EAST HERTS COUNCIL

AUDIT COMMITTEE - 22 JANUARY 2014

EXECUTIVE - 4 FEBRUARY 2014

REPORT BY EXECUTIVE MEMBER FOR FINANCE

TREASURY MANAGEMENT STRATEGY STATEMENT 2014/15
AND MINIMUM REVENUE PROVISION POLICY STATEMENT

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The report sets out the 2014/15 Treasury Strategy Statement and Annual Investment Strategy together with the setting of Prudential Indicators.

RECOMMENDATION FOR AUDIT COMMITTEE	
(A)	**that the Committee considers the 2014/15 Treasury Management Strategy Statement and Annual Investment Strategy and Prudential Indicators and makes comments to the Executive.**
RECOMMENDATIONS FOR COUNCIL:	
(A)	**that the 2014/15 Treasury Management Strategy Statement and Annual Investment Strategy and Prudential Indicators for East Herts Council be approved; and**
(B)	**the Policy on Minimum Revenue Provision (MRP) be approved.**

1.0 Background

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested with appropriate counterparties or instruments that are able to provide sufficient liquidity to satisfy the councils appetite for risk.

The second main function of the treasury management service is to fund the Council's capital plans. There is a need to understand the long-term cash flow implications required to fund the Councils Capital spending obligation. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management 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 risks."

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (included as paragraph 2.10); this set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.0 Report

2.1 The suggested strategy for 2014/15 in respect of the following aspects of the treasury management function is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy; (including fund manager review)
- Minimum Revenue Provision (strategy)
- Responsibility of Treasury activities defined within the organisation

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-

1. increases in interest charges caused by increased borrowing (or reduced interest earnings where capital receipts are used) to finance additional capital expenditure; and

any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2.2 Treasury Limits for 2013/14 to 2016/17

2.2.1 It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the authorised limit represents the legislative limit specified in the Act.

2.2.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

2.2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

2.3 Prudential Indicators for 2013/14 - 2016/17

2.3.1 The following prudential indicators (in table below) are relevant for the purposes of setting an integrated treasury management strategy.

2.3.2. The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted in March 2002 by the full Council.

PRUDENTIAL INDICATORS	2012/13	2013/14	2014/15	2015/16	2016/17
EXTRACT FROM BUDGET	£'000	£'000	£'000	£'000	£'000
	Actual	**Probable**	**Estimate**	**Estimate**	**Estimate**
Capital Expenditure	3,579	5,345	3,265	1,638	1,248
Financed By					
Capital Receipts	1,230	1,506	2,320	500	500
Capital Grants	288	233	200	175	175
Third Party Contributions	94	273	155	51	
Revenue	25	25	25	25	25
Net Financing need for the year	(1,942)	(3,308)	(565)	(887)	(547)
Ratio of financing cost to Net Revenue Stream(%)	(2.27%)	(1.84%)	(0.89%)	(0.05%)	(1.20%)
Net borrowing requirement					
Brought forward 1 April	(58,932)	(60,838)	(57,530)	(56,965)	(56,078)
Carried forward 31 March	(60,838)	(57,530)	(56,965)	(56,078)	(55,531)
In year borrowing requirement reduction in amounts invested	1,906	3,308	565	887	547
Capital Financing Requirement as at 31st March	(43,919)	(40,611)	(40,046)	(39,159)	(38,512)
Incremental impact of capital investment decisions increase in council tax *band D() per annum	£0.67	£1.07	£0.65	£0.32	£0.24

TREASURY MANAGEMENT					
Authorised limit for external debt					
Borrowing	14,750	15,600	15,900	16,000	16,000
Other long term liabilities	2,770	2,350	2,000	1,600	1,000
TOTAL	17,520	17,950	17,900	17,600	17,000
Operational boundary for external debt-					
borrowing	10,000	10,000	10,000	10,000	10,000
Other long term liabilities	2,770	2,350	2,000	1,600	1,000
	12,770	12,350	12,000	11,600	11,000
Upper limit for fixed interest rate exposure expressed as either					
Net principal re fixed rate borrowing investments	100%	100%	100%	100%	100%
Investments	98%	98%	98%	98%	98%
Upper limit for variable rate exposure					
Net principal re variable rate exposure	50%	50%	50%	50%	50%
Borrowing					
Investments	95%	95%	95%	95%	95%
Upper Limit for total Principal sums invested for 364 days					
Per Maturity Date	65,000	61,000	60,000	59,000	58,000

