Report to	Council	**Item**
	28 January 2020	6
Report of	Chief finance officer (Section 151 Officer)	
Subject	Treasury Management Mid-year Review Report 2019/20	

Purpose

This report sets out the Treasury Management performance for the first six months of the financial year to 30 September 2019. This is in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management and Prudential Codes.

Recommendation

To:

1) note the contents of the report and the treasury activity undertaken in the first six months of the 2019/20 financial year;

2) approve an increase in the approved counterparty limit with the UK Debt Management Account Facility (DMAF) in the Treasury Management Strategy Statement from £15m to £30m to increase flexibility of holding cash short term (Para 11 and Appendix A);

3) approve a minor wording amendment to the Minimum Revenue Provision (MRP) policy statement to provide additional clarity (Para 48 and Appendix B).

Corporate and service priorities

The report helps to meet the corporate priority of providing a healthy organisation.

Financial implications

The report has no direct financial consequences however it does report on the performance of the Council in managing its borrowing and investment resources during the first half of 2019/20.

Ward/s: All Wards

Cabinet member: Councillor Kendrick - Resources

Contact officers

Hannah Simpson, interim chief finance officer	01603 212561
Caroline Knott, senior technical accountant	01603 212602

Background documents

None

Report

Background

1. CIPFA (the Chartered Institute of Public Finance & Accountancy) defines treasury management as: “The management of the local authority’s borrowing, 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 report reviews the treasury management activity during the first six months of the financial year 2019/20 and reports on the prudential indicators as required by CIPFA’s Treasury Management Code of Practice.
3. The original Treasury Management Strategy (TMS) and Prudential Indicators were reported to and approved by Council on 26 February 2019. This mid-year report was approved and recommend for approval by council at cabinet on 18 December 2019.
4. This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code. This requires that the prime objective of treasury management activity is the effective management of risk, and that borrowing activities are undertaken on a prudent, affordable and sustainable basis.
5. The council’s investments in commercial property, equity shares, and lending to third parties are classified as non-financial (commercial) investments and are reviewed annually within the non-financial (commercial) investments strategy part of the budget report in February.

Investment Strategy

6. The TMSS for 2019/20, which includes the Annual Investment Strategy, was approved by the council on 26 February 2019. It sets out the Council’s investment priorities as being:
    - Security of capital;
    - Liquidity; and
    - Yield
7. No policy changes have been made to the investment strategy, the Council will continue to aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity.
8. The Council held £65.780m of investments as at 30 September 2019. Table 1 below shows the movement in investments for the first six months of the year.

Table 1

Investments	Actual		Actual
	31-Mar-19	Movement	30-Sep-19
	£'000	£'000	£'000
Short term investments:			-
Banks	11,000	(4,000)	7,000
Building Societies	3,000	5,500	8,500
Local Authorities	12,000	(3000)	9,000
Cash Equivalents:			
Banks	13,710	2,570	16,280
Non- UK Banks	0	4,000	4,000
Building Societies	0	6,000	6,000
Local Authorities	4000	(4000)	0
UK Government	6,000	(6000)	0
Money Market Funds	0	15,000	15,000
Total	**49,710**	**16,710**	**65,780**

9. It is anticipated that cash balances will decrease during the second half of the year to come as they will be used to temporarily fund commercial property acquisitions already in the pipeline and an approved additional loan facility to Norwich Regeneration Limited (NRL).

10. The corresponding loss of investment income is more than compensated by the net income returns generated by these schemes. The Council continues to undertake appropriate due diligence in the selection of its investment commercial properties as well as scrutiny of its commercial lending.

11. To provide additional flexibility when holding short term cash to fund the Council's commercial activities, the report recommends increasing in the approved counterparty limit with the UK Debt Management Account Deposit Facility (DMADF) in the Treasury Management Strategy Statement from £15m to £30m (see revised table in **Appendix A**). The DMADF is provided by the Debt Management Office and is designed to support local authorities' cash management. The DMADF currently offers fixed term deposits in the Debt Management Account and is UK Government backed.

12. The Chief finance officer confirms that all investment transactions undertaken during the first six months of 2019/20 were within the approved limits as laid out in the Annual Investment Strategy.

