Item No: 9.	Classification: Open	Date: 16 November 2016	Meeting Name: Audit, Governance and Standards Committee
Report title:		Treasury Management: Review of policy, practices and strategy	
Wards or Groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

That the audit, governance and standards committee:

1. Considers the revised treasury management policy statement (Appendix A).

2. Considers the council's draft 2017-18 treasury management strategy statement (Appendix B) ahead of consideration by council assembly at its budget and council tax setting meeting in February 2017.

3. Considers whether it wishes to comment on any matter in this report.

BACKGROUND INFORMATION

4. Treasury management is an integral part of the council's finances, providing for cash flow management (i.e. ensuring cash is available when needed and that surplus monies are invested securely) and funding of the councils capital plans and longer term cash flow requirements. Treasury management is defined as:

   "The management of the local authority'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 risk."

   Statutory requirements

5. The Local Government Act 2003 and supporting regulations require the council to have regard to the prudential code and to set prudential indicators for the next three years, to ensure that the council's capital investment plans are affordable, prudent and sustainable. The Act requires the council to set out its treasury management strategy for borrowing and to prepare an annual investment strategy. This sets out the council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

   CIPFA requirements

6. The council has adopted the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2011. The primary requirements of the code are as follows:

- Creation and maintenance of a treasury management policy statement (Appendix A) stating the policies, objectives and approach to risk management of the councils treasury management activities

- Creation and maintenance of Treasury Management Practices which set out the manner in which the council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

- Receipt by the council assembly of an annual Treasury Management Strategy Statement (Appendix B) which includes:

    - A treasury management strategy which sets out the council's proposed borrowing for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities

    - An annual investment strategy which sets out the councils policies for managing its investments and for giving priority to the security of those investments over liquidity and yield

    - A policy statement on the basis on which provision is made in the revenue accounts for the repayment of borrowing – the Minimum Revenue Provision Policy Statement

    - Prudential indicators in respect of treasury management and the council's capital plans.

- Receipt by the council assembly of a mid-year review report and an annual report on progress and performance against the treasury management strategy statement

- Delegation by the council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. In Southwark, this responsibility is delegated to the strategic director of finance and governance.

- Delegation by the council of the role of scrutiny of the treasury management strategy and policies to a specific named body. In Southwark, the delegated body is the audit, governance and standards committee.

KEY ISSUES FOR CONSIDERATION

7. In accordance with the CIPFA code, the treasury management policy statement (TMPS) has been reviewed and updated to include the council's high level policies for borrowing and investment. The revised statement is attached at Appendix A

8. The 2016-17 treasury management strategy statement (TMSS) covering debt, investments, prudential indicators and minimum revenue provision has been updated to reflect the council's current plans and forecasts, the latest economic and interest rate outlook, and longer-term cash flow forecast. The draft 2017-18 TMSS is attached at Appendix B.

9. It should be borne in mind that the forecasts on which the strategy is based will not be 100% accurate; however, the TMSS needs to be robust and flexible enough to deal with the uncertainty and risk. The draft strategy will be updated prior to council assembly in February 2017 to take account of the latest available information and prevailing economic conditions and intelligence. Factors likely to influence the strategy include:

- The US presidential election on 8 November has the potential to shock the global economy

- 23 November will see the chancellor issue his autumn statement

- Cash balances may not actually decrease as forecast, for example, we have a large and complex capital programme which is unlikely to spend exactly as planned and the timing and value of capital receipts are not known with certainty

- Long-term interest rates may actually keep falling and might not be higher next year, despite what forecasters are telling us

- Short-term rates might be negative in 2017-18, so that we would be guaranteed to receive back less than we originally invested.

10. Despite the uncertainty, no changes to the council's existing high level strategy for borrowing and investments are proposed at this stage.