Maturity structure of new fixed rate borrowing during 2014/15	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

2.4 Current Portfolio Position

2.4.1 The Council's treasury portfolio position at 30.11.13 comprised:

	Principal		Ave Rate	
		£m	£m	%
Fixed rate funding	*PWLB	1.5		8.875
	Market	6.0		8.785
			7.5	8.803
Variable rate funding	*PWLB	Nil		
	Market	Nil		
TOTAL DEBT			7.5	8.803
TOTAL INVESTMENTS			67.2	1.1.%

* PWLB is public works loans board.

2.5 Borrowing Requirement

2.5.1 The borrowing required in 2014/15 is nil as no borrowing is needed to support capital expenditure. A borrowing requirement will continue to arise in the forthcoming years based on expected capital expenditure net of other sources of funding (capital receipts, grants, revenue contributions). However the continued use of investments will negate the need to borrow.

2.6 Prospects for Interest Rates

2.6.1 The borrowing and investment strategy is in part determined by the economic environment within which it operates.

2.6.2 The Council has appointed Capita Asset Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. (Please note that in prior years the company was known as "Sector Treasury Services") The following table gives their view on interest rates.

2.6.3 **Capita Asset Services View** Interest rate forecast – November 2013.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

Capita Asset Services current interest rate view is that in respect of the Bank Rate:-

- Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from June 2016.
- Growth prospects remain strong looking forward, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction.
- Unlike growth, wage inflation remains relatively flat and continues to significantly lag CPI inflation.
- The Bank of England also issued forward guidance with the Inflation Report which stated that the Bank will not consider raising interest rates until the unemployment rate has fallen to 7% or below.
- Although the UK has lost its AAA rating from Fitch and Moody's, this setback has not resulted in a negative reaction from the market or significantly impacted the UK's cost of borrowing

2.7 Economic (Forward View)

This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates are still attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;

2.8 Borrowing Strategy

2.8.1 It is anticipated that there will be no capital borrowings required during 2014/15. However under the prudential code borrowings are permissible but with a negative Capital Finance Requirement, this would be difficult to justify. The running down of investments also has the benefits of reducing exposure to interest rate and credit risk. This will be continually monitored in conjunction with the treasury advisers.

2.8.2 External v. Internal Borrowing

Comparison of gross and net debt positions at year end	**2012/13**	**2013/14**	**2014/15**	**20015/16**	**2016/17**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
	Actual	**Probable outturn**	**Estimate**	**Estimate**	**Estimate**
Actual external debt (gross)	7,500	7,500	7,500	7,500	7,500
Cash balances	(67,220)	(67,220)	(60,220)	(60,220)	(60,220)
Net debt	(59.720)	(59,720)	(52,720)	(52,720)	(52,720)

The Council currently has a difference between gross debt and net debt (after deducting cash balances). The positive net debt will decrease as the Capital programme is financed from internal borrowing, or if a change of Policy of external borrowing was introduced. By not borrowing it reduces the credit risk on investments.

2.9 Debt Rescheduling

2.9.1 Due to high rates of interest payable on the outstanding £1.5 million PWLB (Public Works Loans Board) loans and the expected low level of the corresponding discount rates for maturities, any potential restructuring or premature repayment of the loans would be very expensive as their repayment would attract heavy premiums (in excess of £1M). The situation is kept under review and if there are any changes, appropriate decisions will be taken.

2.9.2 If the market conditions do change, any opportunities will be investigated, to pursue any potential advantages to the Council.

2.9.3 All rescheduling will be reported to the Council, at the earliest meeting following its action.

2.10 Annual Investment Strategy

2.10.1 **Investment Policy**

2.10.1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:-

(a) the security of capital and
(b) the liquidity of its investments.
(c) The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

2.10.1.2 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

2.10.1.3 Investment instruments identified for use in the financial year are shown below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set through the Council's Treasury Management Practices. These have been amended in accordance with the report to Council on the 4 July 2012.

Specified Investments

An investment is a specified investment if it satisfies the conditions set out below:-

(a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.

(b) The investment is not a long-term investment (maximum of 1 year).

(c) The investment does not involve the acquisition of share capital or loan capital in any corporate body.

(d) Either of the following conditions is met:

(i) The investment is made with the UK Government or a local authority (as defined in section 23 of the 2003 Act) or a parish council or community council.

