Open Report

City of Stoke-on-Trent	**Audit Committee** **31 January 2019**

Treasury Management Annual Borrowing and Investment Strategy 2019/20 and Minimum Revenue Provision Policy Statement 2019/20

Report of	Assistant Director Finance - Section 151 Officer
Report Author	Paul Boden – Strategic Manager - Finance
Type of Decision	Policy Framework
Wards Affected	No Ward Implications

Stronger Together Priorities and how they are applicable:
A commercial council, well governed and fit for purpose, driving efficiency in everything we do
Ensuring that the council has policies and strategies in place for the management of cash requirements to put resources aside to provide for debt liabilities.

1.0 Reason and Purpose of Report:	
1.1	For Audit Committee to consider the governance processes for the appended Treasury Management Annual Borrowing and Investment Strategy 2019/20 and Minimum Revenue Provision Policy Statement 2019/20.
1.2	Following consideration of this report to Audit Committee, the report and suggested comments will be incorporated into the Medium Term Financial Strategy and Council Tax Setting 2019/20 report to be presented for approval by City Council on 27 February 2019.

2.0 Recommendation(s):	
2.1	That Audit Committee consider the governance requirements of the report prior to final incorporation into the Medium Term Financial Strategy and Council Tax Setting 2019/20 for submission to Cabinet and final approval by City Council.

3.0 Summary of Main Points:	
3.1	The Treasury Management Annual Borrowing and Investment Strategy 2019/20 and Minimum Revenue Provision Policy Statement 2019/20 are required to be approved by City Council following consideration and comment by the Audit Committee.

3.2	The purpose of the Treasury Management Strategy is designed to achieve the following objectives: • To ensure the security of the principal sums invested; • To ensure that the council has access to cash resources as and when required; • To minimise the cost of the borrowing required to finance the council's Capital Investment programme, and To maximise investment returns commensurate with the council's policy of minimising risks to the security of capital and its liquidity position.
3.3	The City Council has adopted and operates within the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Service which stipulates that the s151 Officer, Assistant Director Finance, should report to the council on the proposed strategy to be adopted for the forthcoming financial year (2019/20) in respect of treasury management activities.
3.4	The City Council has also adopted and operates within the CIPFA Prudential Code for Capital Finance in Local Authorities which requires the preparation of a number of prudential indicators. The Code sets out a framework for self-regulation of capital spending; in effect allowing councils to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable, subject to Government reserve powers to restrict borrowing for national economic reasons. The objectives of the Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable
3.5	The purpose of Prudential Indicators is to ensure that any borrowing agreed by the authority will be both prudent and affordable. Performance against these indicators will be monitored throughout the year and reported on, as appropriate, to the Audit Committee. This set of indicators are appended to this report for scrutiny by Audit Committee and final approval by City Council.
3.6	The Statutory Guidance on Local Government Investments (MHCLG, 2018) requires that authorities in England produce an investment strategy, approved by the full council. The policy sets out how investments are managed and the expectations of returns and contribution to the overall budget. This strategy has been incorporated within an expanded Treasury Management Strategy, as appended.
3.7	The purpose of the Minimum Revenue Provision (MRP) Policy Statement 2019/20 is to set out the method by which the costs of past capital financed by supported and unsupported borrowing and other credit liabilities are charged to the General Fund balance. The policy has regard to the MRP guidance in line with statutory requirements and is appended to this report for information and completeness.

Technical Appendix:

List of Background papers/sources of information used for this report:
The Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2013 Prudential Code for Capital Finance in Local Authorities (2017 Edition) Treasury Management in the Public Service: Revised Code of Practice (2017 Edition) MHCLG Statutory Guidance On Local Government Investments (3rd Edition) City Council Financial Regulations Proposed Capital Programme 2019/20 to 2023/24
List the appendices included as part of this report:
Appendix A - Treasury Management Policy Statement Appendix B - Prudential Indicators 2019/20 to 2023/24 Appendix C - Economic and Interest Rate Forecast Appendix D - Minimum Revenue Provision (MRP) Policy Statement 2019/20

Implications taken into consideration in this report *(Please list as separate appendix if required)***:**

Financial and Commercial:
Local Government Act 2003, adopting the prudential framework and the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management.
Legal:
There are no implications associated with this report. The final outturn was within the budget set for Treasury Management.
Human Resources:
There are no implications associated with this report.
Public Health and Public Services (Social Value) Act 2012:
There are no implications associated with this report.
Equality Impact or Environmental Impact Assessments:
There are no implications associated with this report.
Key Risks:
The treasury policies form part of the medium term financial strategy which sets out the allocation of funds to deliver services to mitigate financial risk .

Treasury Management - Policy Statement

Background

1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. These activities are supported by recommended guidance; CIPFA Code of Practice for Treasury Management in Public Services 2017 Edition (the "CIPFA TM Code") and the CIPFA Prudential Code for Capital Finance in Local Authorities. These codes of practice require the council to determine and approve the Treasury Management and Investment Strategy and Prudential Indicators (PI's) on an annual basis.

