early repayment of existing debt in the first six months of 2015/16.

## **5. Investment Strategy 2015/16 – 2017/18**

### **5.1 Key Objectives**

The primary objective of the Council's investment strategy is the safeguarding the repayment of the principal and interest of its investments on time – the investment return being a secondary objective. The current difficult economic and financial climate has heightened the Council's over-riding risk consideration with regard to "Counterparty Risk". As a result of these underlying market concerns officers continue to implement an operational investment strategy which further tightens the controls already in place in the approved investment strategy.

## 5.2 **Current Investment Position**

The Council held £18.900m of investments at 30 September 2015 (excluding Icelandic Banks), and the constituent parts of the investment position are:

<b>Sector</b>	<b>Country</b>	<b>Up to 1 year £m</b>	<b>1 - 2 years £m</b>	<b>2 – 3 years £m</b>
Banks	UK	0.750	0	0
DMO	UK	18.150	0	0
Local Authorities	UK	0	0	0
<b>Total</b>		18.900	0	0

One 'call' account with the top rated bank Handelsbanken is operated. This bank meets the Council's highest investment criteria.

This enables the Council to minimise the risk of having to leave unexpected receipts with the Council's current bankers, it allows immediate access to a small amount of funds to cover or part cover any short-term borrowing requirements and based on current rates there is a small benefit of approx. 0.2% over the rate achievable from the Debt Management Office.

## 5.3 **Risk Benchmarking**

A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are requirements to Member reporting and the following reports the current position against the benchmarks.

5.3.1 **Security** – The Council monitors its investments against historic levels of default by continually assessing these against the minimum criteria used in the investment strategy. The Council's approach to risk, the choice of counterparty criteria and length of investment ensures any risk of default is minimal when viewed against these historic default levels.

5.3.2 **Liquidity** – In respect of this area the Council set liquidity facilities/benchmarks to maintain:

- Bank overdraft – on a day-to-day basis the Council works to an agreed overdraft limit of £100,000 with the Council's bankers. Whilst a short-term increase could be negotiated less expensive short-term borrowing is accessed through the financial markets to remain within the agreed overdraft.
- Liquid short-term deposits of at least £3m available within a week's notice.

The Acting Strategic Director of Finance & Corporate Services can report that liquidity arrangements were adequate during the year to date.

5.3.3 **Yield** – a local measure for investment yield benchmark is internal returns above the 7 day LIBID rate

The Acting Strategic Director of Finance & Corporate Services can report that the return to date averages 0.26%, against a 7 day LIBID to the end of September 2015 of 0.36%. This is reflective of the Council's current approach to risk whereby security has been maximised by using the Debt Management Office and other Local Authorities as the principal investment counterparties.

It is important to recognise that based on the Council's average cash investments of £20m the difference in return at the benchmark when compared to the return achieved at the current rate would be £20k.

This increase in return has to be measured against the additional risk of placing cash elsewhere. However it is felt that the 'call' account with Handelsbanken could be used to a greater extent moving forward, but in a manner reflective of the need to maintain security of the Council's investments. This should ensure that at the year-end the outturn position will be closer to the benchmark figure.

## **6. Revisions to the Investment Strategy**

- 6.1 The counterparty criteria are continually under regular review but in the light of the current market conditions no recommendations are being put to Members to revise the Investment Strategy.

## **7. Treasury Management Prudential Indicators**

### **7.1 Actual and estimates of the ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

	<b>2015/16 Original Indicator %</b>	<b>2015/16 Revised Indicator %</b>
Non-HRA	8.24	6.30
HRA	16.07	15.94

- 7.2 The revised non HRA indicator reflects the impact of borrowing being at rates less than originally anticipated for 2015/16. The HRA indicator has increased slightly due to the final HRA revenue budget being less than that assumed in the original indicator.

### **7.3 Prudential indicator limits based on debt net of investments**

- **Upper Limits On Fixed Rate Exposure** – This indicator covers a maximum limit on fixed interest rates.
- **Upper Limits On Variable Rate Exposure** – Similar to the previous indicator this identifies a maximum limit for variable interest rates based upon the debt position net of investments.

RMBC	2015/16 Original Indicator	Current Position	2015/16 Revised Indicator
<b>Prudential indicator limits based on debt net of investments</b>			
Limits on fixed interest rates based on net debt	100%	79.08%	100%
Limits on variable interest rates based on net debt	30%	20.09%	30%

#### 7.4 **Maturity Structures Of Borrowing**

These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

The current position shown below reflects the next call dates on those Council's LOBO loans (£127m) that are not callable in 2015/16 and thus are regarded as fixed rate. The actual maturity date for most of these loans is greater than 50 years. This approach gives a better indication of risk and whilst there is a possibility that a loan is called with an increase in interest payable the likelihood of any LOBO loans being called in the current climate is assessed as zero for the next three years.

RMBC	2015/16 Original Indicator		Current Position		2015/16 Revised Indicator	
	Lower	Upper	%	£m	Lower	Upper
<b>Maturity Structure of fixed borrowing</b>						
Under 12 months	0%	35%	0.30%	1.143	0%	35%
12 months to 2 years	0%	35%	8.46%	32.292	0%	35%
2 years to 5 years	0%	40%	26.70%	101.917	0%	40%
5 years to 10 years	0%	40%	24.40%	93.156	0%	40%
10 years to 20 years	0%	45%	8.59%	32.800	0%	45%
20 years to 30 years	0%	50%	8.93%	34.097	0%	50%
30 years to 40 years	0%	50%	14.76%	56.336	0%	50%
40 years to 50 years	0%	55%	7.86%	30.000	0%	55%
50 years and above	0%	60%	0%	0.000	0%	60%



The former SYCC account is due to be wound up by the end of 2020/21 and the maturity structure is now largely fixed as the need and indeed opportunities to re-finance within the remaining 6 years will be limited. As a result future limits are currently set in line with the on-going maturity profile.

