

**Author/Lead Officer of Report:**

Stephen Bottomley,
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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 & 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	EMT member who approved submission:	<i>Eugene Walker</i>
3	Cabinet Member consulted:	<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.	
	Lead Officer Name: Stephen Bottomley	Job Title: Finance Manager, Treasury and Banking
	Date: 21 st 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.