BALANCE SHEET POSITION

External Borrowing

13. Table 2 below shows the Council has actual external borrowing of £219.617m, most of which relates the Housing Revenue Account (HRA).

14. The Council borrowed an additional £20m from the PWLB in August 2019 at a rate of 1.81%. This borrowing was to cover a proportion of the commercial property purchases completed in 2017/18 and 2018/19. The external

borrowing replaced existing internal borrowing – where cash balances had been used in the short term to cover the unfinanced capital spend.

15. Table 2 shows the current and forecast borrowing position. At this stage an expected £36m additional borrowing is forecast in line with the expectation that the full commercial property acquisition budget will be spent before the year end. The pace at which this budget may be spent is however dependent upon suitable investment opportunities becoming available in the market and the availability of relevant specialist advice. Any commercial investment budget not spent by the year end will be carried forward into 20/21 with the potential for any related borrowing to also be deferred.

Table 2

Borrowing	Actual	Actual	TMSS Forecast	Revised Estimate
Long Term	**31-Mar-19**	**30-Sep-19**	**31-Mar-20**	**31-Mar-20**
	£'000	**£'000**	**£'000**	**£'000**
Public Works Loan Board	194,107	214,107	250,257	250,107
Money Market	5,000	5,000	5,000	5,000
3% Stock (Perpetually irredeemable)	499	499	499	499
Corporate Bonds and External Mortgages	11	11	11	11
Total	**199,613**	**219,617**	**255,767**	**255,617**

16. There have been no repayments of debt scheduled during 2019/20.

Impact of Brexit on future economic forecasts

17. The Bank of England published its quarterly Monetary Policy Report in November 2019. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. A key message in the report was an increase in concerns among Monetary Policy Committee (MPC) members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%.

18. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. Inflation forecasts were cut – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence inflation poses little concern.

19. The Consumer Price Index (CPI) measure of Inflation has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

20. Table 3 below shows the interest rate forecast to March 2022. These forecasts have been provided by the Council's treasury advisor, Link Asset Services based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of

uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

Table 3

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

Source: Link Treasury November 2019 (PWLB rates include adjustments for Certainty rate discounts)

PWLB Rates

21. During the first 6 months of the year to 30 September longer term PWLB rates fell to unprecedented historic low levels. On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps for all new borrowing from the PWLB. There was no prior warning that this would happen and it now means that every local authority has to reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing.

22. The Council has previously relied on the PWLB as its main source of funding; it will now have to reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. Our Treasury Management advisors are expecting that various financial institutions will enter the market or make products available to local authorities. We will continue to liaise closely with our treasury advisors, monitor the borrowing market and update Members as this area evolves.

23. It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. This Authority may make use of this new source of borrowing as and when appropriate. This is within the existing approved Treasury Management Strategy.

Forward borrowing considerations to mitigate expected future interest rate increases

24. The Council may look to arrange forward borrowing facilities should the future borrowing risk rise or predictions of a significant rate rise is expected. This would enable the Council to lock into borrowing facilities at current low rates and draw down the cash over a period of up to 3 years subject to cash flow demands. It should be noted that some of these facilities may carry brokerage and arrangement fees that will be factored into value for money assessments.

Debt Rescheduling

25. No debt rescheduling was undertaken during the first six months of 2019/20. It is not anticipated that the Council will undertake any rescheduling activity during the remainder of the financial year. However, should borrowing rates fall

significantly as a result of Brexit, the Council may consider borrowing to finance its unfinanced borrowing need as well as rescheduling some of its existing debt if this proves cost effective.

Prudential Indicators

26. This part of the report is structured to provide an update on:

- The changes to the Council's capital expenditure plans;
- How these plans are being financed;
- The impact of changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing.

Capital Expenditure & Financing

27. The 2019-20 capital programme budgets were approved as part of the budget papers by full Council on 26 February 2019. Subsequent to this there were approved revisions to the capital budgets to include the 2018/19 capital carry forwards and new capital schemes approved during the year. The current capital programme budget is shown in Table 4 along with the mid-year estimate. A detailed breakdown of capital programme schemes can be found in the Period 7 budget monitoring report.

