REPORT TO:	**General Purposes and Audit Committee 9 December 2015**
AGENDA ITEM:	**8**
SUBJECT:	**Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2015/16** **Mid-Year Review**
LEAD OFFICER:	**Assistant Chief Executive (Corporate Resources and Section 151 Officer)**
CABINET MEMBER:	**Councillor Simon Hall Cabinet Member for Finance & Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management. This report details the Council's Treasury Management activities during the first half of 2015/16 and the Council's compliance with the updated 2011 Prudential Code for Capital Finance.

FINANCIAL SUMMARY: This report details the Treasury Management activities in the first half of 2015/16 and demonstrates the Council's compliance with the updated 2011 Prudential Code.

FORWARD PLAN KEY DECISION REFERENCE NO.:

For general release

1. RECOMMENDATIONS

1.1. The Committee are asked to note the contents of this report and to:

(a) Approve the revision of the Council's Annual Minimum Revenue Policy Statement 2015/16 as set out in **3.7** and as detailed in **Appendix F** of this report.

(b) Endorse the continued implementation of the Council's Treasury Strategy Statement, Annual Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2015/16 by the Assistant Chief Executive (Corporate Resources and Section 151 Officer).

2. EXECUTIVE SUMMARY

2.1. This report accords with the CIPFA Code of Practice for Treasury Management and best practice. The Code recommends that members are informed of Treasury activities at least twice a year. The report:

- reviews the Council's treasury management activities for the first six months of the financial year 2015/16;

- details those areas of activity that formed the basis of the Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2015/16 received by Full Council on **23 February 2015 (Item 6 Minute C20150223)**; and

- demonstrates the Council's compliance with the updated 2011 Prudential Code for Capital Finance in the first half of the year and sets out revised Prudential Indicators for 2015/16.

- seeks approval of revisions to the Annual Minimum Revenue Policy Statement 2015/16.

3. BACKGROUND

3.1. The Council has adopted a Treasury Management Policy Statement, which sets out the basis on which treasury activities are to be conducted. This document is incorporated in the Council's Financial Regulations.

3.1.1. The Treasury Management Policy Statement sets out the arrangement for reporting to Members prior to the commencement of each financial year (a statutory requirement) on treasury strategy for the year ahead, to receive a mid-year review of treasury activities and to receive a review of the previous year's activities.

3.1.2. The Council's treasury management objectives are to manage the cash flows, borrowing and investment requirements of the authority with minimum risk and to achieve this by minimising the Council's exposure to adverse movements in interest rates whilst maximising investment yield to enhance the Council's finances.

3.1.3. The Council's treasury management activities are regulated by statute, the updated 2011 Code and official guidance.

3.1.4. This report presents a mid-year review of 2015/16's activities based on the following:
- The Economy and Interest Rates
- Lending;
- Borrowing;
- Compliance with Prudential Indicators;
- Repayment of Debt and Debt Rescheduling;
- Minimum Revenue Provision; and
- Performance Targets.

3.1.5. A glossary of the terms and abbreviations used in this report is attached at **Appendix G.**

3.2. **The Economy and Interest Rates**

3.2.1. To effectively manage the risks inherent in treasury management the team needs a clear understanding of the macro-economic factors that influence returns, the security of sums invested and the outlook for the markets. This section reviews that landscape. UK Gross Domestic Product (GDP) quarterly growth figures in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country with the recent Bank of England's (BOE) August 2015 Inflation Report including a forecast for UK growth to remain around 2.4% - 2.8% over the next three years.

3.2.2. However, the subsequent forward looking Purchasing Manager's Index (PMI) surveys in both September and October 2015 for the services and manufacturing sectors showed a marked slowdown in the likely future overall UK GDP rate caused by the appreciation of Sterling against the Euro, weak growth in the European Union (EU), China and emerging markets and falls in business and consumer confidence levels in September. The report suggested that for recovery to become more balanced and sustainable in the longer term, it needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure.

3.2.3. The BOE's Monetary Policy Committee (MPC) has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. It has therefore been encouraging that in 2015, wage inflation has risen significantly above Consumer Price Index (CPI) inflation which was zero in June and again in August 2015. With the price of oil taking a fresh downward direction and Iran expected to re-join the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, even more so as a result of world commodity prices being depressed by the recent Chinese economic downturn.

3.2.4. The BOE's August Inflation Report forecast for the outlook on inflation was subdued largely due to the fall in oil prices. UK inflation is now likely to stay lower than previously expected and to attain the 2% target over a 2-3 year time horizon. This makes a justification for a rate rise in the near future difficult. The forecast for the first increase in Bank Rate has progressively been pushed back during 2015 from Quarter 4 of 2015 to Quarter 2 of 2016.

3.2.5. The UK's official Bank Rate remains at 0.50%. This has been in force since 5 March 2009 and is the lowest that it has ever been since the inception of the Bank of England. The level of asset purchases (quantitative easing) continues to be the £375bn agreed in July 2012.

3.2.6. In the US, GDP growth in 2014 of 2.4% was followed by first Quarter 2015 growth depressed by exceptionally bad winter weather at only + 0.6%. However, growth rebounded very strongly in Quarter 2 to 3.9% (annualised) with strong growth initially expected going forward. Until the turmoil in the financial markets in August 2015 caused by the slowdown in the Chinese economy, it had been strongly expected that the US Federal Reserve might start to increase their interest rates in September 2015. However, the Federal Reserve pulled back from the first increase due to global risks that this might depress domestic growth and also due to a 20% appreciation of the US dollar which has resulted in lower US growth forecasts. Since then, disappointing US non-farms payrolls figures (new US jobs created) issued on 2 October 2015 has confirmed concerns that US growth is likely to significantly weaken. This has pushed expectations of the first US rate increase from 2015 into 2016.