(ii) The investment is made with a body or in an investment scheme which has been awarded a high credit rating (as specified in the tables below *) by a credit rating agency.

(e) These offer high security and high liquidity.

	***Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	-	In-house
Term deposits - UK government	-	In-house
Term deposits - other LA's (including police & fire authority's)	-	In-house
Term deposits - banks and building societies**	*Short-term F1 Long-term A, Individual_, Support 1,2,3	In-house and fund managers
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	*Short-term F1 Long-term A, Individual_, Support 1	Fund managers
Certificates of deposits issued by banks	*Short-term F1, Long-term A,	Fund managers

	*Minimum ‘High’ Credit Criteria	Use
and building societies NOT covered by UK Government guarantee	Individual _, Support 1,2,	
1. Callable deposits	*Short-term F1, Long-term A, Individual _, Support 1,2,3	Fund managers
2. Range trade	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers
3. Snowballs	*Short-term F1, Long-term AA, Individual _, Support 1,2,3_	Fund managers
UK Government Gilts	AA	Fund managers
Bonds issued by multilateral development banks	AAA	Fund managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):		
1. Money Market Funds	AAA	Fund managers and In-house
2. Enhanced cash funds	*Short-term F1, Long-term AAA, Individual _,	Fund managers and in-house
3. Short term funds	*Short-term F1, Long-term A, Individual _, Support 1,2,3	Fund managers
4. Bond Funds	*AAA	Fund managers
5. Gilt Funds	*AAA-AA	Fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	*AAA	In-house on a ‘buy-and-hold basis. Also for use by fund managers
Sovereign bond issues (ie other than the UK govt)	*AAA	Fund managers
Treasury Bills	AA	Fund Managers . In-house on a buy and hold basis.

** If forward deposits are to be made, the forward period plus the detail period should not exceed one year in aggregate.

<u>Non-Specified Investments:</u>

Do not meet the definition for specified investments i.e. maturities more than 1 year and subsequently the risk is considerably greater. The maximum to be held in each category of non-specified investments is as follows:-

	* Minimum Credit Criteria	Use	**Max% of total investments	Max maturity period
Term deposits - other LAs (with maturities in excess of 1 year)		In-house	60%	5 years
Term deposits - banks and building societies (with maturities in excess of 1 year)	*Short-term F1, Long-term A, Individual _, Support 1,2,3	In-house	80%	5 years
Commercial paper issuance by UK banks covered by UK Government guarantee	*Short-term F1, Long-term A, Individual _, Support 1,2,3	Fund managers		5 years
Fixed term deposits with variable rate and variable maturities				
1. Callable deposits	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	80%	5 years
2. Range trade	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	10%	5 years
3. Snowballs	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund managers	10%	2 years
Certificates of deposits issued by banks and building societies with maturities in excess of 1 year	*Short-term F1, Long-term AA, Individual _, Support 1,2,3	Fund Managers	50%	5 years
UK Government Gilts with maturities in excess of 1 year	AA	Fund Managers	100%	10 years
Bonds issued by multilateral development banks with maturities in excess of 1 year	AAA	Fund managers	40%	10 years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities in excess of 1 year	AA	Fund managers	40%	10 years
Sovereign bond issues (ie other than the UK govt) with maturities in excess of 1 year	AAA	Fund managers	50%	10 years

Corporate Bonds : **the use of these investments would constitute capital expenditure** (bonds other than government bonds)	*AAA	Fund Managers(subject to regulation changes)	10%	5 years
Floating Rate Notes : **the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank** (ie bonds with interest rate that varies in line with the market rate of interest, reset say every 3 months)	*AAA	Fund Managers but not permitted where the investment would constitute capital investment.	10%	5 years
Property fund: **the use of these investments would normally constitute capital expenditure**		Usable but the position regarding capital expenditure to be clarified before undertaking.	10%	10 years

** Note: When setting these limits it includes both in-house and externally managed funds.

The Council's external fund manager will comply with the Annual Investment Strategy.

The agreements between the Council and the fund manager additionally stipulate guidelines and duration and other limits in order to contain and control risk. In brief terms these are the maximum investment that is permissible with any one counterparty limited by value or percentage, with the exception of the UK Government.