Table 4

	2019/20 Original Budget	**2019/20 Revised Budget**	**2019/20 Forecast Outturn**
	£'000	**£'000**	
General Fund capital expenditure	55,959	59,253	53,908
General Fund capital loans	0		
HRA	36,568	47,453	38,441
Capital Expenditure	**92,527**	**106,706**	**92,349**
Financed by:			
Capital receipts	8,383	22,498	9,839
Capital grant and contributions	6,814	7,813	6,157
Capital & earmarked reserves	25,267	24,521	24,521
Revenue	7,063	6,313	6,313
Total Resources	**47,527**	**61,146**	**46,830**
Net borrowing need for the year	**45,000**	**45,561**	**45,519**

28. Table 4 above shows how the revised capital programme will be financed and shows a slight increase in the net borrowing need for the year compared to the figure anticipated when Council approved the Treasury Management Strategy.

29. In addition to the approved capital programme, the Treasury Management Strategy incorporated a number of capital ambition schemes and non-financial investments (commercial lending). At this stage none of the capital ambition schemes have had business cases approved by Council and have not been added to the approved capital programme. It is therefore not currently forecast that these schemes will incur spend in 2019/20. The consequence of this is a

decrease in the Council's forecast Capital Financing Requirement (CFR) for 2019/20 as shown in Table 5.

30. The forecast net lending to the council's wholly owned subsidiary, Norwich Regeneration Limited, has also reduced from the Treasury Management Strategy. £6.0m of the outstanding loan balance was repaid by the company in November 2019 and new loan draw down of £2.7m is expected before the year end. The impact of this on the CFR is shown in Table 5.

The Capital Financing Requirement

31. Table 5 below shows the Councils CFR, which is the underlying external need to borrow for a capital purpose. The second table compares the original and revised forecast debt position against the CFR, the difference representing an under borrowing position. This under borrowed position means the capital borrowing need (the CFR) has not been fully funded with loan debt. Instead cash in hand supporting the Council's reserves, balances, and expenditure has been used as an alternative temporary measure. This strategy is prudent in the current economic climate - as returns achievable from the investment of cash are lower than the cost of raising additional loan debt, and counterparty risk remains elevated – but this will need to be reversed over time when the original requirement for that cash arrives.

Table 5

	2019/20 Original Estimate	**2019/20 Revised Estimate**
	£'000	**£'000**
Opening General Fund CFR	**82,836**	**77,063**
Movement in General Fund CFR	55,353	41,605
Closing General Fund CFR	**138,189**	**118,668**
Movement in CFR represented by:		
Borrowing need (capital programme)	45,000	45,519
Borrowing need (NRL lending net of repayments)	1,622	(3,300)
Borrowing need for the year (capital ambition)	9,529	0
Less MRP and other financing adj.	(798)	(614)
Movement in General Fund CFR	**55,353**	**41,605**
Opening HRA Fund CFR	**205,717**	**205,716**
Movement in HRA CFR	0	0
Closing HRA CFR	**205,717**	**205,716**
TOTAL CFR	**343,906**	**324,384**

32. The council has maintained an under-borrowed position to date in 2019/20 (Table 6). This means that the capital borrowing need has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. It is likely that the Council will need to undertake fixed rate long term borrowing within the next 12

months. Any decisions will be reported to Cabinet at the next scheduled opportunity.

Table 6

	2019/20 Original Estimate	2019/20 Revised Estimate
	£'000	**£'000**
Gross borrowing (excluding finance leases)	255,767	255,617
CFR	343,906	324,384
Over/(Under) Borrowing	**(87,237)**	**(68,767)**

Prudential Indicators relating to Borrowing Activity

33. Authorised Limit – This represents the legal limit beyond which borrowing is prohibited, and needs to be set and revised by Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit represents the CFR (assumed fully funded by borrowing) plus a margin to accommodate any unplanned adverse cash flow movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The authorised limit has not been breached and no external borrowing has taken place so far this year.