3.2.7 In the Eurozone (EZ), the European Central Bank (ECB) announced a 1.1 trillion Euro programme of quantitative easing (QE) in January 2015 to buy up high credit quality government debt of selected European Union (EU) countries. The programme started in March 2015 and is scheduled to run to September 2016 and it has already had a beneficial impact in improving confidence and sentiment. There has been a continuing trend of marginal increases in the GDP growth rate of member countries. The ECB has also stated that it would extend its QE programme if inflation failed to return to its target of 2% within this initial time period.

3.2.8 During July 2015, Greece finally agreed to EU demands to implement a major programme of austerity and is now cooperating with EU demands. A third bailout package of 86bn Euros has been agreed though this did nothing to address the size of total debt compared to GDP in Greece. Significant damage has been done to the Greek banking system and economy by the stance of the Syriza government, elected in January 2015, in relation to EU demands. The snap general election called in September 2015 gave the Syriza government a mandate to stay in power to implement austerity measures. There are doubts whether the size of the cuts and the degree of reforms required can be fully implemented and so a Greek exit from the euro may only be delayed by this latest bailout.

3.2.9 In China, the government has been active in 2015 in implementing several stimulus measures to ensure that the economy hits the growth target of 7% for the current year and to bring more stability after the recent major falls in the Chinese stock market. There are major concerns as to the creditworthiness of bank lending to corporates and local government during the post 2008 credit expansion period and whether a major correction in housing prices is drawing near. Concerns about the cooling of the economy and the volatility of the Chinese stock market have caused major volatility in global financial markets in August and September 2015 sparking a flight from equities into safe havens such as gilts.

3.2.10 The disappointing UK PMI services figures and US non-farms payrolls figures (see 3.2.2 and 3.2.6 above) at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had been previously expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central bank rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon.

3.2.11 There remain huge uncertainties in economic forecasts for the next half of this financial year due to:

- The rise in geopolitical concerns principally in Eastern Europe, the Middle East and Asia.
- Uncertainty around the risk of a UK exit from the European Union following the referendum.
- The risk of deflation in the Eurozone and the potential for a significant increase in negative reaction to austerity measures in Eurozone countries, especially in those countries with high levels of unemployment.
- A resurgence of the Eurozone's sovereign debt crisis.
- Weak growth or recession in the UK's main trading partners – the EU, US and China.

3.2.12 Interest rate forecasts as provided by the Council's independent treasury advisers, Capita Asset Services, are detailed below.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

These projections show that market commentators expect the first increase in the Bank Rate to be in June 2016 to 0.75%. This means that the Authority should not expect an upturn in the interest earned on cash balances in the current financial year. This market intelligence will contribute to treasury management decisions to enable effective risk management.

3.3. Lending

3.3.1 The Council's investment policy is governed by Communities and Local Government Office (CLG) guidance which has been implemented in the Annual Investment Strategy approved by Full Council on **23 February 2015 (Item 6 Minute C20150223)**. As set out in the strategy, the criteria for the investment of the Council's surplus funds are based on formal credit ratings issued by the FITCH International Rating Agency and supplemented by additional market data such as rating outlooks, the pricing of credit default swaps and bank share prices. The prime aim is to obtain capital security and then to secure the best rate of return. In addition to the FITCH rated institutions, all UK local authorities, and some public bodies comprise the Council's Approved Lending List.

3.3.2 As set out in the strategy, the implied sovereign support rating for counterparties was expected to be removed by the rating agencies in early 2015. This has now taken place with both the Standard & Poor's and Moody's rating agencies withdrawing all sovereign support ratings. The FITCH rating agency, which the Council and Capita adheres to, still assesses the implied sovereign support rating although the importance of this rating is now diluted. This has resulted in the Council adopting revised minimum credit rating criteria for institutions to be included within the authorised lending list. This revised criteria was approved by General Purposes and Audit Committee on **23 September 2015 (Minute A53/15)** and is as follows:

Lending List Criteria

List	Credit Ratings Criteria
A	**FITCH rating in each of the following categories:-** F1+ on Short Term AA or above Long Term aa- or above Viability Rating 5 for Support Rating AA+ or above Sovereign Rating
B	**FITCH Rating in each of the following categories:-** F1+ on Short Term AA- or above on Long Term a+ or above Viability Rating 5 for Support Rating AA+ or above Sovereign Rating
Approved Organisations All Non-UK Banks that meet the FITCH ratings as set out above All UK Building Societies that meet the FITCH ratings as set out above UK Banks that meet the FITCH ratings as set out above **Approved Organisations not meeting the above credit ratings** Part Nationalised UK Banks All UK Local Authorities AAA rated Money Market Funds Debt Management Office (DMO)	

3.3.3 The Council's authorised list of counterparties as at 30 September 2015 is detailed in **Appendix A.** The list and the counterparty limits applicable have been drawn up to provide maximum security for the Council's funds. Note that although there are three rating agencies, of these Moody's and Standard & Poor's focus on the US markets while FITCH concentrates on Europe and is thus the preferred choice for use here. The CIPFA guidelines require that local authorities factor in the lowest of the three potential ratings, providing an overall check. For Money Market Funds, a minimum of AAA ratings by at least 2 rating agencies one of whom must be FITCH is required for inclusion onto the Council's authorised lending list.