Treasury management - debt

11. The council has loans it took to pay for capital expenditure in previous years. The loans are from the Public Works Loans Board (PWLB, part of HM Treasury) and the balance in PWLB loans at 1 April 2016 was £462.9m. The PWLB loan balance and the interest payable have fallen over the last few years; refer table below. The average rate of interest on PWLB loans is currently running at 5.5%.

Year	Loans at year end	Annual interest payable	Average interest rate
	£m	£m	%
2006-07	693.7	60.9	8.8%
2007-08	738.3	54.6	7.6%
2008-09	770.7	52.0	7.0%
2009-10	761.7	52.8	6.9%
2010-11	761.7	52.8	6.9%
2011-12*	462.5	55.6	6.9%
2012-13	560.0	33.2	6.0%
2013-14	474.9	33.1	5.4%
2014-15	469.2	25.7	5.5%
2015-16	462.9	25.5	5.5%

12. As well as PWLB loans, the council also has internal borrowing to support previous years' capital expenditure. The sum outstanding in internal borrowing at 1 April 2016 was £198m. Internal borrowing is temporary drawing on internal balances pending replacement with loans.

13. Both PWLB loans and internal borrowing are being paid off. The general fund debt is being paid off by way of the minimum revenue provision (MRP) in accordance with the council's MRP policy. The MRP policy itself is discussed further below. The HRA is also paying off debt, lowering the interest draw and raising the headroom for new investment.

14. The council's approved capital programme is largely funded from reserves, capital receipts, grants and contributions with the shortfall funded from borrowing. Whilst borrowing provides the funding, the servicing of that debt is financed from revenue in the form of charges for interest and principal/MRP.

15. The HRA capital programme is expecting to draw on debt finance to fund its investment in new housing, make existing properties warm dry and safe, and provide quality kitchens and bathrooms. Initially, up to £98m debt finance was allocated to the programme. The 1 November cabinet report – 'Month 5 Capital Monitoring for 2016-17 and Capital Programme Refresh for 2016-17 to 2023-24' indicates an in-year borrowing requirement of £74m.

16. It is important to note that at this point there is no requirement for the council to take out any new loans but instead advance to the HRA by drawing on existing PWLB debt held by the general fund at an average rate of 3.5%, well below the 6.0% rate on existing HRA loans. This ensures that the council as a whole:

    i. does not suffer a significant financial loss by borrowing money before it is actually needed

    ii. is able to adopt a strategic and corporate borrowing approach, taking any new loans from the most advantageous source at the most appropriate time.

17. Beyond 2016-17 there remains an underlying borrowing requirement to fund capital expenditure incurred and planned. Current forecasts indicate that the council will need to undertake new borrowing over the forecast period of up to £232m.

18. The degree to which HRA can rely on debt finance to support its capital programme is constrained by its indebtedness cap. The cap was introduced by the government in 2012 as part of HRA self-financing and for Southwark was fixed at £577m, a level judged to be serviceable from council rents. The government at the time wanted housing authorities to support its priority of bringing public spending down and contain growth in public borrowing from rent income. HRA indebtedness is £462m, well within the indebtedness cap.

Treasury management - investments

19. The council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. Investments held at 31 October were £186m with balances ranging from £140m to £230m during the year to date. The average cash balances are some £50m lower than the corresponding period in 2015-16.

20. Cash that is not immediately used in spend is invested prudently until it is needed under an investment strategy agreed by council assembly each year as part of the TMSS. It is prepared in accordance with DCLG's investment guidance and emphasises the importance of security and liquidity.

21. In July 2016 the Bank of England reduced the base rate to 0.25%. Prior to this, the base rates in the UK had stood at 0.5% since 2019. Arlingclose, our treasury management advisors, forecast that the bank rate will be held at 0.25% through to December 2019. However, there is a small risk that if the UK enters recession in 2017-18 that the Bank of England could set the base rate at or below zero which would likely feed through to negative interest rates on all low risk short term investment options.

