



## Report to Overview & Scrutiny and Management Committee 23<sup>rd</sup> January 2018

**Subject:** Call in of decision on “Treasury Management Mid-Year Review including an amendment to the Council’s Minimum Revenue Provision Policy”

**Author of Report:** Emily Standbrook-Shaw, Policy & Improvement Officer  
0114 2735065, [emily.standbrook-shaw@sheffield.gov.uk](mailto:emily.standbrook-shaw@sheffield.gov.uk)

**Type of item:** The report author should tick the appropriate box

Reviewing of existing policy	
Informing the development of new policy	
Statutory consultation	
Performance / budget monitoring report	
Cabinet request for scrutiny	
Full Council request for scrutiny	
Call-in of Key Decision	X
Briefing paper for the Scrutiny Committee	
Other	

### 1.0 Background

1.1 The following decision was published on the 9<sup>th</sup> January 2018:

*That the Executive Director, Resources:-*

*(i) notes the report on treasury activity in the first half of 2017/18 and our current expectations for the second half of the financial year; and*

*(ii) approves the proposed changes to the 2017/18 Minimum Revenue Provision Policy in accordance with the recommendations made in the report.*

1.2 As per Part 4, section 16 of Sheffield City Council’s Constitution, this decision has been called in, preventing implementation of the decision until it has been considered by this Scrutiny Committee. The Call-in notice is attached to this report as appendix 1, and states that the reason for the call-in is:  
“to scrutinise the decision made that will have serious financial consequences for future budgets”

1.3 The original report to the Executive Director, Resources is attached as appendix 2, and the decision record is attached at appendix 3.

## **2.0 The Scrutiny Committee is being asked to:**

2.1 As per the Scrutiny Procedure rules, scrutinise the decision and take one of the following courses of action:

- (a) refer the decision back to the decision making body or individual for reconsideration in the light of recommendations from the Committee;
- (b) request that the decision be deferred until the Scrutiny Committee has considered relevant issues and made recommendations to the Executive;
- (c) take no action in relation to the called-in decision but consider whether issues arising from the call-in need to be fed back to the decision maker or added to the work programme of an existing Scrutiny Committee;
- (d) if, but only if (having taken the advice of the Monitoring Officer and/or the Chief Finance Officer), the Committee determines that the decision is wholly or partly outside the Budget and Policy Framework, refer the matter, with any recommendations, to the Council after following the procedures in the Budget and Policy Framework Procedure Rules

(If a Scrutiny Committee decides on (a), (b) or (d) as its course of action, there is a continuing bar on implementing the decision).

2.2 The Scrutiny Procedure rules state that if a decision is referred back, it is referred back to the individual or body that made the decision. In this case the decision maker is the Executive Director, Resources.

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## **Background Papers**

- Appendix 1 - Call in notice dated 9<sup>th</sup> January 2018.
- Appendix 2 - Report to the Executive Director, Resources – Treasury Management Mid-Year Review including an amendment to the Council's Minimum Revenue Provision Policy
- Appendix 3 – Printed decision record.

**Category of Report:** OPEN

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**SHEFFIELD CITY COUNCIL****CALL-IN PROCESS FOR EXECUTIVE DECISIONS**

I ROB MURPHY..... (Name of Member in Block Capitals)

under the provision of Standing Order A35, wish to call-in Item No. ....  
MID YEAR REVIEW OF THE TREASURY MANAGEMENT  
 relating to STRATEGY AND MRP POLICY CHANGE RECOMMENDATIONS

of the meeting of .....(meeting title)

on 9th JANUARY 2018..... (date) for consideration by the  
OVERVIEW AND SCRUTINY MANAGEMENT BEING  
~~ECONOMIC AND ENVIRONMENTAL WEL~~ Scrutiny Committee.

*The relevant Scrutiny Committee will be indicated on the Checklist within the report relating to this matter.*

**Reason for Call-In**

To scrutinise the decision made that will have  
serious financial consequences for future budgets

Signed Rob Murphy..... Date 9/1/18.....