3.3.4 The principle of ensuring capital security and then of securing the best rate of return underpins all treasury investment decisions. The market that exists to support local authorities understands this and has evolved to develop products to match these requirements. Without in any way compromising the commitment to these principles the Council's treasury team has begun a process of engagement with investment advisors to explore the merits and associated risks of alternatives to plain time- and call-deposits that match their security characteristics. There is a growing concern, triggered by a succession of high profile banking scandals, that the reducing pool of quality counter-parties, such as banks, is increasing the level of risk for the Authority. These risks are not simply the risk that principal sums invested might be lost but also reputational risks to the authority. One possible response to this might be is to look closely at other high-grade deposit takers, to increase diversification of investments and thereby reduce the overall concentration of risk of default. As a consequence of this, the Council has put into place a Custodian agreement offered at a discount by the Bank of New York Mellon – the Custodian used by the Council's Pension Fund. This has enabled the Treasury team to diversify investments and to enhance yields by investing in those specified and unspecified investments that require custody arrangements. A list of the Specified and Non-Specified investments that Officers are permitted to undertake in-house, which was approved by Full Council on **23 February 2015 (Item 6 Minute C20150223),** is detailed in **Appendix B.**

3.3.5 Using the new custody account, 2 Certificates of Deposits (CDs) were purchased through Bank of New York Mellon – a £10m CD from Standard Chartered Bank PLC over 6 months to mature on 9 October 2015 at a return of 0.72% and a £10m CD from Toronto Dominion Bank over 6 months maturing on 16 October 2015 at a return rate of 0.50%. At the time that the deals were entered into, both banks were on the Council's authorised list and although active in the CD market rarely took cash deposits. The Treasury team also purchased 1 month duration UK Treasury Bills though the Government's Debt Management Office's weekly gilt auction. The Council's bid for these gilts was submitted through the Bank of New York Mellon and pitched at 0.43%. The rate was accepted and the Council was able to invest its full bid allocation of £5m. The experience gained from these deals provided the treasury team with a flavour of the different investment instruments that could now be accessed as a result of having custody services in place. In the immediate short-term there will be no increase in returns, but the treasury team will be better placed to exploit market opportunities in the longer term.

3.3.6 Of the two part-nationalised UK banks, the UK government's stake in the Royal Bank of Scotland (RBS) PLC group at around 72.9% makes it the majority shareholder in that bank. As such, whilst the government announced plans to sell off its stake in that bank, the size of the current equity stake makes it unlikely that the sale process will materially dilute the government's holding in RBS in the near future. The RBS Group will therefore be retained as an approved investment counterparty till such time as the situation changes. Further, as the Council banks with the National Westminster Bank PLC which is part of the RBS PLC Group, the investment limit for this counterparty will remain at £25m. The UK government's stake in the other part-nationalised bank, Lloyds Banking Group PLC, currently stands below 11% with plans to sell this stake within the coming months to bring the bank back into private ownership. For investment purposes, the Council's treasury advisers have recommended that Lloyds Banking Group should now be evaluated on a stand-alone basis and should only be included onto an approved counterparty list if the bank meets the minimum rating criteria set. At present, the bank's ratings exclude it from the Council's approved lending list but like other entities this can change over time. The situation on both banks will be monitored continuously.

3.3.7 In 2014/15, the Council had invested £20m in the Real Lettings Property Fund Limited Partnership. The property fund, which has a 7-year life, offers investors the opportunity to invest in a diversified portfolio of London residential property and aims to deliver a minimum return of 5% per annum based on the letting of the properties on 5-year lease terms. For Croydon, this investment will also provide added benefit in that the properties purchased would offer affordable accommodation for former homeless people or those at risk of homelessness, who cannot access social housing. At its meeting on **15 December 2014**, Cabinet delegated authority to the Assistant Chief Executive (Corporate Resources and Section 151 Officer), in conjunction with the Cabinet Member for Finance and Treasury and the Deputy Leader (Statutory) Homes and Regeneration, to approve another investment tranche of £10m in the Fund **(Minute A117/14)**. This additional £10m was advanced to the Fund on 9 September 2015. Returns generated by the investment will serve to boost the Council's overall income in the future.

3.3.8 The financial year 2015/16 continues the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

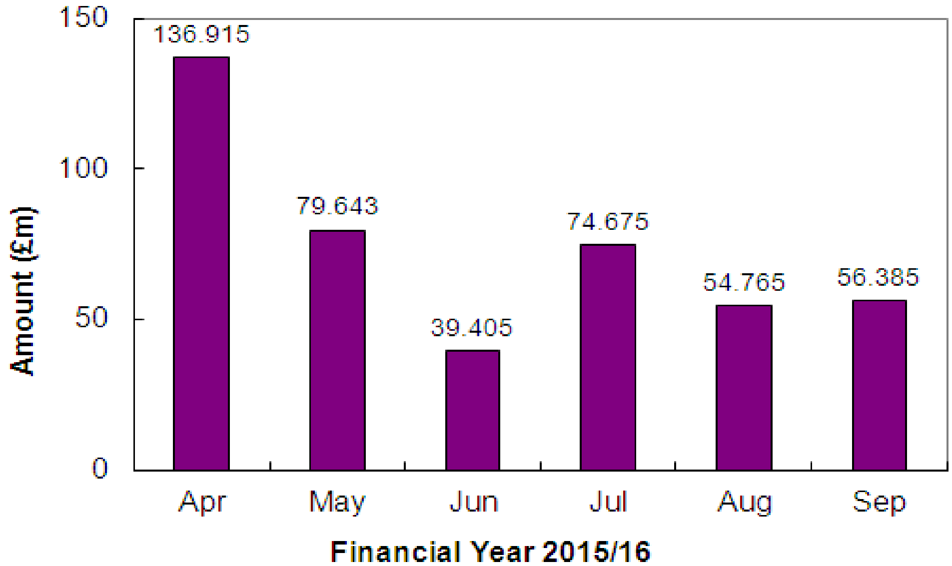
3.3.9 Investment activity in the first half of 2015/16 conformed to the approved strategy and the Council experienced no liquidity issues in the year with an average monthly balance of £134.141m being maintained in temporary investments during the year. Part of this sum is made up of core balances such as provisions and reserves set aside and cash balances that can if necessary be invested for longer periods to take advantage of favourable interest rates and to limit exposure to the risk of future rate movements.