2. The policy statement provides the policies, objectives and approach to risk management of the council's treasury management activities by producing an Annual Borrowing and Investment Strategy supported by Prudential Indicators and a Minimum Revenue Provision Statement. The purpose of the policy statement is therefore, to develop for approval a:
    - Treasury Management and Annual Borrowing and Investment Strategy for 2019/20 including Prudential Indicators; and
    - Minimum Revenue Provision Statement for 2019/20

3. Underpinning the policy statement are a number of day to day procedures governed by the city council's Treasury Management Practices, which adhere to the CIPFA TM Code, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

4. The Treasury Management Practices include delegated authority for borrowing and investing to permit day to day transactions to be undertaken and allow for swift reaction to market conditions in respect of borrowing and investment. The responsibility for this function falls within the City Director's Directorate.

5. The council will receive and approve an annual strategy and plan and delegates responsibility for the implementation and regular monitoring of its treasury management activities to Audit Committee who will receive quarterly reports to support their role in governance. These reports will also be sent to Corporate Services Overview and Scrutiny Committee for consideration.

Treasury Management Strategy

6. The council defines its treasury management activities as:
The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

7. The council regards the identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

8. The council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

External Outlook within which the strategy operates

9. The economic and interest rate forecast provided by the authority's treasury management advisor, Arlingclose Ltd, underpin the future assumptions on borrowing and investment, those assumptions are summarised below [1]

Economic background: *The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.*

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

[1] As at Nov 2018

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.
While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

***Credit outlook:** The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.*

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

***Interest rate forecast:** Following the increase in Bank Rate to 0.75% in August 2018, Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.*

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity (at the time of writing this commentary in early December). As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2%

respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.7%, and that new long-term loans will be borrowed at an average rate of 2.8%. The interest rate forecasts are attached at appendix C.

Brexit

10. The impact of leaving the EU on financial markets is unknown however opportunities to invest may alter as funds continue to be domiciled outside of the UK, this may require a change in the treasury management limits. For regulatory purposes it is assumed that current EU regulations will become enshrined in UK law and therefore continue as currently. Any changes in legislation will be adhered to and their impact assessed

Bail-in

11. The Financial Service (Banking Reform) Act 2013 prevents government from supporting banks in the event of the bank having financial difficulties without the bank first taking measures to resolve those difficulties. Commonly known as Bail-in legislation it requires that large investors including local authorities may have their investments applied to rescue failing banks rather than, as previously, that rescue falling on taxpayers.

12. The impact of a bail-in depends on, the size of loss incurred by the bank, the amount of equity capital and junior bonds that can absorb those losses, and the proportion of investments that are exempt from bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the authority that are exempt from bail-in typically insured deposits, covered bonds and repurchase agreements. Insured deposits are classed as a preferred creditor, ranking above others in the event of insolvency, the council will therefore make investments that aim to reduce this bail-in risk.

13. Financial Services Compensation Scheme regulations do not permit public sector and financial organisations, including pension funds and money market funds, eligibility for compensation, the rationale being that “public authorities have much better access to credit than citizens, so should not be eligible for protection.”

14. These changes do not in themselves increase the risk of any bank defaulting, they will definitely increase the loss given default. Losses from either a bail-in or an insolvency process will be larger than they would otherwise have been, since there will be fewer creditors among which to share the losses.

MiFID II

15. The Markets in Financial Instrument Directive 2014/65 (MiFID II), an EU directive, has been introduced to tighten the regulation of financial markets with the expected outcome to protect investors. The change occurred in January 2019 and Local authority investors are defaulted to a retail client, the same as individuals and SME's, but has the option to elect to become a professional client.

16. Having retail status the council will receive more advice on the specific risks of investments. Access to certain investments will however be unavailable where considered too risky to be offered to a retail client and some financial institutions will no longer transact with retail clients. It is not considered a major issue with our current investment strategy to retain low cash balances.

To elect to be a professional client the council must hold a constant minimum investment balance of at least £10 million throughout the year, given our policy of holding low levels of cash and to minimise borrowing costs the council cannot guarantee the minimum cash requirement for the whole year. Consequently, the council has elected to be a retail client.

17. The council's treasury management advisors will continue to keep the council informed of any emerging position surrounding the credit position of the banks. To mitigate the impact the Treasury Management Strategy proposes to ensure diversification of deposits and investment vehicles across banks and other organisations to reduce any potential risk to loss.

Borrowing Strategy

18. The borrowing strategy is to minimise the level of debt costs utilising either internal resources to fund capital expenditure and maturing debt or, where applicable, to take advantage of short-term variable borrowing to cover shortfalls in the cash flow. The authority will continue to monitor interest rates to take advantage where the need to borrow arises.