Table 7

	2019/20
Authorised Limit for external debt	**£'000**
Borrowing	372,306
Other long term liabilities	1,600
Total	**373,906**

34. Operational Boundary – This indicator is based on the probable external debt during the course of the year; it is set deliberately lower than the authorised limit. This limit acts as an early warning indicator should borrowing be approaching the Authorised Limit. This limit may be breached on occasion under normal circumstances, but sustained or regular breaches should trigger a review of borrowing levels. The operational boundary has not been breached and no external borrowing has taken place so far this this.

Table 8

	2019/20
Operational boundary for external debt	**£'000**
Borrowing	342,306
Other long term liabilities	1,600
Total	**343,906**

Borrowing Activity

35. The uncertainty over future of Brexit and its impact on interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.
36. Long-term fixed interest rates are currently low but are expected to rise over the five year treasury management planning period. The Chief Finance Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates or opportunities at the time, taking into account the associated risks e.g. counterparty risk, cost of carry and impact on the Medium Term Financial Strategy as well as risk of interest rate increases.
37. Opportunities for debt restructuring will be continually monitored alongside interest rate forecasts. Action will be taken when the Chief Finance Officer feels it is most advantageous.

Investment Performance

38. The objectives of the Councils investment strategy are firstly the safeguarding of the repayment of the principal and interest of its investments, and secondly ensuring adequate liquidity. The investment returns being a third objective, consummate to achieving the first two.
39. The Council held £ 65.780m of financial investments at 30th September 2019 and the investment profile is shown in the table in paragraph 14 above.

Risk Benchmarking

40. The Investment Strategy for 20919/20 includes the following benchmarks for liquidity and security.
41. Liquidity – The Council has no formal overdraft facility and seeks to maintain liquid short-term deposits of at least £1 million available with a week's notice.
42. Average return on investment at 30 September 2019 was 0.83% using link against a 7 Day LIBID benchmark average rate of 0.57%. The weighted time to maturity (WAM) of investments was 40 using link days compared to 30 days on 30 September 2018. The slight increase in WAM duration reflects a slightly less cautious approach in holding liquid cash for property investments, this has meant cash has been invested for slightly longer periods whilst still ensuring availability for all cash flow requirements. At 30 September 2019 the Council held £65.780m of cash balances, all of which are invested for periods of less than 364 days.
43. The Chief Finance Officer can report that liquidity arrangements were adequate during the year to date.
44. Security – The weighted average credit risk of the portfolio at the end of the period was 3.84% using link (3.43% September 2018). The Council's maximum security risk benchmark for the portfolio as at 30 September 2019 was 0.011% which equates to a potential loss of £7.2k on an investment portfolio of £65.780m. This credit risk indicator is lower than the anticipated maximum risk of 0.041% in the Treasury Management Strategy.
45. At 30 September 2019 100% of the investment portfolio was held in low risk specified investments.

46. The Chief Finance Officer can report that the investment portfolio was maintained within this overall benchmark during the year to date.

Minimum Revenue Provision Policy

47. The Council is required to approve an MRP Statement in advance of each year. Council approved the 2019/20 revised MRP guidance in July 2018.

48. This report recommends a minor wording amendment to the Minimum Revenue Provision (MRP) policy statement in relation to MRP on commercial loans where there is a change in the expectation for full repayment. There is no change in the policy adopted, rather additional wording to provide better clarity. The proposed additional wording is shown in **Appendix B**.

REGULATORY UPDATE

Proposed Changes to IFRS16 Leases and likely implications for the Local Authority Accounting Code

49. Although the standard was issued in January 2016, authorities are expected to comply from 1 April 2020. The current classification of leases into operating and finance will no longer apply with the exceptions of leases of 12 months or less and leases of low value. This change will therefore impact the Council's CFR, but have no borrowing impact. A lot will depend on the evaluation of contracts and their implications. The potential impacts of the new standard will be covered in the 2020-21 Treasury Management Strategy.

Integrated impact assessment

NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report

Detailed guidance to help with the completion of the assessment can be found here. Delete this row after completion

Report author to complete	
Committee:	Council
Committee date:	28 January 2020
Director / Head of service	Hannah Simpson
Report subject:	Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2019/20
Date assessed:	18 December 2019
Description:	This is a mid-year report to inform council on the performance of the treasury management activity for the first six months of the year.