3.3.10 Available funds were invested for differing periods, to match anticipated movements in the Council's daily cash flows commensurate with achieving best value and based on forecasts of interest rate trends. The primary aim is to ensure the capital security of the Council's investments and then to secure the best rate of return.

3.3.11 Investment of the Council's cash balances is governed by the guidance on Local Government Investments which has been issued by the CLG. This guidance requires certain investment policy parameters to be set within the annual Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement & Annual Investment Strategy approved by Council. Investment activity during the year conformed to this approved strategy and sufficient liquidity was maintained for the Council's cash flow requirements.

3.3.12 In aggregate for the first half of 2015/16, deposits totalling £441.788m were invested, yielding on average an investment rate return of 0.44% compared to the benchmark rate of 0.36% for the year (see paragraph 3.8.2). During the year the Council maintained an average monthly balance of £134.141m and the investments outstanding at 30 September 2015 were £140.645m. These were invested as follows: UK banks £51.6m, Non-UK banks £70.0m, other local authorities £10.0m and £9.045mm with AAA rated Money Market Funds

Investments made in 2015/16



3.4. **Borrowing**

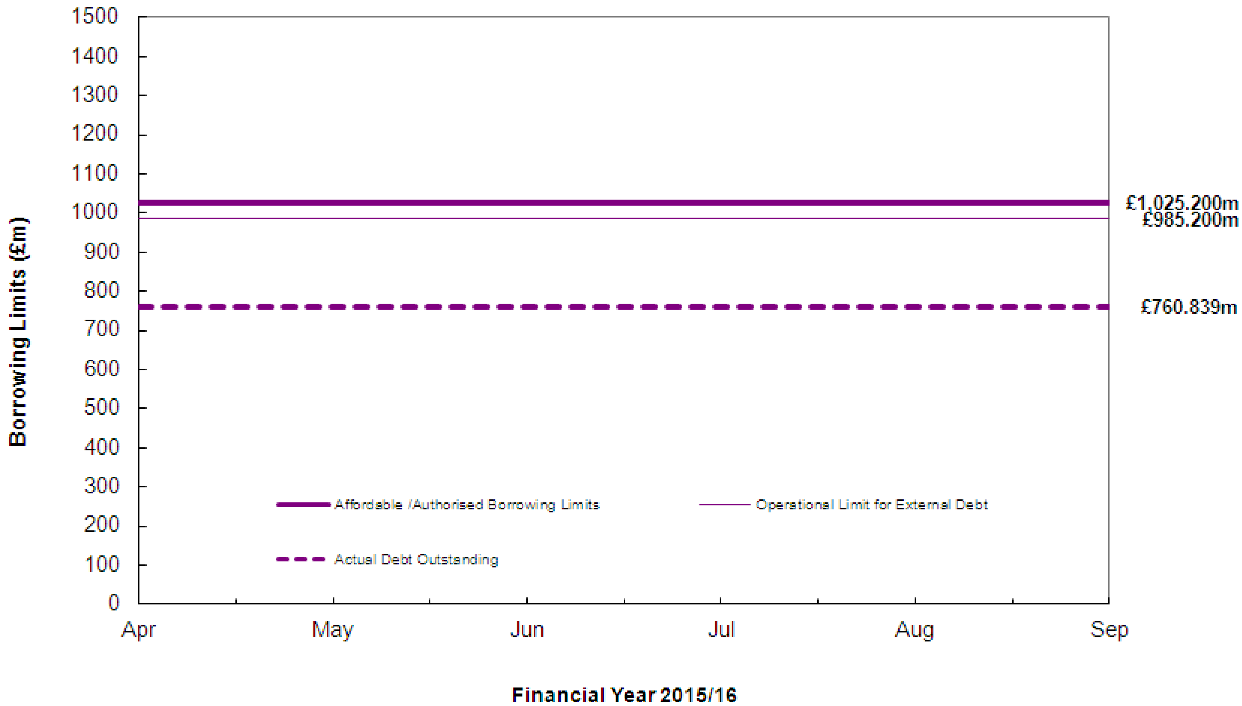
3.4.1. The Council set borrowing limits that were approved by Full Council on **23 February 2015 (Item 6 Minute C20150223)** for the year 2015/16 as part of the legislative constraints specified in Section 3 of the Local Government Act 2003 which require the Council to determine and keep under review how much it can afford to borrow.

The limits were:

Operational Limit for External Debt	£985.2m
Affordable Borrowing Limit	£1,025.2m
Authorised Borrowing Limit	£1,025.2m

3.4.2. The chart below shows the actual debt in the first half of 2015/16 in comparison to the borrowing limits applicable at the time.

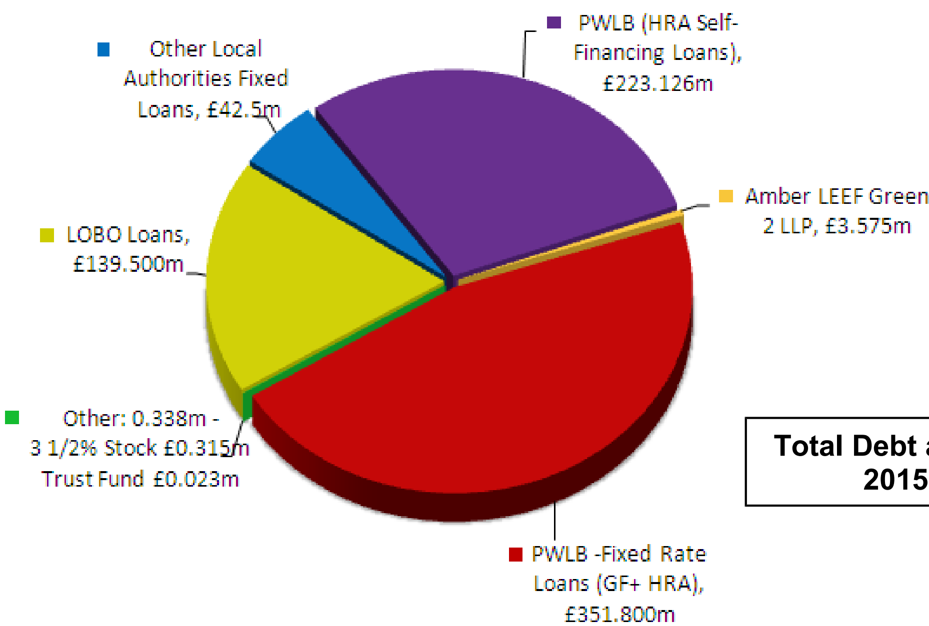
Actual Debt in 2015/16 in comparison to the Operational, Affordable and Authorised Borrowing Limits for the year