For any in-house monies this Council uses the creditworthiness service provided by Capita Asset Services Treasury Services. This service has been enhanced and now uses a sophisticated modelling approach with credit ratings from all three rating agencies – Fitch, Moody's and Standard & Poors forming the core element. However, it does not rely solely on the current ratings of counterparties but also uses the following as overlap:-

- Credit watches and credit outlooks from credit rating agencies
- CDS spread to give early warning of likely changes to credit ratings
- Sovereign ratings to select counterparties from only the most credit worthy countries.

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties.

Counterparty limits with individual banking groups would not exceed £10m with the exception of those already individually approved (Lloyds £20m and Nat West £20m)

Sole reliance will not be placed on the use of this external service. In addition this Council will use market data and information on government support for banks.

2.10.1 **In-House Funds**

In-house funds are mainly cash flow derived and therefore investments will be made with reference to short term interest rates (ie rates for investments up to 12 months). Current policy has seen the withdrawal of the funds from SWIP which have been redirected into fixed term deposits and recently a money market fund. The Investment board met during the year and will continue to do so to consider the maturing fixed term investments and liquid funds held in the money market fund. This will include assessing the feasibility of using Alternative and Enhanced cash funds. The daily cash flow funds staying with our own bankers.

2.10.2 Interest Rate Outlook: Capita Asset Services is forecasting that Bank Rate will stay flat until September 2016 with the first rise to 0.75%. This will continue until the rate rises to 1.25% in March 2017. It would therefore be prudent to look at the period of investments and their interest rates against this background information. For 2014/15 the Council has assumed investment return of 1.1% on the investments made in house. For the medium term planning process rates of 1.1% (2015-16) 1.4% (2016-17) has been assumed.

For its cash flow generated balances, the Council will seek to utilise its business reserve account or short term notice accounts in order to benefit from the compounding of interest and revisiting investing short-term in money market funds. Where the opportunity is available we will be investing with other locals on a short term basis.

2.11 **Fund Managers Review and Forecasts**

East Herts Council employ only one fund manager Investec. The Funds from Scottish Widows (SWIP) were withdrawn during 2012/13 and now placed in short term money market funds and fixed term deposits.

2.11.1 **Investec Asset Management**

At 30 November 2013 Investec's holding on behalf of the Council was £21,921,830.
In the first quarter Investec focussed on the CD market and the floating rate notes and moved into the gilt market in the second quarter. During the second quarter of 2013/14, Investec returned 0.04% net of fees vs the Merrill Lynch 1-3 gilt of 0.11%, an underperformance of 7bps, the return for the period was also below the industry average of 0.10% by 6bps. For the financial year to date, Investec returned -0.10% against the benchmark of -0.26%, an outperformance of 16bps.

2.11.2 This performance is set out below:

	Merrill Lynch 03 yr gilt* benchmark	**East Hertfordshire Investec fund net of fees**	Variance
Quarter ended 30/06/2013	0.23%	**0.13%**	(0.10%)
Quarter ended 30/09/2013	0.11%	**0.04%**	(0.07%)
Half Year 2013-14	0.34%	**0.17%**	(0.17%)

In view of the weakness in the gilt position during 2013/14 and the associated low level of returns on this fund, we expect a return of 0.2% for the year ending 31/3/14, and 0.75% for 2014/15,1.25% for 2015/16.

In the second quarter of 2014/15, the Council plan to withdraw £10m from Investec fund to be placed into Property fund while the remaining £10m will continue to be managed by the Fund Manager.

2.11.3 Investment in Pooled Property Funds

.

The Council is currently looking at the use of both Property Fund and also investment in property on a direct basis (Report to the Executive on the 5th November, 2013) This continues to be explored but the aim is to have a balanced investment portfolio across all asset types.

The advantages of investing in a property fund is that it can be a simpler investment route. This is a more diversified form of investment than an individual purchase of property and would give greater geographic spread and access to assets that the Council could not afford to own through use of its own resources. However, this does not come with the advantages of controlling the type, placement and use of directly managed property that could have additional benefits of place-shaping, service provision or other local benefits.

Property fund would give the Council an exposure to a diversified portfolio of commercial property throughout the UK, without the issues of maintenance, management and repairs that would have if it were to own the property directly.

The property fund investment is anticipated to be at the level of approximately £20m representing 1/3rd of our capital investment sum and is for long term purposes.