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	The prudential indicators show that for the first six months of the year treasury management activity has produced positive results e.g. achieving an investment interest rate above the target.
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☒	☐	☐	
Financial inclusion	☒	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☒	☐	☐	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☒	☐	☐	
Eliminating discrimination & harassment	☒	☐	☐	
Advancing equality of opportunity	☒	☐	☐	
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☒	☐	☐	
Natural and built environment	☒	☐	☐	
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☒	☐	☐	
(Please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**

	Impact			
Risk management	☐	☒	☐	Managing risk is a major part of undertaking the treasury management activity. All the indicators and limits put in place to reduce the level of risk have been adhered to thus reducing the risks to an acceptable level as stated in the Treasury Management Strategy.

Recommendations from impact assessment
Positive
Negative
Neutral
Issues

Revision monetary limits applying to the Council's investments

TMS Table 6.7: specified and non-specified investment approved instruments and limits

Counterparty/Financial instrument	Minimum Credit Criteria or Equivalent	Specified Investments		Non-specified Investments	
		Maximum duration	Counterparty Limit (£m)	Maximum duration	Counterparty Limit (£m)
DMAF - UK Government	n/a	3 months	£30m ~~£15m~~	n/a	n/a
UK Government gilts	UK Sovereign rating	12 months	£15m	3 years	£5m
UK Government Treasury bills	UK Sovereign rating	6 months	£10m	n/a	n/a
Money Market Funds - CNAV	AAA			n/a	n/a
Money MARKET Funds - LVNAV	AAA	Liquid	£5m per fund £25m overall limit	n/a	n/a
Money Market Funds - VNAV*	AAA			n/a	n/a
UK Local Authority term deposits (LA)**	n/a	12 months	£10m per LA	5 years	£5m per LA
Term Deposits with UK Building Societies	ratings for banks outlined below / Asset worth at least £2.5bn or both	12 months	£5m	n/a	n/a
Banks (Term deposits, CD, Call & Notice accounts)	AAA	12 months	£15m	2 years	£10m
Banks (Term deposits, CD, Call & Notice accounts)	AA+ AA	12 months	£15m	12 months	£5m
Banks (Term deposits, CD, Call & Notice accounts)	AA- A+ A	12 months	£10m	n/a	n/a
Banks (Term deposits, CD, Call & Notice accounts)	A-	6 months	£5m	n/a	n/a
Property Funds	credit loss analysis, financial and legal due diligence	n/a	n/a	n/a	£5m per fund
Loan Capital and other third party loans including parish councils	Subject to financial & legal due diligence	considered on individual basis	n/a	considered on individual basis	n/a

* Specialist advice will be obtained before the use of VNAV money market funds
** Local authorities will reviewed in line with CIPFA suggested indicators

Minimum Revenue Provision (MRP) policy statement

For capital expenditure incurred:

(A) From 1st April 2008 for all unsupported borrowing (excluding finance leases) the MRP policy will be to; charge MRP on an annuity basis (using the prevailing rate of interest at the time) so that there is provision for the full repayment of debt over 50 years; Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

(B) MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

(C) Expenditure in respect of loans made to third parties will not be subject to a minimum revenue provision as the Council will have undertaken sufficient due diligence to expect these loans will be repaid in full to the Council by a capital receipt either during the loan agreement term or at the end of the agreement. Therefore the Council considers that it can take a prudent view that the debt will be repaid in full at the end of the loan agreement (or during if it is an instalment loan), so MRP in addition to the loan debt repayments is not necessary. Each loan will be reviewed on an annual basis to ensure that is no change in the expectation that there will be a full repayment of the loan. If, upon review, this is no longer found to be the case, then a minimum revenue provision will be made over a prudent timeframe to cover the potential non-repayment of part or all of the loan balance.

This is subject to the following details:

1) An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc.). The asset life will be determined by the Chief Finance Officer based on the standard schedule of asset lives provided by an appropriately qualified asset valuer will generally be used (as stated in the Statement of Accounts accounting policies).

2) MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.

3) Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case. Where this is the case the chief finance officer will first seek approval from Full Council.

4) There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

5) Repayments included in annual finance leases are excluded from MRP as they are deemed to be a proxy for MRP.