22. The investment strategy was reviewed independently by specialist advisors at the end of 2015 and found to be sound. The review recognised that with credit spreads tight and term premium low, the scope for enhancing yield safely under current markets was low. However, given the increasing risk and falling returns from short-term unsecured bank investments, there has been a diversification into more secure and/or higher yielding asset classes - supranational bonds, quasi-sovereign bonds, covered bonds and senior short-term money market instruments, such as commercial paper and notes, issued by banks. This is a continuation of the strategy adopted in February 2016.

23. In the interest of security, bank exposure favours major high rated banks. Liquidity is secured by use of money market funds and short term money market securities. The strategy demands that no investment be longer than five years and holdings beyond one year can only be in: government bonds, supranational bonds, quasi-sovereign bonds or covered bonds issued by major banks.

24. In the interest of sound risk management and operational efficiency, cash management is divided between an in-house operation and the council's two fund managers. The in-house team manages day-to-day cash flow using principally money market funds. The fund managers (Alliance Bernstein and Aberdeen Asset Managers) invest some £144m on behalf of the council in short term money markets and longer bonds within a risk controlled framework. It is likely that cash balances will be lower through the forecast period, reducing the funds for investment with managers. The council may draw down funds from the fund managers should cash be needed to meet spend.

Prudential indicators

25. Local authority borrowing, investment and capital finance activity is supported by the Prudential Code for Capital Finance and the Treasury Management in the Public Services Code of Practice and Guidance published by the Chartered institute of Public Finance and Accountancy, backed by the Local Government Act 2003. The codes introduced a series of indicators and limits, which the council assembly should agree annually. The indicators needing approval relate to 2017-18 to 2019-20 and are set out at Appendix B. The authorised limit for debt is a self imposed limit on debt which the council assembly must determine each year. Approval will ensure that the council meets its obligations under the 2003 Act and that the strategic director of finance and governance can carry out his financial responsibilities in this area. The indicators do not affect existing budgets and will be updated over the course of 2017-18 to reflect activity.

Minimum revenue provision

26. Government guidance on the minimum revenue provision (MRP) requires that the general fund set aside prudent sums to reduce debt and long term liabilities arising from capital spend and that the council produce a statement on its MRP policy. MRP costs fall on revenue budgets and run for many years into the future, usually

over the period over which the expenditure provides benefit or the period over which the revenue grant supporting the expenditure runs for.

27. As government spending cuts continue to bear down on local authority finances and challenge the sector's capacity to meets its MRP obligations, councils are looking at how they may continue to make prudent MRP payments and at the same time improve affordability. A council may not change the total MRP it is liable for but may prudently modify the timing of payments to improve affordability and take account of individual spend and financing characteristics. The MRP policy approved by council assembly in February 2016 updated the previous strategy to enable these factors to be taken into account.

SUPPLEMENTAL ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

28. The constitution determines that agreeing the treasury management strategy is a function of the council assembly and that review and scrutiny of strategies and policies is the responsibility of the audit and governance committee.

29. Financial standing orders require the strategic director of finance and governance to set out the treasury management strategy for consideration and decision by council assembly, and report on activity on a quarterly basis to cabinet and at mid and year-end to council assembly. Furthermore all executive and operational decisions are delegated to the strategic director of finance and governance.

30. The Local Government Act 2003 and supporting regulations require local authorities to determine annual borrowing limits and have regard to the Prudential Code for Capital Finance, and the Treasury Management in the Public Services Code of Practice and Guidance, published by the Chartered Institute of Public Finance and Accountancy, when considering borrowing and investment strategies, determining or changing borrowing limits or prudential indicators.

31. Section 15(1) of the 2003 Act requires a local authority "to have regard (a) to such guidance as the Secretary of State may issue". This guidance is found in the Department of Communities and Local Government Guidance on Local Authority Investments updated March 2010 and there is statutory guidance on the Minimum Revenue Provision (MRP) produced under amendments made to section 21(1A) of the 2003 Act by section 238(2) of the Local Government and the Public Involvement in Health Act 2007.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
None.		