I have obtained the following signatures of the other Members who wish to call-in this item:-

	<b>Name (in Block Capitals)</b>	<b>Signature</b>
1.	<u>DOUGLAS JOHNSON</u>	<u>[Signature]</u>
2.	<u>ALISON C TEAL</u>	<u>[Signature]</u>
3.	<u>MAGID MAGID</u>	<u>[Signature]</u>
4.	<u>Penny BAKER</u>	<u>[Signature]</u>

(NOTE: Standing Order A35(1) requires five Members, including two from the appropriate Scrutiny Committee to 'call-in' an Executive decision for scrutiny. This can be done **up to 4 working days after the decision publication.**

*The five signatures required for the call-in process must be submitted by the deadline date, but need not all be on one form.*

**COMPLETED FORMS TO BE RETURNED TO  
 THE HEAD OF DEMOCRATIC SERVICES (ROOM G12, TOWN HALL),  
 BY THE DEADLINE REFERRED TO ABOVE.  
 THE REQUEST WILL BE LOGGED AND FORWARDED TO THE HEAD OF  
 SCRUTINY FOR ACTION.**



**Author/Lead Officer of Report:**  
*Stephen Bottomley,  
Finance Manager,  
Treasury Management & Banking*

**Tel:** 0114 273 5135

**Report of:** *Finance Manager, Treasury Management & Banking, Finance Service*  
**Report to:** *Executive Director of Resources*  
**Date of Decision:** *12/01/2018*  
**Subject:** *Treasury Management Mid-Year Review including an amendment to the Council's Minimum Revenue Provision Policy*

Is this a Key Decision? If Yes, reason Key Decision:-	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
- Expenditure and/or savings over £500,000		<input checked="" type="checkbox"/>		
- Affects 2 or more Wards		<input type="checkbox"/>		
Which Cabinet Member Portfolio does this relate to? <i>Cabinet Member for Finance &amp; Resources</i>				
Which Scrutiny and Policy Development Committee does this relate to? <i>Not applicable</i>				
Has an Equality Impact Assessment (EIA) been undertaken?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If YES, what EIA reference number has it been given? <i>(Insert reference number)</i>				
Does the report contain confidential or exempt information?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-				

**Purpose of Report:**

The report provides an update of the Council's Treasury Management activity in the first half of 2017/18 and sets out our latest expectations for the remainder of the year.

A supplementary report makes recommendations to amend the Council's Minimum Revenue Policy (MRP) to better reflect a prudent provision for the repayment of the Council's outstanding capital debt liabilities.

**Recommendations:**

- Note the report on treasury activity in the first half of 2017/18 and our current expectations for the second half of the financial year.
- Approve the proposed changes to the 2017/18 Minimum Revenue Provision Policy in accordance with the recommendations made in the report

**Background Papers:**

*(Insert details of any background papers used in the compilation of the report.)*

**None**

Lead Officer to complete:-		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: David Phillips
		Legal: Gillian Duckworth
		Equalities: N/A
<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>		
2	<b>EMT member who approved submission:</b>	<i>Eugene Walker</i>
3	<b>Cabinet Member consulted:</b>	<i>Councillor Oliva Blake</i>
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	<b>Lead Officer Name:</b> Stephen Bottomley	<b>Job Title:</b> Finance Manager, Treasury and Banking
	<b>Date:</b> 21 <sup>st</sup> December 2017	

**1. PROPOSAL**

*(Explain the proposal, current position and need for change, including any evidence considered, and indicate whether this is something the Council is legally required to do, or whether it is something it is choosing to do)*

- 1.1 The report provides an update of the Council's Treasury management activity in the first half of 2017/18 and sets out our latest expectations for the remainder of the year.