Former SYCC	2015/16 Original Indicator		Current Position		2015/16 Revised Indicator	
	Lower	Upper	%	£m	Lower	Upper
<b>Maturity Structure of fixed borrowing</b>						
Under 12 months	0%	50%	0.00%	0.000	0%	50%
12 months to 2 years	0%	70%	10.53%	10.000	0%	70%
2 years to 5 years	0%	100%	65.76%	57.020	0%	100%
5 years to 6 years	0%	100%	22.71%	19.689	0%	100%

#### 7.5 Total Principal Funds Invested

These limits are set to reduce the need for the early sale of an investment, and show limits to be placed on investments with final maturities beyond each year-end.

The Council currently has no sums invested for periods exceeding 364 days due to market conditions. To allow for any changes in those conditions the indicator has been left unchanged. The above also excludes any Icelandic investments that are due to be recovered after more than 364 days.

RMBC	2015/16 Original Indicator £m	Current Position £m	2015/16 Revised Indicator £m
<b>Maximum principal sums invested &gt; 364 days</b>	10	0	10
Comprising			
Cash deposits	10	0	10

## **Minimum Revenue Provision Policy Statement – Update**

### **1. Background**

- 1.1 Minimum Revenue Provision (MRP) arises because there is statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement - CFR), i.e. the borrowing taken out in order to finance capital expenditure.
- 1.2 Members will recall that the Council approved at the Council meeting on 8 July 2015 a change to the MRP policy statement for the annual MRP charges on pre 2007/08 debt applicable to the 2014/15 financial year and to be confirmed annually as required in respect of future years.
- 1.3 The previous methodology ensured the debt would be fully repaid in 500 years time long after the assets are no longer in use. It also resulted in higher repayments in the early years which has potentially a disproportionate impact on current Council Tax payers.
- 1.4 It was recognised a fairer way of matching the MRP charge to Council Tax payers with the use of the assets is to limit the repayment period to 50 years, this being an approximation of the average life for the Council's assets. In addition, it would seem fairer that future Council Tax payers pay an amount for the use of the assets comparable in real terms to that being paid by current Council Tax payers, therefore taking account of the time value of money in the future.
- 1.5 **The Council therefore approved the use of an annuity basis for calculating the annual MRP charges as this meets this need and that the revised methodology should be applied retrospectively to the start of 2007/08.**
- 1.6 An examination of the MRP charges made from 2007/08 revealed that the Council had over-provided during the period 2007/08 to 2013/14 and this over-provision was released back to revenue to ensure the total provision to the end of 2014/15 was in line with the reprofiled MRP schedule.

### **2. MRP Policy Statement**

- 2.1 Statutory requirements do not allow for having a negative MRP charge in any financial year. Whilst the adjustment to the MRP schedule led to immediate benefits greater than the estimated MRP charge in 2014/15, the Council still made a positive charge in 2014/15, the adjustment made was a correction to the total amount previously provided for and was treated as a separate accounting transaction.

- 2.2 A paper was submitted to the Council's auditors, KPMG, setting out the Council's proposal with regard to the MRP in relation to pre 2007/08 debt. KPMG confirmed (27<sup>th</sup> May 2015) that they were not 'minded to challenge' the principles put forward as the basis of change in providing for MRP. However, in doing so they indicated that this did not 'fetter their discretion' to reconsider their position if new information comes to their attention. This reservation of position was in line with our expectation until such time as they give their opinion on the Council's 2014/15 Statement of Accounts.
- 2.3 Discussions have now taken place with KPMG following a further review of their understanding of the Council's approach. Whilst the general principles are not being challenged it has now been accepted by officers that the annual MRP charge for 2014/15 and the correction for the overprovision should not have been treated as separate accounting transactions and the two taken together should not have produced a negative amount within the revenue account. In other words the amount credited back to revenue in 2014/15 should not have exceeded the amount of MRP charge for that year.
- 2.4 By crediting back the overprovision to revenue and creating the earmarked reserve the effect was to create a negative impact within the revenue account. By adjusting the disclosure of this negative impact such that it is retained within the Capital Adjustment Account the Council will have control over the release of the overprovision and this release will not be contrary to the MRP policy which requires a charge greater than zero.
- 2.5 There is no requirement to restate the 2014/15 financial statements but the 2015/16 accounts will be amended for the impact of this change. In addition KPMG have also recommended that clarification should be built into the wording of the approved MRP Policy Statement.
- 2.6 The current Policy Statement reads as follows:
- (a) The MRP charge in relation to capital expenditure incurred prior to 2007/08 where the expenditure was funded by either supported or unsupported borrowing will be calculated using the expected useful life of the asset and the calculation of the provision will be by the annuity method;
  - (b) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by either supported or unsupported borrowing will be calculated using the expected useful life of the asset at the point the asset is brought into use. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate; and
  - (c) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by a 'capitalisation directive' (e.g. equal pay) will be calculated on the basis of the specified period(s) set down within the regulations. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate.

- 2.7 It is proposed that this is amended by the addition of a further section, (d), and the suggested form of words is as follows:

***“For the sake of clarity, where MRP has been overcharged in previous years, the recovery of the overcharge will be effected by taking an MRP holiday in full or in part against future years charges that would otherwise have been made. The MRP holiday adjustment to the future years charge will be done in such a way as to ensure that:***

- ***the total MRP after applying the adjustment will not be less than zero in any financial year***
- ***the cumulative amount adjusted for will never exceed the amount over-charged;***
- ***the extent of the adjustment will be reviewed on an annual basis”***