3.4.3. The Authorised Borrowing Limit which sets the maximum amount that the Council can borrow for capital and revenue purposes was not exceeded. The Council's overall borrowing as at 30 September 2015 stood at £760.839m. There was therefore considerable headroom to spare between this level of debt and the Authorised Borrowing Limit.

3.4.4. The Council's long term debt as at 30 September 2015 is detailed graphically as follows:

Long Term and Short Term Debt as at 30 September 2015



Total Debt as at 30 September 2015 - £760.839m

3.4.5. The borrowing requirement for the financial year 2015/16 has been estimated to be £126.515m. Of this, £83.150m relates to 2014/15's borrowing requirement which had not been taken up in that year because there were sufficient cash holdings at the year end. The treasury strategy is, through systemic slippage in the delivery of the capital programme and through the use of existing cash balances, to limit the need for further borrowing, and thus to reduce the cost of debt to the Council. As at 30 September 2015, with relatively high cash balances being maintained, none of the borrowing requirement had been taken up. In the second half of the financial year, opportunities for taking up some of the requirement will be looked into in more detail – see paragraph 3.4.10.

3.4.6. In 2013 the EIB had expressed an interest in setting up a separate credit facility to fund capital schemes within the Council's Education Capital Strategy. This related to the financing of capital expenditure incurred by the Borough's schools and academies. The contract between the Council and the EIB was signed on 22 July 2015. The loan facility being made available is for £102m to be advanced over the next few years. Interest rates being quoted were below PWLB certainty rates. Indicative savings over PWLB certainty rate loans are around £0.580m per annum over the entire £102m take up. Over a 20 year loan period, this equates to a saving of £0.580m per annum over 20 years when compared to PWLB funding.

3.4.7. The Government's 2012 budget introduced a 20 basis points discount on loans from the PWLB under the prudential borrowing regime for those local authorities providing improved information and transparency on their locally determined long-term borrowing and associated capital spending plans. This special rate was termed the 'certainty rate'. This Council applied for this rate to finance all of its prudential borrowing plus to refinance maturing long-term debt for the next three financial years. This application has been accepted and therefore for the purposes mentioned, the Council will now be able to source future long-term funding from the PWLB at 20 basis points less than the prevailing PWLB rates.

3.4.8. With some local authorities imposing restrictions on counterparties to lend to, in order for these authorities to obtain a reasonable return, the market has recently become more active in longer term lending (up to 5 years) between local authorities. Interest rates on these deals are being priced at below PWLB certainty rates to attract bids. This source will provide an attractive alternative to PWLB.

3.4.9. In September 2013 the Council was successful in bidding for £20m of funding for energy efficiency and carbon reduction schemes within its capital programme. The agreement was re-negotiated in June 2014 to allow for the funding to be drawn down in two tranches. The first tranche was for up to £6m to be drawn down before 31 December 2014 over 9 years at an interest rate of 1.80% with the balance of £14m to be taken from 1 August 2015 to 31 July 2016 at an interest rate of 2.50%. Although outside of the time-frame for this 6 month review period, at 31 December 2014, £3.575m from the first tranche has been drawn down. The loans are advanced from the European Investment Bank (EIB) through Amber LEEF Green 2 LLP. The PWLB's certainty interest rate on comparable maturity loans on the day that this loan facility was agreed was 3.55%. This funding will ensure that the Council achieves substantial savings on interest repayments over the next 9 years on borrowings undertaken for energy efficiency and carbon reduction schemes. Negotiations are ongoing concerning the further £14m earmarked to be drawn from 1 August 2015 to 31 July 2016 at the agreed interest rate of 2.50%.

3.4.10. When taking up the remainder of this year's borrowing requirement (£126.515m - see 3.4.5 above), the Council's Treasury Section will examine all the options available and will compare these against both the certainty rates offered by the PWLB and EIB rates to ensure that the most advantageous rates possible are secured on long-term funding. Consideration will also be given to the use of internal balances to fund at least a part of the requirement if this proves economically more beneficial. Borrowing undertaken will be taken to fit into the Council's existing debt maturity profile to ensure an even distribution of maturities in future years. **Appendix C** displays the movements in the PWLB interest rates for the 5-year, 10-year, 25-year and 50-year loan periods during the first half of 2015/16.

3.4.11. The Council's average external debt level as well as the interest rate payable on this debt has consistently remained below the average of all London Boroughs. This has been independently verified by Capita Asset Services and is detailed below.

<u>Interest rate payable on long term external debt</u>

	Financial Year ending 31 March								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
	%	%	%	%	%	%	%	%	%
Croydon	4.64	4.77	4.60	4.42	4.32	4.36	4.06	3.97	3.84
London Boroughs (Average)	5.66	5.90	5.82	5.65	5.11	4.39	4.55	4.49	4.51

The above data is attached as a chart in **Appendix D**.