19. **Objective:** The council's main objective in deciding when to borrow money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. Should the authority's long-term plans change the flexibility to renegotiate loans is considered a secondary objective.

The borrowing strategy is influenced by the difference between borrowing and investment interest rates over the short and long term, this difference creates a "cost of carry". With short-term interest rates currently much lower than long-term rates the cost of carry is likely to remain an issue for the foreseeable future and consequently borrowing will take place when cash requirements dictate.

The Authority will adopt a flexible approach to this borrowing in consultation with its treasury management advisors. The following issues will be considered prior to undertaking any external borrowing:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing source

Current Debt

20. As at 31 March 2019, the council is expected to have, including the HRA, £456.9 million of loans. This is made up of Public Works Loans Board (PWLB) loans of £436.9 million and £20.0 million loans from Dexia a Lender's Option Borrower's Option (LOBO). Details including the average interest rate are highlighted in the table below.

Expected Debt Portfolio Position

		Principal £ million		**Av. Rate %**
Fixed rate funding	PWLB	436.940		
	Market	20.000	456.940	3.50%
Variable rate funding	PWLB	0.000		
	Market	0.000	0.000	0.000

21. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the authority since the decision to call a LOBO is entirely at the lender's discretion. The first drawdown date for the LOBO loans was 2016/17 which was not exercised. The next drawdown date for the LOBO loans is 2021/22 however, the assumption made by our Treasury Management advisors is that it was unlikely that the lender would exercise their options in the current low interest rate environment.

22. In conjunction with advice from its treasury advisor the authority will keep under review the following borrowing sources:
    - Public Works Loan Board (PWLB)
    - UK Municipal Bonds Agency plc
    - Other Local Authorities
    - Commercial Banks

- Internal
- Capital markets (stock issues, commercial paper and bills)
- Structured finance

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

The authority has previously raised the majority of its long-term borrowing from the PWLB but does consider other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates. Any borrowing may be a mix of the sources identified above based on the funding requirements and forecast cash position of the city council at the time any borrowing is determined.

23. **Capital Financing Requirement**

The city council's underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR is the key element of the Authority's treasury management activities particularly in relation to borrowing and represents the maximum upper limit of borrowing permitted, not the actual required. The CFR includes all types of borrowing, including finance leases and PFI which are classed as a form of borrowing

24. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the authority's total debt should be lower than its highest forecast CFR over the reporting period. As the expected level of borrowing is lower than the borrowing requirement incorporated into the CFR, the council expects to comply with this recommendation during 2019/20.

25. The borrowing requirement for the city council resulting from its capital programme is incorporated into the CFR. The capital financing requirement represents the maximum expected level of borrowing to finance capital and is based on existing and historic capital approvals.

31.3.18 Actual £ million		31.3.19 Estimate £ million	31.3.20 Forecast £ million	31.3.21 Forecast £ million	31.3.22 Forecast £ million	31.3.23 Forecast £ million	31.3.24 Forecast £ million
459.030	General Fund CFR	553.651	621.731	646.636	632.807	613.716	594.824
156.641	HRA CFR	156.641	164.031	179.256	177.412	179.092	184.692
615.671	**Total CFR**	**710.292**	**785.762**	**825.892**	**810.219**	**792.808**	**779.516**
-99.449	*Less*: PFI /lease liabilities	-91.380	-82.398	-73.768	-65.759	-57.216	-47.776
516,222	Borrowing CFR	618.912	703.364	752.124	744.460	735.592	731.740

26. The overall level of borrowing is a mixture of three principal aspects, actual debt, leases and PFI schemes and internal borrowing. Internal borrowing represents temporary delayed borrowing which will eventually be replaced by external borrowing e.g. as reserves are applied. The requirement for actual borrowing takes into account estimated cash balances and levels of income and expenditure. The estimated level of borrowing for General Fund and HRA assumed during the next five years in shown below:

	Current Debt £ million	Debt Repaid £ million	Assumed New Debt £ million	Balance £ million
2017/18 (actual)	344.4	(1.6)	55.0	397.8
2018/19 (expected)	397.8	(5.9)	65.0	456.9
2019/20 (est)	456.9	(6.4)	75.8	526.3
2020/21 (est)	526.3	(6.4)	58.5	578.4
2021/22 (est)	578.4	(15.4)	30.0	593.0
2022/23 (est)	593.0	(19.5)	14.8	588.3
2023/24 (est)	588.3	(9.4)	8.5	587.4

The estimated borrowing, actual external debt and usable reserves combine to inform the authority's borrowing requirement and potential investment strategy in the current and future years.

27. **Housing Self-finance**

The HRA total debt, as at 31 March 2020 is shown in the table below. In the Autumn announcement, the government has removed the debt cap originally set at £183.9 million. The table below assumes the level of borrowing before the removal of the debt cap. The HRA is considering its property investment proposals in light of the removal of the cap, any revisions to the capital programme will be presented to City Council for approval.