APPENDICES

No.	Title
Appendix A	Treasury Management Policy Statement
Appendix B	Draft Treasury Management Strategy Statement 2017-18

AUDIT TRAIL

Lead Officer	Jennifer Seeley, Director of Finance	
Report Author	Fay Hammond, Departmental Financial Manager Finance and Corporate Services	
Version	Final	
Version Date	7 November 2016	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments sought**	**Comments included**
Director of Law and Democracy	No	No
Strategic Director of Finance and Governance	No	No
Cabinet Member	No	No
Final Report Sent to Constitutional Team		7 November 2016

APPENDIX A

Treasury Management Policy Statement

1. The council defines its treasury management activities as:

   Treasury management is the management of the council'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.

2. The council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities shall 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 those risks.

3. The council recognises that 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 comprehensive performance measurement techniques, within the context of effective risk management.

4. The Councils high level policies for borrowing and investments are

   - The councils borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing will allow the council transparency and control over its debt.

   - The council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the council's investments followed by the yield earned on investments remain important but are secondary considerations.

APPENDIX B

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Treasury Management Strategy Statement 2017-18

Introduction

The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

External Context

The major external influence on the Authority's treasury management strategy for 2017-18 will be the UK's progress in negotiating a smooth exit from the European Union. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of the next few years when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and weakened economic growth prospects in 2017-18.

Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18.

Gilt yields and PWLB rates are expected to trend broadly flat from current levels, albeit with much short-term volatility. The Bank of England has used Quantitative Easing as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a distinct possibility, to keep long-term interest rates low.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Annex 1***.

Local Context

On 30 October 2016, the council held £458m of borrowing and £186m of investments. This is set out in further detail at ***Annex 2***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Forecast £m	31.3.19 Forecast £m	31.3.20 Forecast £m
General Fund CFR	385	428	499	526	557
HRA CFR	390	462	524	518	520
Total CFR	**775**	**890**	**1,023**	**1,044**	**1,070**
Less: Other debt liabilities	-109	-103	-98	-94	-91
Borrowing CFR	**666**	**787**	**925**	**948**	**979**
Less: External borrowing	-463	-458	-453	-440	-435
Internal (over) borrowing	**203**	**329**	**472**	**507**	**549**
Less: Usable reserves	-191	-174	-166	-159	-156
Less: Working capital	-155	-155	-155	-155	-155
Investments (or New borrowing)	**143**	**0**	**-151**	**-193**	**-232**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £232m over the forecast period.

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 next three

years. Table 1 shows that the Authority expects to comply with this recommendation during 2017-18.

Borrowing Strategy

The Authority currently holds £458 million of loans, a decrease of £5m million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £151m in 2017-18. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1.08m million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. This analysis may determine whether the Authority borrows additional sums at long-term fixed rates in 2017-18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2017-18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Southwark Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

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

- operating and finance leases
- hire purchase
- Private Finance Initiative

- sale and leaseback

The Authority has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be subject to a full appraisal.

Short-term and Variable Rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

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. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

<u>Investment Strategy</u>

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £140m and £229 million. It is expected that levels will reduce significantly in the forthcoming year.

Both the CIPFA Code and the CLG 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 Authority'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 Authority 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.

Negative Interest Rates: If the UK enters into a recession in 2017-18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and falling returns from short-term unsecured bank investments, there has been a diversification into more secure and/or higher yielding asset classes. This is a continuation of the strategy adopted in 2015-16. Money Market Funds continue to be used for day to day working cash balances. Fund managers have been appointed to assist in advising or executing elements of the strategy. As at November 2016 the councils fund managers are AllianceBernstein Ltd and Aberdeen Asset Management Ltd.

Credit Rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

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 regularly.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur.

Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling
- due to be repaid within 12 months of arrangement
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA-] or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of [A-] or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital

expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

Investment Limits:

Table 2: Investment Limits

Investment limits, subject to overall constraints and minimum ratings		
	Issuer/Institution	**Upper limits (percent or amount of council investment portfolio)**
A	UK government	100% of all investments up to 1 year; 50% of all investments between 1 and 5.5 years
B	Foreign sovereign and supranational banks, minimum long term rating AAA/Aaa/AAA	Up to 5.5 years; £30m per issuer on portfolios up to £150m and 20% on portfolios above £150m
C	Foreign sovereigns, supranational banks and quasi-sovereigns, minimum long term rating AA-/Aa3/AA-	Up to 5.5 years; £15m per issuer on portfolios up to £150m and 10% on portfolios above £150m
D	Banks: long term rating A-/A3/A- and short term rating F2/P-2/A-2, subject to minimum long term sovereign rating AA-/Aa3/AA-	Total £30m per issuer including: £30m up to 1 year, of which up to £20m may be in covered bonds no longer than 5.5 years
E	UK local authorities	£10m per issuer, up to 1 year.
F	Money market funds above £3,000m in holdings	£50m per fund on portfolios up to £150m and 35% per fund on portfolios above £150m
G	Short duration low volatility enhanced cash funds above £1,000m in holdings	10% per fund
H	Sterling government money market funds above £200m in holdings	10% per fund
I	Royal Bank of Scotland (NatWest) and Bank of New York Mellon (custodian)	£75m per issuer and up to three months
J	Overall portfolio: maximum above 1 year maturity 50% maximum weighted average maturity 2 years (the maturity of floating rate instruments is treated as the next interest re-set date)	

A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Liquidity Management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

<u>Other Items</u>

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Policy on Apportioning Interest to the HRA: On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

Investment Training: The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through regular meetings and discussions.

Investment of Money Borrowed in Advance of Need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The [Chief Financial Officer], having consulted the [Cabinet Member for Finance], believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Cease using fund managers and manage all investments in house	Interest income will be lower	Increased risk of losses from credit related defaults
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain

Annex 1 – Arlingclose Economic & Interest Rate Forecast September 2016

Underlying assumptions:

- The economic trajectory for the UK has been immeasurably altered following the vote to leave the European Union. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The short to medium-term outlook is somewhat more downbeat due to the uncertainty generated by the result and the forthcoming negotiations (notwithstanding the Olympic and summer feel-good effects). The rapid installation of a new Prime Minister and cabinet lessened the political uncertainty, and the government/Bank of England have been proactive in tackling the economic uncertainty.

- Purchasing Managers Index data, and consumer and business confidence surveys presented a more positive picture for August following the shock-influenced data for July, in line with expectations for an initial overreaction. However, many indicators remain at lower levels than pre-Referendum.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

- UK Consumer Price Index inflation (currently 0.6% year/year) will rise close to target over the coming year as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

- The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- There is a debatable benefit to further interest rate cuts (particularly with regard to financial stability). Negative Bank Rate is currently perceived by policymakers to be counterproductive, but there is a possibility of close-to-zero Bank Rate. QE will be used to limit the upward movement in bond yields.

- Following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than a few months ago. However, financial market volatility is likely at various points because the stimulus has only delayed the fallout from the build-up of public and private sector debt (particularly in developing economies, e.g. China).

Forecast:

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero later in the forecast period.

- Gilt yields will be broadly flat from current levels, although there will likely be much volatility as reports of negotiations between the UK and the remaining EU affect market perceptions of both parties' economic growth potential.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Aver-age
Official Bank Rate														
Upside risk	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.40
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.18
Arlingclose Central Case	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.34
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.60	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90	0.65
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.24
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.30	0.30	0.30	0.30	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.39
Downside risk	0.40	0.45	0.45	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	0.83
Downside risk	0.40	0.45	0.45	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.35	1.35	1.40	1.40	1.29
Downside risk	0.50	0.55	0.55	0.55	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.64
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.35	1.35	1.40	1.40	1.29
Downside risk	0.50	0.55	0.55	0.55	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.64