3.5. **Compliance with Prudential Indicators**

3.5.1. The Prudential Code for Capital Finance in Local Authorities was updated in 2011. It serves as a professional code of practice to support local authorities in complying with Part 1 of the Local Government Act 2003. The Code required the continual monitoring of the Prudential Indicators set by the Council.

3.5.2. The purpose of the Prudential regime is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position.

3.5.3. The Prudential Indicators set by this Authority for 2015/16 and revised indicators for the year are detailed in **Appendix E.**

3.6. **Repayment of Debt and Debt Rescheduling**

3.6.1. With PWLB rates low in the first half of 2015/16 and with high premiums being attached to the premature repayment of existing PWLB debt, opportunities for debt restructuring were minimal and therefore none was undertaken.

3.6.2. Debt repayment / restructuring will only be done following advice from Capita Asset Services, who provide independent treasury management services, and only if it was proved beneficial for the Council. The Council's debt profile is structured so that loans mature over a spread of future dates. This takes advantage of the best rates offered at the time and ensures that refinancing risks are controlled. There is the risk however that when the Authority needs to take out a replacement loan, the market rates could have moved against us.

3.7 **Minimum Revenue Provision**

3.7.1 Minimum Revenue Provision (MRP), often referred to as a 'provision for the repayment of debt', is a charge to revenue in relation to capital expenditure financed from borrowing or through credit arrangements.

3.7.2 The annual MRP charge was previously determined under Regulation but is now determined under Guidance ('the Guidance') issued by the Secretary of State in February 2008. There is now a statutory duty, embodied within Statutory Instrument 2008 No.414 s 4, which lays down that:

'A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.'

MRP only applies to the General Fund. There is no requirement to make a MRP charge for the Housing Revenue Account (HRA).

3.7.3 The Council implemented the new MRP guidance in 2008/09 and assessed its MRP in subsequent years in accordance with the main recommendations contained within the Guidance. The Guidance offers four options under which MRP could be made although it makes clear that these options are by no means prescriptive. The options are:

Option 1: Regulatory Method.
MRP was set at a uniform rate of 4% on the General Fund's (GF) Capital Financing Requirement's (CFR) historic debt (incurred up to 31 March 2008) adjusted for Adjustment 'A' – see Glossary of Terms at **Appendix G**.

Option 2: Capital Financing Requirement Method.
This is a variation on Option 1 and is based on 4% of the aggregate GF's CFR without any adjustment for 'Adjustment A'.

Option 3: Asset Life Method.
Under this option MRP is spread over the estimated useful life of the asset created with two methods of calculating charges being available namely through the equal instalments method or on an annuity basis.

Option 4: Depreciation Method.
Under this option, MRP charges are linked to the useful life of each type of asset using the standard accounting rules for depreciation.

3.7.4 The Council's Annual Minimum Revenue Provision (MRP) Policy Statement for 2015/16 was approved by Full Council on **23 February 2015 (Item 6 Minute C20150223).** In the main, the MRP policy approved for 2015/16 was to be as follows:

3.7.4.1 The MRP relating to the historic debt liability to continue to be charged at the rate of 4% reducing, in accordance with **Option 1** of the Guidance.

3.7.4.2 Certain expenditure reflected within the debt liability at 31st March 2015 would under delegated powers be subject to MRP under **Option 3** and charged over a period which was reasonably commensurate with the estimated life applicable to the nature of expenditure.

3.7.4.3 For Public Finance Initiative (PFI) schemes, the Council would make MRP a charge equal to the element of the rent/charge that was applied to write down the balance sheet liability.

3.7.5 In determining the most prudent accounting policies to be adopted for MRP for the current year and for future years, the Assistant Chief Executive (Corporate Resources and Section 151 Office) commissioned the services of Price Waterhouse Cooper (PWC). PWC's review sought to identify possible changes and alternatives for consideration together with the financial impact involved in adopting the changes. PWC's proposals were based on the following:

3.7.5.1 The Guidance proposes that the **Regulatory Method (Option 1)** is applicable to borrowing supported by the Government's Revenue Support Grant (RSG). The reducing balance formula of the **Regulatory Method** has the characteristic that the debt is reduced each year by a percentage of the balance outstanding and therefore will never be entirely repaid. Adopting a percentage approach on the historic debt balance outstanding as at 31 March 2015, on a straight line basis will ensure that this historic debt will be repaid in its entirety. PWC's justification is that with Government RSG being reduced substantially, the level of the implied RSG support will reduce making the adoption of this proposal more aligned to government grant arrangements and therefore appropriate, affordable and reasonable.

3.7.5.2 The Guidance states that MRP using Option 3 for post 2007/08 debt could be based on either the equal instalment of principal or the annuity method. The Council has used the equal instalment of principal method up to 2014/15. PWC's proposal is that switching to an annuity basis over the same periods will provide a fairer charge as it takes account of the time value of money. Although the annual payments under this method become higher in nominal terms in future years than they would otherwise have been, inflation, council tax increases, council tax base increases and growth in retained business rates income would mean that the impact of the eventual increases will have a considerably lower impact on the Council's overall financial position in future years.

3.7.5.3 PWC has proposed that the Council should treat their PFI debt consistently with the Council's General Fund debt namely; an annuity repayment method for PFI debt over the remaining life of each PFI scheme.

3.7.5.4 The PWC model incorporating all the proposed changes detailed above will serve to generate savings to the Council against current MRP budgets with savings also being achieved in future years.

3.7.6 Given that the Guidance states that the four MRP options (as listed above in 3.7.3) are by no means prescriptive provided that an authority complies with the statutory duty to make prudent provision for the repayment of debt, there is freedom for authorities to consider an annual profiling of MRP that best fits the prudent management of their own financial circumstances.