HRA Debt estimates

	2019/20 Balances £ million	**2020/21 Balances £ million**	**2021/22 Balances £ million**	**2022/23 Balances £ million**	**2023/24 Balances £ million**
Prior Stock Transfer Debt Split	72.200	72.200	68.839	63.798	62.677
Market Loan Split	10.000	10.000	10.000	10.000	10.000
Stock Transfer (1/4/2012) Debt	74.441	74.441	74.441	74.441	74.441
Accumulated new debt	7.390	22.615	24.132	30.853	37.574
TOTAL	**164.031**	**179.256**	**177.412**	**179.092**	**184.692**

28. **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. Where this is expected to lead to an overall cost saving or a reduction in risk the authority may take advantage of this and replace some loans with new loans, or repay loans without replacement. Borrowing and rescheduling activity will be reported in the Annual Treasury Management Outturn Report and the quarterly treasury management reports presented to the Audit Committee. It is unlikely that there will be any rescheduling of debt during 2019/20.

Investment Strategy

29. Both the CIPFA Code and the MHCLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The strategy adopted by the council for 2019/20 will be to achieve the maximum amount of interest from investments without incurring significant risk, this will be at the expense of yield

30. **Objectives:** The council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. 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. Given the low returns from investments and the costs of debt, the Authority aims to retain low cash balances but invest cash into secure asset classes during 2019/20.

31. **Business models**: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's classification of those investments (the "business model") which is based on how those investments are managed in order to generate cash flows. IFRS 9 identifies three types of business models: 'hold to collect', 'hold to collect and sell' and 'other'.

The objective of the 'hold to collect' business model is to hold financial assets to collect their contractual cash flows, rather than with a view to selling the assets to generate cash flows. Under the 'hold to collect and sell' business model, the objective is to both collect the contractual cash flows and sell the financial asset. In contrast to the 'hold to collect' sales are integral rather than incidental, and consequently this business model typically involves a greater frequency and volume of sales. Other are all those that do not meet the previous classifications, these can include investments where the primary objective is realising cash flows through sale.

The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

32. The MHCLG guidance distinguishes between investments for treasury management purposes and other (non-Treasury) cash and non-cash investments. Treasury management investments being, for example, short term investments with the bank or other financial institution, these will follow the Treasury Management Code. Other non-Treasury cash investments can include loans to 3rd parties including loans to wholly owned subsidiaries and other non-cash investments including assets held by the council for investment return purposes including investment property portfolios.

33. **Non-Treasury investments**

The non-treasury investments includes monitoring of investment properties and investments in subsidiaries and the proportionality of these types of investments against other income the Council receives in order to consider and highlight the overall level of reliance on commercial income within the council's budget.

34. The council owns shares to the par value of £2.076 million at the end of 2017/18 and expect to hold £9.584 million by the end 2018/19 and £13.588 million by 2019/20 on investments including wholly owned subsidiaries. The shares are held with the primary intention to receive a return via a dividend which is expected to contribute 4.0% of the overall net budget.

Under the revised prudential code we are required to show our share investments, a summary of share investments is shown below:

	2017/18 actual		2018/19 estimate		2019/20 estimate		Return as %age of net budget (£208.1m)
Investment	Shares par value £	Shares fair value £000	Shares par value £	Estimated Dividend £000	Shares par value £	Estimated Dividend £000	%
Fortior Homes Ltd	2,057,195	1,748	6,453,000	0	13,569,000	0	0
Unitas (Stoke-on-Trent) Ltd	1	143	1	4,500	1	7,000	3.6
Stoke Energy Co Ltd[2]	1	0	1	0	1	0	0
Stoke on Trent Regeneration Ltd	19,000	5,942	19,000	1,334	19,000	1,334	0.6
Kier Stoke Ltd[3]	199	1,265	0	1,337	0	0	0
Total	**2,076,201**	**9,098**	**9,584,002**	**7,171**	**13,588,002**	**8,334**	**4.0**

35. The council has and expects to make the following non treasury investments in respect of loans to Fortior Homes, a wholly owned subsidiary and GenR8 Hotel Ltd as follows;

[2] The Stoke Energy Co is not expected to derive an income for the council in the initial phase but will provide a low cost base for energy thereby reducing current costs.
[3] Kier Stoke Limited is being dissolved and a final settlement paid.

Organisation	Expected total amount invested £000	Period of investment		Duration
		Earliest provided	Latest provided	
Fortior Homes	36,821	Feb 18	Dec 19	10 years
GenR8 Hotel Ltd	6,887	Jun 18	Dec 19	6.5 years
Total	43,708			

The loan exposure for these loans measured against the expected total council debt for 2018/19 represents 9.6%. (£43.7m/£456.9m). The loans are to support and deliver two key aims;

- to generate a return to the council to support strategic services and reduce the dependency on government support and
- to address the shortage of private rented sector homes and high quality hotel accommodation.