- 1.2 During the first six months of 2017/18, we have repaid maturing debt amounting to £21.8m but the Council has yet to undertake any new borrowing. The repayment of these loans has meant our level of internal borrowing has increased. However, the Council has sufficient cash resources to cover both these repayments and day to day cash flow requirements
- 1.3 Looking at the second half of the financial year, the Council will continue to monitor the situation; taking account of the economic environment, the investment opportunities available to the Council and any changes to the cost of borrowing. In particular, if the cash position worsens or if interest rates start to move against us, then we will look to borrow sooner rather than later to lock in at lower interest rates as this will minimise the overall interest costs in the medium term.
- 1.4 The Minimum Revenue Provision (MRP) is a charge to the Council's revenue account to make a provision for the repayment of the Council's outstanding capital debt liabilities.
- 1.5 The Council is facing further significant budgetary reductions over the next few years and needs to ensure a stable and deliverable financial transition over this period. As such, Finance Officers have carried out a more fundamental review of its MRP policy to ensure it is appropriate in the context of its financial backdrop. As a result of this review, officers are recommending two changes to the Council's MRP Policy.
- 1.6 Firstly, to adopt a modified approach to the Regulatory Method to apply a 50 year term to all Government funded borrowing and to adopt the straight line method for calculating debt repayments – effective from 2007/8.
- 1.7 Secondly, to ensure road and street lighting renewal is comprehensive as possible the Authority has chosen to supplement the investment included in the Streets Ahead PFI contract on a phased basis over the first 5 years of the PFI contract.
- 1.8 The MRP on this supplementary investment is currently aligned with the MRP on the PFI contract itself. That is, the MRP provisions are made over the term of the PFI contract rather than over the economic life of the underlying assets (roads / street lighting). This has the effect of concentrating the MRP provisions over a much shorter period and we would argue that current council tax payers are meeting the cost for future usage. This is contrary to our normal practice in terms of using Asset Life as the basis for MRP provisions.
- 1.9 The second proposal is to apply a 40 year term to road assets and a 20 year term to street lighting assets created as part of the Streets Ahead programme and adopt the straight line method for calculating debt repayments.

## **2. HOW DOES THIS DECISION CONTRIBUTE?**

- 2.1 The proposed changes to MRP policy would result in a re-phrasing of MRP charges, resulting in a fairer, more equitable charge between current and future Council tax payers. This re-phrasing would help support the Council in ensuring a stable and deliverable financial transition whilst it is facing further significant budgetary reductions over the next few years.

## **3. HAS THERE BEEN ANY CONSULTATION?**

- 3.1 Consultation was undertaken with the Cabinet Member for Finance & Resources. The outcome of this consultation was that the Mid-Year Treasury Management report was noted and the proposed changes to the MRP Policy were accepted.

## **4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION**

### 4.1 Equality of Opportunity Implications

- 4.1.1 None, there would be no change to how customers access the service

### 4.2 Financial and Commercial Implications

- 4.2.1 There would be significant rebalancing of the MRP charge resulting from the implementation of the change to the Council's MRP policy. The combined policy changes would result in an over provision of £43.6m that would be released over the 2017/18 to 2023/24 period.

- 4.2.2 During the period 2024/25 to 2036/37 there would be a smaller reduction in MRP charges (c £0.4m pa) as a result of the policy changes but thereafter, there would be a higher charge (c£4.5m) than under the current MRP profile.

- 4.2.3 This position would continue to a greater or lesser extent until around 2057 when the backdated 50 year period for the Supported Borrowing MRP would cease.

- 4.2.4 The Council's external auditors, KPMG, have been consulted on the proposals and consider them in line with current guidance.

### 4.3 Legal Implications

- 4.3.1 None

### 4.4 Other Implications

- 4.4.1 *None*

**5. ALTERNATIVE OPTIONS CONSIDERED**

*(Outline any alternative options which were considered but rejected in the course of developing the proposal.)*

5.1 *No applicable*

**6. REASONS FOR RECOMMENDATIONS**

*(Explain why this is the preferred option and outline the intended outcomes.)*

6.1 The two MRP changes could be taken as separate proposals. However, neither option on its own would generate the same level of re-profiled MRP charge.

6.2 It is noted that the a significant number of other Local Authorities (including most, if not all, of the Core Cities Authorities) have undertaken comparable reviews of their MRP policies in light of the austerity agenda over the last couple of years and have made similar policies changes in recent years.

6.3 The proposals reflect not only the local circumstances facing the Council but also the wider national picture whilst remaining prudent and retain an equitable balance between current and future tax payers.

6.4 The proposed policy changes have been agreed by our external auditors.

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## SHEFFIELD CITY COUNCIL

### EXECUTIVE DIRECTOR KEY DECISION RECORD

The following decision was taken on 09 January 2018 by the Executive Director, Resources.

Date notified to all members: Tuesday 9 January 2018

The end of the call-in period is 4:00 pm on Monday 15 January 2018

Unless called-in, the decision can be implemented from Tuesday 16 January 2018

1. **TITLE**

Mid-Year Review of the Treasury Management Strategy and MRP Policy Change Recommendations

2. **DECISION TAKEN**

That the Executive Director, Resources:-

(i) notes the report on treasury activity in the first half of 2017/18 and our current expectations for the second half of the financial year; and

(ii) approves the proposed changes to the 2017/18 Minimum Revenue Provision Policy in accordance with the recommendations made in the report.