3.7.7 The Assistant Chief Executive (Corporate Resources and Section 151 Office) is responsible for ensuring that accounting policies and the MRP policy complies with the Guidance and that during 2015/16, any amendments to the policy continue to meet the statutory duty and better match the debt charge to the period over which capital expenditure is estimated to provide benefits.

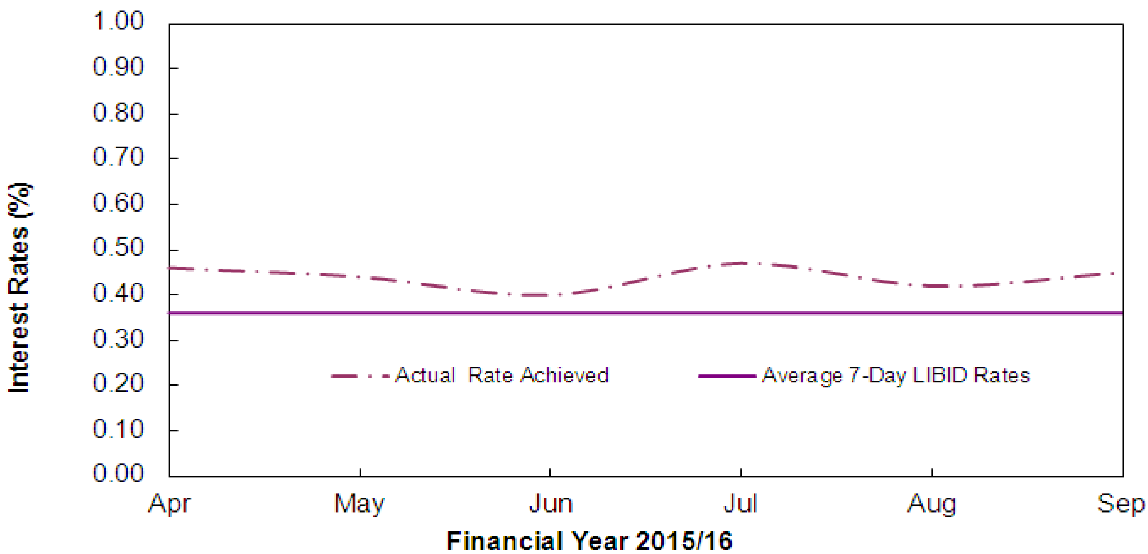
3.7.8 In complying with the statutory Guidance on determining a prudent level of MRP, the Council's Annual Minimum Revenue Provision Policy Statement for 2015/16 has been revised and is attached at **Appendix F**. This Committee is recommended to approve the revised Policy Statement.

3.8 Performance Targets

3.8.1 The gross investment income earned by the Council for the financial year 2015/16 is estimated to be £0.9m.

3.8.2 The average 7-day London Interbank Bid (LIBID) rate is a benchmark against which investment returns can be measured. The Council's actual investment return for the first half of 2015/16 was 0.44% compared to the benchmark average 7-day LIBID rate of 0.36%. Liquidity was maintained by investing in AAA rated Money Market funds at rates around 0.40% with some investments pitched over the 3, 6 and 12 month period at rates over 0.50% to produce returns in excess to the benchmark 7-day LIBID rate.

Actual investment rates achieved compared to the average 7-day LIBID rates 2015/16



3.8.3 The above graph shows the rate of investment returns achieved each month compared to the benchmark average 7-day LIBID rate for the month.

4. CONSULTATION

4.1. Full consultation in respect of the contents of this report has taken place with the Council's Treasury Management Advisers, Capita Asset Services in the preparation of this report.

5. FINANCIAL CONSIDERATIONS

5.1. Revenue and Capital consequences of this report are dealt within this report.

There are no additional financial considerations other than those identified in this report.

5.2 The effect of the decision

Approval of this report will endorse the continued implementation of the Council's Treasury Management Strategy by the Assistant Chief Executive (Corporate Resources and Section 151 Officer).

5.3 Risks

There are no further risks issues other than those already detailed in this report.

5.4 Options

These are fully dealt with in this report

5.5 **Savings/ future efficiencies**

This report sets out the treasury activities in the first half of 2015/16 and demonstrates the Council's compliance with the Prudential Code and the limits set in both the Code and the Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement and the Annual Investment Strategy 2015/16 report presented to Members on **23 February 2015 (Item 6 Minute C20150223)**.

Approved by: Richard Simpson, Assistant Chief Executive (Corporate Resources and Section 151 Officer).

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Council Solicitor comments that there are no additional legal considerations beyond those detailed in the body of the report.

Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer.

7. HUMAN RESOURCES IMPACT

7.1 There are no immediate HR considerations that arise from the recommendation of this report for LBC staff.

Approved by: Michael Pichamuthu, on behalf of Heather Daley, Director of Human Resources.

8. CUSTOMER IMPACT

8.1 There are no Customer impacts arising from this report.

9. EQUALITIES IMPACT ASSESSMENT (EIA)

9.1 Consistent with the requirements of equal opportunities legislation including the Public Sector Equality Duty, the Council carries out an equality impact assessment on new policies, or existing policies which are the subject of major change.

9.2 The Council's Capital and Revenue Budget 2015/16 is not subject to an equality impact assessment. However, in those areas where the setting of the capital and revenue budget result in new policies or policy change, then it is the responsibility of the relevant service department to carry out an equality impact assessment which evaluates how the new or changed policy will impact on disadvantaged sections of the community, including disabled people. The impact assessment includes consultation with disabled people and user-led disabled people organisations.

10. ENVIRONMENT AND DESIGN IMPACT

10.1 There are no Environment and Design impacts arising from this report.

11. CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no Crime and Disorder reduction impacts arising from this report.