36. **Security:** To reduce the risk of financial loss on the investments, the council have secured the investment against the assets constructed from the loan advanced specifically private rented sector properties located about the City and the Hotel constructed on the Smithfield site. There is a point where the value of the assets secured against the investment is expected to reach a position where their value exceeds that of the value of the debt outstanding. The assets for Fortior Homes are expected to reach this position by the end of 2019/20. For the Hotel, this point is expected to be reached by the December 2020.

37. The loans are planned to be financed from prudential borrowing. The borrowing is assumed to take place at the point the loan is made and not in advance of need. The loans are secured against the properties being constructed and/or purchased. In the event of any default the assets may be disposed of to liquidate the loans made. In the case of Fortior Homes the council has the first charge on the assets of the company, the value of these assets is expected to exceed the overall the overall investment made by the council of £52.7m by the end of 2020/21 when asset values are estimated at £63.5m, a loan to value ratio of 83%. For the hotel the council has a second charge on the asset after the principal lender. The value of the asset is expected to be £18m upon completion, a loan to value ratio of 38%.

38. **Risk assessment:** In considering a loan arrangement the council assesses the risk of loss before entering into it. For the current loans demand for rented sector and hotel accommodation was assessed as part of the original business cases. This assessment included the risks and opportunities of the current market and future demand estimates and was

supported by the use of independent advisors who understand the market conditions locally. The investments will be assessed for any unexpected losses and accounted for under IFRS 9 Financial Instruments. The loans are also incorporated in the prudential indicators.

39. The council also holds a small number of assets (58) that are classed as investment properties under accounting standards. Under the revised prudential code we are required to show the loans and expected returns, the expected returns of all investments are shown in the table below;

Measure	**Position as at 31/03/18**	**Estimated 2018/19**	**Estimated future full year effect**
Loans made to subsidiary companies	• Gross return £0.04m • *Less:* Capital Financing Costs £0.02m • Net surplus £0.02m represents 0.0% of net revenue budget.	• Gross return £0.40m • *Less:* Capital Financing Costs £0.28m • Net surplus £0.12m represents 0.06% of net revenue budget.	• Gross return £2.21m • *Less:* Capital Financing Costs £1.53m • Net surplus £0.67m represents 0.32% of net revenue budget.
Loans made to other companies	• Gross return £0.0m • *Less:* Capital Financing Costs £0.0m • Net surplus represents 0.0% of net revenue budget.	• Gross return £0.34m • *Less:* Capital Financing Costs £0.21m • Net surplus £0.13m represents 0.06% of net revenue budget.	• Gross return £0.34m • *Less:* Capital Financing Costs £0.21m • Net surplus £0.13m represents 0.06% of net revenue budget.
Contribution Investment Properties make to core functions	• Direct Net surplus was £1.15m • *Less:* Capital Financing costs estimated at £1.10m • Net surplus £0.05m represents 0.02% of net revenue budget.	• Direct Net surplus 18/19 of £1.71m • *Less:* Capital Financing costs estimated at £1.14m • Net surplus £0.57m represents 0.27% of net revenue budget.	• Direct Net surplus 19/20 of £2.48m • *Less:* Capital Financing costs estimated at £1.14m • Net surplus £1.34m represents 0.64% of net revenue budget.

The returns reflect an assumed level of vacancy to recognise changes in tenants and hotel occupancy.

In the event that the income returns are not received in either the quantum or in the timing, the council will review its revenue budgets and make the necessary adjustments to ensure the budget remains balanced.

40. **Treasury Investments**
The forecast for the forthcoming year is for the levels of Treasury investments to reflect the budget set at £50,000. Since the 1 April 2018 to the end of December 2018, the average investment balance has been £5 million generating an average return of 0.58%.

41. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the authority 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 authority's investment objectives will be monitored. The policy permits the consideration to invest in property funds and place funds with external fund managers. This will mean placing funds for periods in excess of between 3 and 5 years, this remains unlikely given the policy to hold low levels of liquidity.

42. Money Market Funds[4] (MMFs) will be utilised where appropriate but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. MMF's in addition to call accounts offer immediate access to funds, thus maintaining a high degree of Iiquidity. The authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF.

43. Investment returns in Treasury Bills have seen slight increases following the change in interest rates. While offering a high level of security this form of investment provides a lower rate of return to the council however, it will continue to be monitored and the facility used where appropriate.