Annex 2 – Existing Investment and Debt Portfolio Position

	30/10/16 Actual Portfolio £m	30/10/2016 Average Rate %
External Borrowing: Public Works Loan Board	457.8	5.5
Other Long Term Liabilities: PFI & Finance Leases	105.0	NA
Total Gross External Debt	**562.8**	**NA**
Investments: Fund Managers: Aberdeen AllianceBernstein Money Market Funds	 71.8 72.1 42.2	 0.7 0.7 0.4
Total Investments	**186.1**	**0.6**
Net Debt	**376.7**	**NA**

Annex 3 – DRAFT Prudential Indicators

BACKGROUND

1. The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2. **Estimates of Capital Expenditure:** The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2016-17 Revised £m	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
General Fund	162	229	43	43
HRA	221	164	129	129
Total Expenditure	**383**	**393**	**172**	**172**
Capital Receipts	62	102	53	53
Government Grants	64	69	14	14
Revenue and Reserves	83	78	97	97
Borrowing	174	144	8	8
Total Financing	**383**	**393**	**172**	**172**

3. **Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
General Fund	428	499	526	557
HRA	462	524	518	520
Total CFR	**890**	**1,023**	**1,044**	**1,077**

The CFR is forecast to rise by £187m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

4. **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital

financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Borrowing	458	604	633	667
PFI liabilities	103	98	94	91
Total Debt	**561**	**702**	**727**	**758**

Total debt is expected to remain below the CFR during the forecast period.

5. **Operational Boundary for External Debt:** The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	2016-17 Revised £m	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Borrowing	780	925	950	985
Other long-term liabilities	120	115	110	105
Total Debt	**900**	**1040**	**1060**	**1090**

6. **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016-17 Limit £m	2017-18 Limit £m	2018-19 Limit £m	2019-20 Limit £m
Borrowing	815	960	985	1,020
Other long-term liabilities	125	120	115	110
Total Debt	**940**	**1,080**	**1,100**	**1,130**

7. **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016-17 Revised %	2017-18 Estimate %	2018-19 Estimate %	2019-20 Estimate %
General Fund	17	17	17	17
HRA	8	8	8	8

8. **Incremental Impact of Capital Investment Decisions:** this is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed (no changes proposed within this report).

Incremental Impact of Capital Investment Decisions	2017-18 Estimate £	2018-19 Estimate £	2019-20 Estimate £
General Fund - increase in annual band D Council Tax	0	0	0
HRA - increase in average weekly rents	0	0	0

9. **Adoption of the CIPFA Treasury Management Code:** The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* and fully complies with the Codes recommendations

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

10. **Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2017-18	2018-19	2019-20
Upper limit on fixed interest rate exposure	1,080	1,100	1,130
Upper limit on variable interest rate exposure	210	220	230

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

11. **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 fixed rate borrowing will be:

	Upper	Lower
Under 12 months	0%	20%
12 months and within 24 months	0%	20%
24 months and within 5 years	0%	40%

5 years and within 10 years	0%	60%
10 years and within 20 years	0%	60%
20 years and within 30 years	0%	60%
30 years and within 40 years	0%	60%
40 years and within 50 years	0%	60%

12. **Principal Sums Invested for Periods Longer than 364 days:** 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 indicator caps maximum exposure to longer investments whilst recognising that such investments can help secure additional yield within a risk controlled framework. Since 2015-16 the overall average life of investments is limited to 2 years recent exposure has remained cautious in view of market volatility:

<table>
<tr><th></th><th>2017-18
Limit</th><th>2018-19
Limit</th><th>2019-20
Limit</th></tr>
<tr><td rowspan="2">Upper limit on investments greater than one year</td><td>Investments greater than one year under 20%</td><td>Up to 50% of investments greater than one year</td><td>Up to 50% of investments greater than one year</td></tr>
<tr><td>Overall average maturity 2 years</td><td>Overall average maturity 2 years</td><td>Overall average maturity 2 years</td></tr>
</table>

Annex 4 – Minimum Revenue Provision Policy Statement

BACKGROUND

1. Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, local authorities are required to charge a minimum revenue provision (MRP) annually to its revenue account in respect of capital financing obligations arising in that year or in any prior year. Capital financing obligations represent debt or long term liabilities taken to fund capital expenditure.