They have entry and exit fees (anticipated to be around 0.4%) and are typically viewed as long term investments over 5 years or more. This fund will be invested in accordance with the Council investment priorities which are security of the amount invested, liquidity of the capital invested and optimum yield commensurate with security and liquidity. Any investments within this category will only be considered after obtaining advice from our Treasury Advisor, Capita Asset Services.

2.11.4 Investment Property

With short term interest rates remaining lower for even longer than anticipated, our investment strategy will typically result in the lengthening of investment periods where cash flow permits.
The Council is considering further investment in property in conjunction with Council's property advisors. This will be done by divesting from some of the funds we have with the fund manager as well as funds managed in-house. These are not treasury investments in the context of the strategy but will be capital expenditure. They will be included in the project within the capital expenditure programme. Appropriate governance arrangements will be established to oversee any such acquisition. Separate reporting arrangements are in place.

2.11.6 **End of year Investment Report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Summary of Strategy

- No new borrowings to finance capital expenditure until capital receipts and other funding has been fully applied. This will be continually monitored in conjunction with the Treasury Advisers.

- Any debt rescheduling opportunities will be investigated.

- Fund Manager to trade gilts and Certificate of Deposit, Treasury Bills, Money Market Funds with objective of maximising yields.

- The Investment board will continue to meet and make decisions on maturing deposits and the funds held in money market funds in conjunction with the Council's advisers, taking into account the fragility of banks and volatility of the money markets.

- A 0.70% return has been assumed in 2014/15 for budgetary setting. However this is subject to final review prior to the Council setting its budget.

2.12 Minimum Revenue Provision (MRP)

The Council needs to agree options for the MRP (the provision to repay debt) annually. Capital receipts from stock transfer mean that no new borrowings are anticipated in the medium term. The method which is most appropriate will be considered when any new borrowings are entered into.

2.12.1 For capital expenditure incurred on or after 1st April 2009, which is financed by borrowing or credit arrangements, one of the following options will be used:-

Option 1 – Asset Life Method

Here equal annual instalments of MRP will be made over the estimated life of asset financed by borrowing. Under this method, the concept of an "MRP Holiday" makes it debut. This provides the ability for an authority to defer MRP on a newly constructed building or infrastructure asset until the asset comes into service.

Option 2 – Depreciation Method

Using this approach will require an authority to charge MRP in accordance with the standard rules for depreciation accounting. As with Option 1 the “MRP Holiday” will be available for assets yet to be brought into service.

2.12.2 Under new regulations the method by which the Council provides for the repayment of it’s borrowings for capital expenditure incurred before 1st April 2008, either of the two methods below can be used:-

Method 1 - Regulatory

Where debt is supported by RSG, authorities will be able to continue using the formulae used in the current regime, since the supported borrowing element of the RSG is also calculated in this way.

Method 2 – Capital Financing Requirement

This method will be based upon 4% of an authority’s non-housing CFR at the end of the preceding financial year. Where the CFR is negative or nil, no MRP will be required as is the case at present. This method will be used by the Council which will result in a nil requirement.

3.0 Policy on the use of external service providers

The Council uses Capita Asset Services as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure reliance is not placed upon external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

3.1 Role of the Section 151 Officer

The Section 151 officer is responsible for all monies in the hands of the Council. This includes the Treasury Management function.

All borrowings, lending and finance will be in accordance with the CIPFA Code of Practice on Treasury Management.

This is incorporated within the Financial Regulation on Treasury Management.

3.2 Treasury Management scheme of delegation

(i) The Council's Audit Committee review reports, and comments are passed on to the Executive.
(ii) Executive considers any comments from Audit Committee and recommends approval to full Council.
(iii) Monthly health check monitoring reports are through CMT, then to Executive and then to full Council.
(iv) Quarterly reports through Audit Committee to Executive.
(v) Investment board recommends financial investments.
(vi) Delegation for officers is detailed within the constitution.
(vii) The training needs for treasury management is periodically reviewed.

4.0 Implications/Consultations

4.1 Information on corporate issues and consultation associated with this report can be found within Essential Reference Paper 'A' (Page *)

Background Papers
None

Contact Member: Councillor Michael Tindale, Executive Member for Finance.

Contact Officer: Adele Taylor, Director of Finance & Support Services, Ext 1401
Simon Chancellor, Head of Finance & Performance Ext 2050

Report Author: Taiwo Oyetade, Principal Accountant (Interim) Ext 2138