44. Following budget approval in 2017/18, the council has invested a small amount (£200,000) in a collective peer to peer lending platform. Funding Circle only offers Investment via automatic bidding and as such, the Council has no control over which specific companies it invests in or their geographical location. The Council is however able to choose the grade of risk and associated return it is prepared to take; a balanced (A+ to E – avg return 7.5%) or a conservative portfolio (A+, A – avg return 4.8%). To mitigate risk the level of investment in any one company is restricted to no more 1% of an investor's total capital, £2,000. To provide some liquidity Investments (excluding any loans in default) can be sold to other investors. Funding Circle undertake due diligence on all loan applicants to reduce any potential risk of default. Where a loan defaults, Funding Circle's in house recovery team work with the businesses to try and rectify the

[4] Money Market Funds are an open-ended **fund** that invests in various short-term debt securities such as Treasury bills and commercial papers.

position and if this is not possible will take court action to recover any outstanding debt. Currently published rates for bad debts are 2% after recoveries of all Funding Circle loans by loan amount.

45. The council's treasury management advisors regularly monitor and advise the council on the financial standing of select countries and financial institutions to support treasury investment, the areas monitored are:

- Published credit ratings for financial institutions
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.
- Any institution can be suspended or removed should any of the factors identified above give rise to concern.

46. Investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. The council will continue to use the security of the principle invested as the main factor when placing any investments.

47. The proposed levels of maximum investment for UK and Non-UK banks are detailed in the tables below. While mindful of the need to provide a return on investments, investment decisions will be made to retain security and liquidity and will not be influenced by the income budget set. It should be noted that although the following tables show the maximum amount that can be held in any counterparty or group to be agreed as part of this strategy, this will fluctuate throughout the year based on the advice of Arlingclose. The authority and its advisors remain vigilant for signs of credit or market distress that might adversely affect the authority.

UK Institution limits based on credit rating

Credit Rating / Investment Limit	Gov't Agency	AAA to A+	A and A-
Unlimited	✓		
£10 million		✓	
£8 million			✓

Non-UK Institution limits based on credit rating

Credit Rating / Investment Limit	AAA	AA+	AA	AA-
£8 million	✓			
£6 million		✓		
£4 million			✓	
£2 million				✓

48. The city council will continue to invest funds in the UK for durations appropriate with the rating and risk. The value of an investment in both UK and non-UK institutions will be dependent upon their credit ratings detailed in the tables above. The maximum duration of the investment will be strictly in line with advice from the council's treasury management advisors. If it is deemed further sovereign diversification is required (by the s151 Officer) then only institutions within triple A rated sovereign countries should be considered.

49. Some investment types available to the authority, for example, Covered Bonds[5] or Covered Floating Rate Notes[6] offer the opportunity to take advantage of a highly rated investment in an institution that may not meet the criteria set out in the tables above. These types of investments are secured on the bank's assets which means they are exempt from bail-in. There is also an available market where they can be traded should the authority wish to sell them prior to the date of maturity in the event of the credit rating of the institution falling below the minimum level set by the authority. The authority will ensure that any new investment opportunity is discussed with their advisors prior to undertaking.

50. **On-Call Accounts**

The authority currently banks with Lloyds. Lloyds have a credit rating of A+. There is a bail-in risk associated with maintaining a non-covered investment with this or any other bank. This is mitigated in part by the investment being on-call permitting the council to withdraw the funds by mid-day and investing in another institution. Post mid-day access to the funds remains but the ability to transfer those funds to another institution is severely limited due to banking timescales.

51. **Risk Management**

[5] Covered bonds are debt securities backed by cash flows from mortgages or public sector loans

[6] Covered Floating rate notes are bonds that have a variable return, linked to a money market reference **rate**, e.g. LIBOR

Throughout this report we have commented on issues concerning risk within the treasury management function. Risk management is at the forefront of all treasury decisions as, whilst not being risk averse, informed decisions must be made to safeguard the public purse. In line with the city council's Corporate Risk Management Strategy a risk register has been compiled for the treasury management function and mitigating controls included.

52. **Treasury Management Indicators**

The Authority measures and manages its exposures to treasury management risks by assessing the net impact over one year on the revenue account of both a 1% rise and a 1% fall in all interest rates using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average 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.

Credit risk indicator	Target
Portfolio average credit	AA-

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each year without giving prior notice.

Liquidity risk indicator	Target
Total sum borrowed in the year without prior notice	£75.8m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 0.5 rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 0.5% rise in interest rates	£375,000
Upper limit on one-year revenue impact of a 0.5% fall in interest rates	(£375,000)

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

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

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 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 a year: The purpose of this indicator is to control the Authority'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:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£2m	£2m	£2m

53. **Governance**

CIPFA's Code of Practice requires the *responsible officer* (s151 officer) to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

At the end of the financial year the city council will report on its investment activity as part of its Annual Treasury report. Update reports will continue to be presented to Audit Committee for scrutiny and Corporate Services and Overview and Scrutiny Committee for comment on a quarterly basis.