2. Amendments to section 21(1(A)) of the Local Government Act 2003 and the statutory guidance on the minimum revenue provision made thereunder, recommend that councils produce a policy on making prudent MRP each year.

3. The MRP policy recommend for approval by council assembly is set out below. The policy is similar to the one approved by council assembly in February 2014 and now includes provisions permitting MRP on any one asset or expenditure to be considered on its own merits in the interest of financial flexibility.

ANNUAL MINIMUM REVENUE PROVISION STATEMENT

4. This statement covers the minimum revenue provision (MRP) that the council shall set set-aside from revenue to reduce borrowing and long term liabilities arising from capital expenditure. Additional sums to reduce the balance on capital financing obligations are also set out herein.

5. In calculating the MRP, the council shall draw on advice and options cited in the guidance on MRP issued by the Secretary of State. This statement is effective from 2015-16, the current year, and onwards, and replaces previous statements for that year. Any changes to this statement require council assembly approval.

General Fund Supported Capital Expenditure or Capital Expenditure incurred before 1 April 2008.

6. The pre-2008 debt is being paid off over 50 years on an annuity basis. 50 years is consistent with assets which include freehold land, other long-lasting assets such as infrastructure and assets benefitting from on-going investment to maintain or prolong useful life.

General Fund Self- Financed Capital Expenditure from 1 April 2008.

7. Where the capital expenditure is incurred from 1 April 2008 and on an asset financed wholly or partly by self-funded borrowing, the MRP is to be made in instalments over the life of the asset in accordance with “Option 3: Asset Life Method” of the guidance.

8. The determination as to which scheme is funded from borrowing and which from other sources shall be made by the strategic director of finance and corporate services and where an asset is only temporarily funded from borrowing in any one financial year and it is intended that its funding be replaced with other sources by the following year, no MRP shall apply. Nor shall MRP apply where spend is anticipated to be funded from capital receipts or grants due in the future but is in the meantime funded from borrowing, subject to a maximum of three years or the year the receipt or grant is actually received, if sooner.

9. The asset life method shall also be applied to borrowing to meet expenditure from 1 April 2008 which is treated as capital expenditure by virtue of either a

direction under section 16(2) of the 2003 Act or regulation 25(1) of the 2003 Regulations. The estimated asset life for MRP purposes shall be determined in accordance with advice contained in the guidance and in other cases by the strategic director of finance and corporate services. When borrowing to construct an asset, the asset life may be treated as commencing in the year the asset first becomes operational and postpone MRP until that year.

10. In the case of finance leases, on balance sheet private finance initiative contracts or other credit arrangements, MRP shall be the sum that writes down the balance sheet liability.

11. Where capital expenditure involves repayable loans or grants to third parties no MRP is required as the loan or grant is repayable.

12. Where capital expenditure involves a variety of different types of works and assets, the period over which the overall expenditure is judged to have benefit over shall be considered as the life for MRP purposes. Expenditure arising from or related or incidental to major elements of a capital project may be treated as having the same asset life for MRP purposes as the major element itself.

13. The MRP on any one asset or expenditure can be assessed on its own merits and subsequently modified in the interest of financial flexibility.

14. The strategic director of finance and corporate services has delegated responsibility for implementing the Annual Minimum Revenue Provision Statement and has managerial, operational and financial discretion necessary to ensure that MRP is calculated in accordance with regulatory and financial requirements and determine any practical interpretation issues.

15. The strategic director of finance and corporate services may make additional revenue provisions, over and above those set out above, and set aside capital receipts, balances or reserves to discharge financing liabilities for the proper management of the financial affairs of the HRA or the General Fund.