3. **Reasons For Decision**

The two MRP changes could be taken as separate proposals. However, neither option on its own would generate the same level of re-profiled MRP charge.

It is noted that a significant number of other Local Authorities (including most, if not all, of the Core Cities Authorities) have undertaken comparable reviews of their MRP policies in light of the austerity agenda over the last couple of years and have made similar policies changes in recent years.

The proposals reflect not only the local circumstances facing the Council but also the wider national picture whilst remaining prudent and retain an equitable balance between current and future tax payers.

The proposed policy changes have been agreed by our external auditors.

4. **Alternatives Considered And Rejected**

There were no alternative options presented in the report.

5. **Any Interest Declared or Dispensation Granted**

None

6. **Respective Director Responsible for Implementation**  
Executive Director, Resources
7. **Relevant Scrutiny Committee If Decision Called In**  
Overview and Scrutiny Management Committee

# Minimum Revenue Provision – 2017/18 Policy Change

## Report for Overview and Scrutiny Management Committee

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Eugene Walker

23 January 2018



# Agenda

- Background
- Proposed changes
- Impact of changes
- Governance
- Questions



## Background (1)

- Every Council must statutorily make a charge to council tax each year to make provision for the repayment of the Council's credit (i.e. debt) liabilities – this is known as the Minimum Revenue Provision.
- It is separate to, and not to be confused with the revenue charge for interest on debt or with the repayments of debt principal.
- MRP reflects the revenue costs of capital consumed providing services, replacing depreciation, which is not charged against council tax.

## Background (2)

- Until 2007 the method of charging MRP was also set by statute. Since then Councils have had more freedom to determine how it is calculated, as long as we make a prudent provision.
- MRP for debt taken on since 2007 has been charged on a profile to mirror depreciation.
- However we did not initially change the method of charging for debt taken out before 2007 which remained at 4% of the (reducing) balance.
- In 2015, in common with many other Councils, we amended this calculation from 4% reducing balance to 2% straight line.
- This change made MRP better reflect both the underlying asset lives (on average 50 years) and reduced notional Central Government funding (which has around halved).

## Proposed changes in 2017/18 - pre 2007 debt

- When we made the 4% to 2% change, we made the change from the 2015/16 financial year.
- However this meant that between 2007/08 & 2014/15 we still charged 4% on a reducing balance basis.
- The element relating to this period (prior to the policy change in 2015/16) therefore represents a significant over provision, as the early years' MRP provision is substantially more than the 2% revised charge.
- Consequently we now wish to backdate our MRP policy to eliminate this over provision
- Many other Councils have already adopted this approach, which helps to alleviate some of our budgetary pressures