Members should be aware that under Financial Regulations section 16.04 *‘On approval of the Treasury Management Strategy, the city council shall delegate authority for the implementation, management and administration of treasury management decisions to the s151 Officer’*, thus giving the necessary freedom and flexibility to make quick decisions.

Prudential Indicators 2019/20 to 2023/24

1. Background and Context

1.1 The city council uses a number of regulatory Prudential Indicators that govern the performance parameters within which the Treasury Management function is managed. Some of the indicators span all council activity (Corporate Indicators) and others are specific to either the General Fund account or Housing Revenue Account (HRA).

1.2 For each Indicator, a summarised interpretation of the Code requirement is shown in italics together with the main purpose of the Indicator. The proposed Indicators are shown at the end of each relevant section i.e. to reflect when actual debt is taken out.

1.3 The indicators assume that expenditure and borrowing will be incurred as per the profiled capital programme. The actual position may differ from this as, for example, borrowing is based on the councils cash forecast position.

1.4 Some of the calculations are extremely complicated and authorities' individual circumstances vary widely, particularly in respect of debt positions and this may require the revision of certain Indicators during the financial year. Any amendment to the Prudential Indicators will be ratified by full council.

1.5 The Prudential Code has been revised in 2018 and sets out the minimum required Prudential Indicators that should be published. This report follows the revised code requirements.

2. Affordability Indicators

i. Capital Expenditure

a. Make reasonable estimates of the total capital expenditure that the city council plans to incur.

This indicator estimates the capital expenditure that the authority plans to incur and forms the basis for a number of other Prudential Indicators.

The figures shown in Table 1 reflect the council's proposed 2019/20 – 2023/24 capital expenditure plans. Based on the information that is available, the best estimates of planned capital expenditure incurred are:

Table 1:
Total capital expenditure that the city council plans to incur

	2019/20 (£'000s)	2020/21 (£'000s)	2021/22 (£'000s)	2022/23 (£'000s)	2023/24 (£'000s)	Total (£'000s)
General Fund	135,519	68,345	14,270	11,085	10,794	**240,013**
HRA	39,137	44,914	24,010	23,379	23,379	**154,819**
Total	**174,656**	**113,259**	**38,280**	**34,464**	**34,173**	**394,832**

The figures are subject to change as the capital programme is developed and delivered over the 5 year period. The revenue implications of the proposed programme have been included in the budget report.

b. Make reasonable estimates of the total capital financing requirement at the end of the financial year.

The capital financing requirement illustrates the estimated underlying need for the authority to borrow on a long term basis for capital purposes.

The Capital Financing Requirement shown in table 2 below incorporates the impact of previous capital expenditure decisions, the future capital expenditure plans as profiled in table 1 above and the liabilities in respect of PFI schemes and leases. The Prudential Code requires that debt that is managed by the city council on behalf of authorities following local government review (transferred debt) is excluded from the total.

Table 2:
Total Gross Debt and Capital Financing Requirement for each financial year

	General Fund (£'000s)	HRA (£'000s)	Total (£'000s)
2017/18 (Act)	459,030	156,641	615,671
2018/19	553,651	156,641	710,292
2019/20	621,731	164,031	785,762
2020/21	646,636	179,256	825,892
2021/22	632,807	177,412	810,219
2022/23	613,716	179,092	792,808
2023/24	594,824	184,692	779,516

Gross Debt and the Capital Financing Requirement. The local authority should ensure that borrowing does not, except in the short term, exceed the total capital financing requirement (Table 2) in the first year plus the estimates of any additional capital financing requirement for the current and next five financial years. The city council will only borrow for capital purposes.

In addition, to ensure that treasury management is carried out in accordance with exacting professional standards, the city council has adopted CIPFA's latest Treasury Management Code of Practice. The treasury management indicators in Section 4 below assist to further demonstrate compliance with good practice in this regard.

The Section 151 Officer reports that the authority had no difficulty meeting this requirement in 2018/19, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

ii. <u>External Debt</u>

a. Set the authorised limit for the city council's total external debt, gross of investments.

The authorised limit is based on the operational limit but also allows additional headroom to cater for unforeseen events such as unusual cash movements.

The authorised limit represents the absolute maximum debt that the council may have at any one time. As with the calculation of the operational limit, allowance has been afforded to allow the council for the possibility that the council may wish to take its entire annual borrowing requirement early in the year where this is the most financially prudent course of action. In addition, a margin to allow for unusual treasury events of £30m has been included in the calculation. The recommended authorised limits for the next five years are as follows:

Table 3:
Authorised limit for the city council's total external debt, gross of investments

	Gross £'000s	PFI / leasing element £'000s	Borrowing element (incl headroom) £'000s
2019/20	650,372	82,398	567,974
2020/21	705,236	73,768	631,468
2021/22	717,182	65,759	651,423
2022/23	717,822	57,216	660,606
2023/24	710,973	47,776	663,197

b. Set the operational boundary for the city council's total external debt, gross of investments.

The operational boundary also links directly to the authority's capital expenditure plans and should equate to the maximum level of expected debt projected by these plans.

This limit represents a measure of the realistic level that the city council is to borrow including any credit arrangements that are not in the form of borrowing, for example, finance leases. It is, therefore, based on the estimates of borrowing used for the capital financing budget which represent the most 'likely' circumstances to arise during the year(s) using current known plans and economic conditions. The Prudential Code recognises that circumstances may arise where the limits are breached temporarily but states that any sustained breaches ought to be investigated as they may be indicative of an underlying financial problem. The Operational Boundary excludes finance costs in respect to PFI debt and finance leases that are supported through revenue contributions. The recommended operational limits are as follows:

Table 4:
Operational boundary for the city council's total external debt, gross of investments

	(£'000s)
2017/18(Act)	503,973
2018/19	554,737
2019/20	620,372
2020/21	675,236
2021/22	687,182
2022/23	687.822
2023/24	680,973

c. Make reasonable estimates of the ratio of net financing costs to net revenue stream.

This Indicator illustrates the future cost of borrowing decisions as a proportion of future revenue streams.

The purpose of this Indicator is to express the resultant cost in future years of net capital financing costs, interest and principal of unsupported debt (both historic and planned), as a proportion of the city council's total estimated net revenue stream. The net revenue stream is the estimate of the amounts to be met from government grants and local taxpayer.
In the event that the capital programme is amended and/or level of assumed income change in the future this ratio will also change eg if income increased the ratio would fall.

Table 5:
Ratio of General Fund financing and HRA costs to net revenue stream

	General Fund (%)	**HRA (%)**
2017/18 (Act)	8.46	30.30
2018/19 (Est)	8.79	30.74
2019/20	11.04	30.75

2020/21	12.60	30.91
2021/22	14.06	29.83
2022/23	14.87	28.65
2023/24	15.43	27.66

The above indicator includes an estimate for annual depreciation which is a major factor in the cost of service provision for the HRA.

iv. Treasury Management (Corporate Indicators)

a. Adopt the CIPFA Code of Practice on Treasury Management.

It is a fundamental requirement of the Prudential Code that an authority has proper treasury procedures in place. This requirement will be met if the authority adopts and implements CIPFAs 'Code of Practice for Treasury Management in the Public Services'.

The first treasury Indicator is, therefore, already met as the city council has adopted the latest CIPFA Treasury Management Code. The Treasury Management Practices that are an integral part of the Code have been implemented and are kept up to date.

Appendix C

Economic and Interest Rate Forecast (as at December 2018)

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.13
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	**-0.85**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	0.90	0.95	1.10	1.30	1.40	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35	1.27
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.76**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.70	1.60	1.50	1.40	1.35	1.35	1.35	1.35	1.35	1.40
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.77**
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.50	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.33
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.66**
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	1.50	1.65	1.70	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	**-0.71**
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.18
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.99
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Minimum Revenue Provision (MRP) Policy Statement 2019/20

‘The council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and assessed its MRP for 2010/11 onwards in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. The Council has due regard for that guidance and subsequent amendments in setting its policy’

The MRP for 2019/20 in respect of historic debt prior to the introduction of the Prudential Code will be charged at a flat rate of 2% fixed at the same value so that the whole debt is repaid within 50 years. Expenditure incurred within the debt liability from 31st March 2010 will, under delegated powers, be subject to MRP under option 3 – Asset Life Method - Annuity, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure using the annuity method (or equal instalment method if preferred). For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life for which that building will deliver services to the city council at the time the expenditure was incurred.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the city council. However, the city council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

In instances where the Council incurs borrowing in order to lend funds to a third party, in accordance with the revised guidelines issued by the Secretary of State, MRP is required to be provided over the useful life of the asset created. The Council in this instance will not follow the guidance but rather treat any advance as “Serviced debt” and therefore no MRP will be set-aside providing there is an agreed repayment date. Annually the Council will undertake a financial assessment of the third parties ability to repay the debt and where any adverse changes are perceived to be occurring then a provision will be created to cover any future potential financial losses.

As some types of capital expenditure incurred by the city council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The duty to make MRP does not extend to cover borrowing or credit arrangements used to finance capital expenditure on HRA assets. This is because of the different financial structure of the HRA, in which depreciation charges have a similar effect to MRP.

MRP will commence in the year following the year the asset becomes available for use.

The city council may, from time to time, apply capital receipts, grants and other advances available at the end of a financial year, which it is considered will be used in the following or subsequent financial year to offset what would otherwise be an increase in their debt liability. In anticipation of such use, which will be determined according to the nature of expenditures deemed at the time to be financed for MRP purposes, the city council considers it prudent that the debt liability assessed for MRP purposes at the end of a financial year will be reduced by applying those capital receipts, grants and other advances.