## Proposed changes in 2017/18 – Highways capital contribution

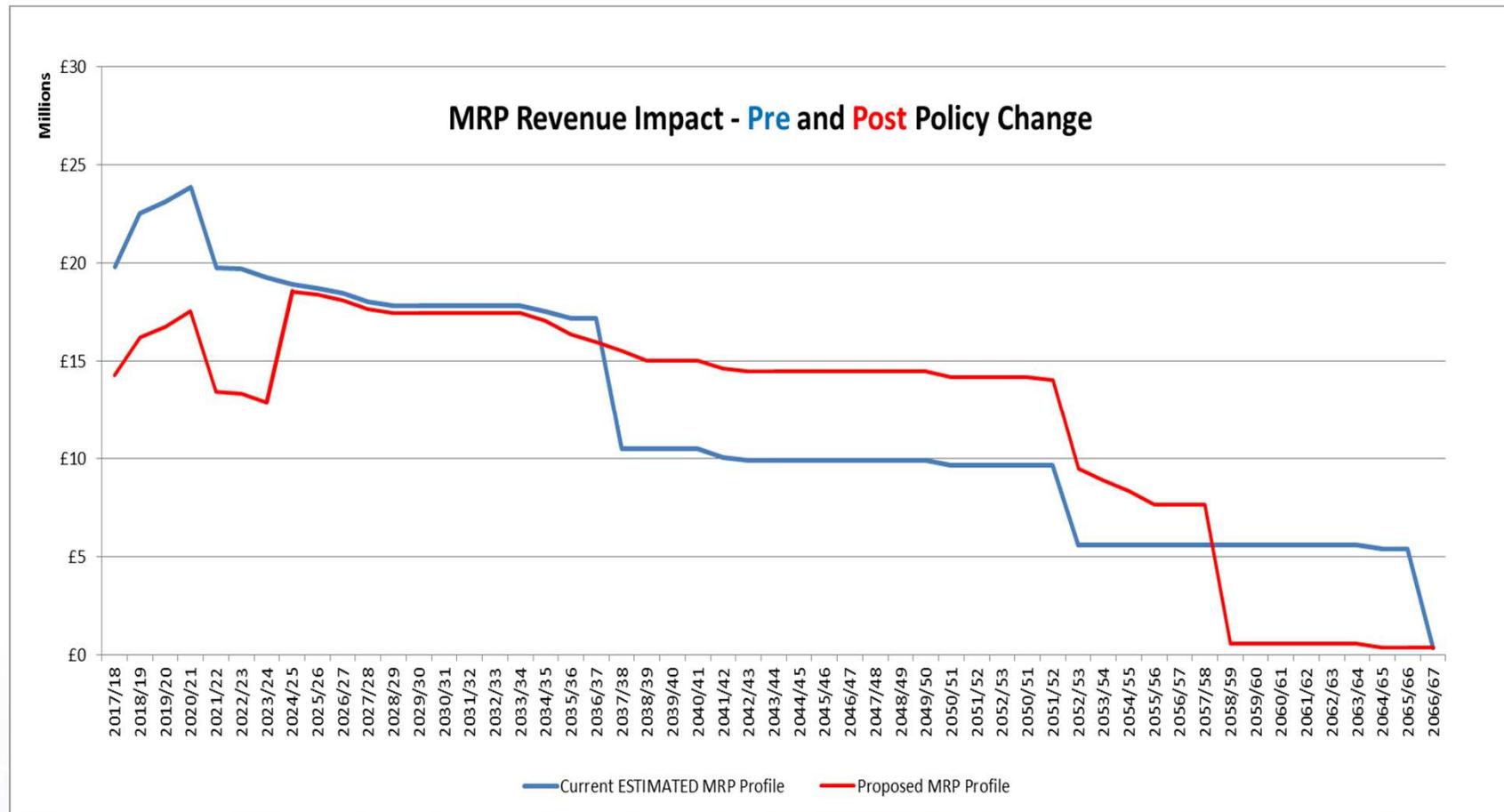
- We made a capital contribution to the Streets Ahead programme to ensure comprehensive improvements to roads and street lighting.
- This contribution attracts an MRP charge which is currently over the life of the Streets Ahead PFI scheme.
- However, the life of this contract is significantly shorter than the life of the underlying assets. This has the effect of compressing the MRP provisions over a much shorter period.
- Consequently current council tax payers are meeting the cost for the future usage of these assets, and this is contrary to our normal practice in terms of using Asset Life as the basis for MRP provisions (per CIPFA guidance).
- Therefore we now wish to charge MRP on the capital contribution over the asset lives, namely 40 years (roads) and 20 years (street lights)

## Impact of the changes – overall

- Overall the revenue saving is £5.5m in 2017/18, rising to £6.3m pa for 2018/19 to 2023/24. This is split between the pre 2007 borrowing (£3.7m) and Highways contribution (£2.6m) - the Highways saving is £0.8m lower in 2017/18 as the build period has not finished yet.
- The MRP charge is then broadly the same until 2035/36, with slightly increased costs on the pre-2007 borrowing compensated for by continuing lower costs on Highways assets.
- The profile of costs until the 2060s is shown on the following slide.

# Impact of the changes over time

The graph below shows the impact of these changes on our MRP charge



## Governance

- These changes were proposed by Strategic Finance in Autumn 2017
- They were agreed by the Exec Director Resources under his delegated powers after discussion with the Cabinet Member for Finance Olivia Blake in November 2017
- The changes have also been agreed in writing by our External Auditors KPMG
- We intend to request Cabinet notes the revised MRP policy as part of the Q3 Budget Monitoring report on 14<sup>th</sup> February 2018

# Questions

- ANY QUESTIONS ??