12. HUMAN RIGHTS IMPACT

12.1 There are no Human Rights impacts arising from this report.

13. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

13.1 There are no specific Data Protection or Freedom of Information considerations arising from this report.

BACKGROUND DOCUMENTS:
CIPFA's Prudential Code for Capital Finance in Local Authorities Fully Revised Second Edition 2009 and updated 2011 edition.
CIPFA's Code of Practice for Treasury Management in the Public Services and Cross Sectoral Guidance Notes – Fully Revised Second Edition 2009 and updated 2011 edition.
CLG's Guidance on Local Government Investments March 2004.

CONTACT OFFICER:
Derick Fernandes, Treasury Manager Ext. 62526

LONDON BOROUGH OF CROYDON
Authorised Lending List as at 30/09/15 (Ratings as per FITCH)

LIST A

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Royal Bank Of Canada **(Canada)**	20,000,000	AA	F1+	aa	2	AAA
Morgan Stanley Money Market Fund	15,000,000	AAA				
Aberdeen Money Market Fund	15,000,000	AAA				
Goldman Sachs Money Market Fund	15,000,000	AAA				
JP Morgan Money Market Fund	15,000,000	AAA				
Royal Bank of Scotland Group Plc **(Part Nationalised) (UK)**	25,000,000	BBB+	F2	bbb+	5	AA+
Debt Management Account **(UK Government Body)**	No Limits					

LIST B

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Australia & New Zealand Banking Group **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Bank Of Montreal **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Bank Of Nova Scotia **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Canadian Imperial Bank Of Commerce **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Commonwealth Bank Of Australia **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
DBS Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
HSBC Bank PLC **(UK)**	10,000,000	AA-	F1+	a+	1	AA+
National Australia Bank **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Overseas Chinese Banking Corporation Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Svenska Handelsbanken AB **(Sweden)**	10,000,000	AA-	F1+	aa-	2	AAA
Toronto-Dominion Bank **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
United Overseas Bank Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Westpac Banking Corporation **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
All UK Local Authorities	10,000000					

LOCAL GOVERNMENT INVESTMENTS (ENGLAND)
SPECIFIED AND NON-SPECIFIED INVESTMENTS

a. **Specified Investments** - Where there is a change in the current investment policy this is specifically noted. All investments shall consist of investments under one year as follows:

- Debt Management Agency Deposits Facility (DMADF) which is currently available for investments up to six months.

- Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to one year.

- Term deposits with credit - rated deposit takers (banks and building societies) including callable deposits, with maturities up to one year.

- Certificate of Deposits issued by credit - rated deposit takers (banks and building societies) up to one year.

- AAA rated Money Market Funds (i.e. a collective investment scheme as defined in SI. 2004 No 534).

- Bonds issued by multinational development banks (as defined in SI 2004 No 534) with maturities under 12 months. The Council currently does not invest in this type of investment. It is recommended, however, that these can now be used and held until maturity, after consulting and taking advice from the treasury management consultants.

- Enhanced AAA rated Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds. The Council currently does not invest in this type of fund. It is recommended, however, that these can now be considered, after consulting and taking advice from the treasury management consultants subject to the same criteria as other investments.

- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market.

- UK Government Treasury Bills which are debt instruments issued by the Government's Debt Management Office through weekly auctions. The bills are issued with maturities of one, three and six months.

b. **Non-Specified investments** - Local authorities now have specific powers to invest for periods in excess of one year. Previously such investments were not permissible, except in respect of the Council's Pension Fund (where specific legislation exists). It is recommended that these shall consist of:

- Term deposits with credit - rated deposit takers (banks and building societies) with maturities greater than one year. As a general rule they cannot be traded or repaid prior to maturity. The risk with these is that interest rates could rise after making the investment and there is also the potential that there could be a deterioration of the credit risk over a longer period. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Term Deposits with UK local authorities. This investment represents intra-authority loans i.e. from one local authority to another for the purpose of cash-flow management. The risk with these is that interest rates could rise after making the investment and it is therefore recommended that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. This risk is common to all term deposits whether with local authorities or other counterparties.

- Certificate of Deposits (C.D.) issued by credit - rated deposit takers (banks and building societies) with maturities greater than one year. With these investments there is a market or interest risk. Yield is subject to movement during the life of the CD, which could negatively impact on the price of the CD if traded early. It is recommended, therefore, that the use of this investment is limited to a maximum of five years and sold on maturity following advice from the Council's treasury management advisers.

- Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than one year. These have the potential of higher return than using a term deposit with a similar maturity. The risk is that only the borrower has the right to pay back the deposit, the lender does not have a similar call, as although the term is fixed only the borrower has the option to repay early. There is, therefore, no guarantee that the loan will continue to its maturity. The interest rate risk is that the borrower is unlikely to pay back the deposit earlier than the maturity date if interest rates rise after the deposit is made.

- Forward deposits with credit rated banks and building societies for periods greater than one year (i.e. negotiated deal period plus period of deposit). The advantage of the investment is that there is a known rate of return over the period the monies are invested which aids forward planning. The credit risk is that if the credit rating falls or interest rate rise in the interim period the deposit period cannot be changed. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Bonds issued by multilateral development banks (as defined by SI. 2004 No 534). These have an excellent credit quality and are relatively liquid. If they are held to maturity there is a known yield, which would be higher than that on comparable gilts. If traded, there could be a potential for capital gain or loss through appreciation or depreciation in value. The market or interest risk is that the yield is subject to movement during the life of the bond, which could impact on the price of the bond, i.e. if sold prior to redemption date. Given the potential for loss any investment would need to be based on the principle that they would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Enhanced Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds. The Council currently does not invest in this type of fund. It is recommended, however, that these can now be considered, after consulting and taking advice from the treasury management consultants subject to the same criteria as other investments.

- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market. If held to maturity there is a known yield but if traded there could be a potential for capital gain or loss through appreciation or depreciation in value. Given the potential for loss, any investment would need to be based on the principle that UK government gilts would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. If held to maturity, these bonds represent the nearest to a risk-free investment.

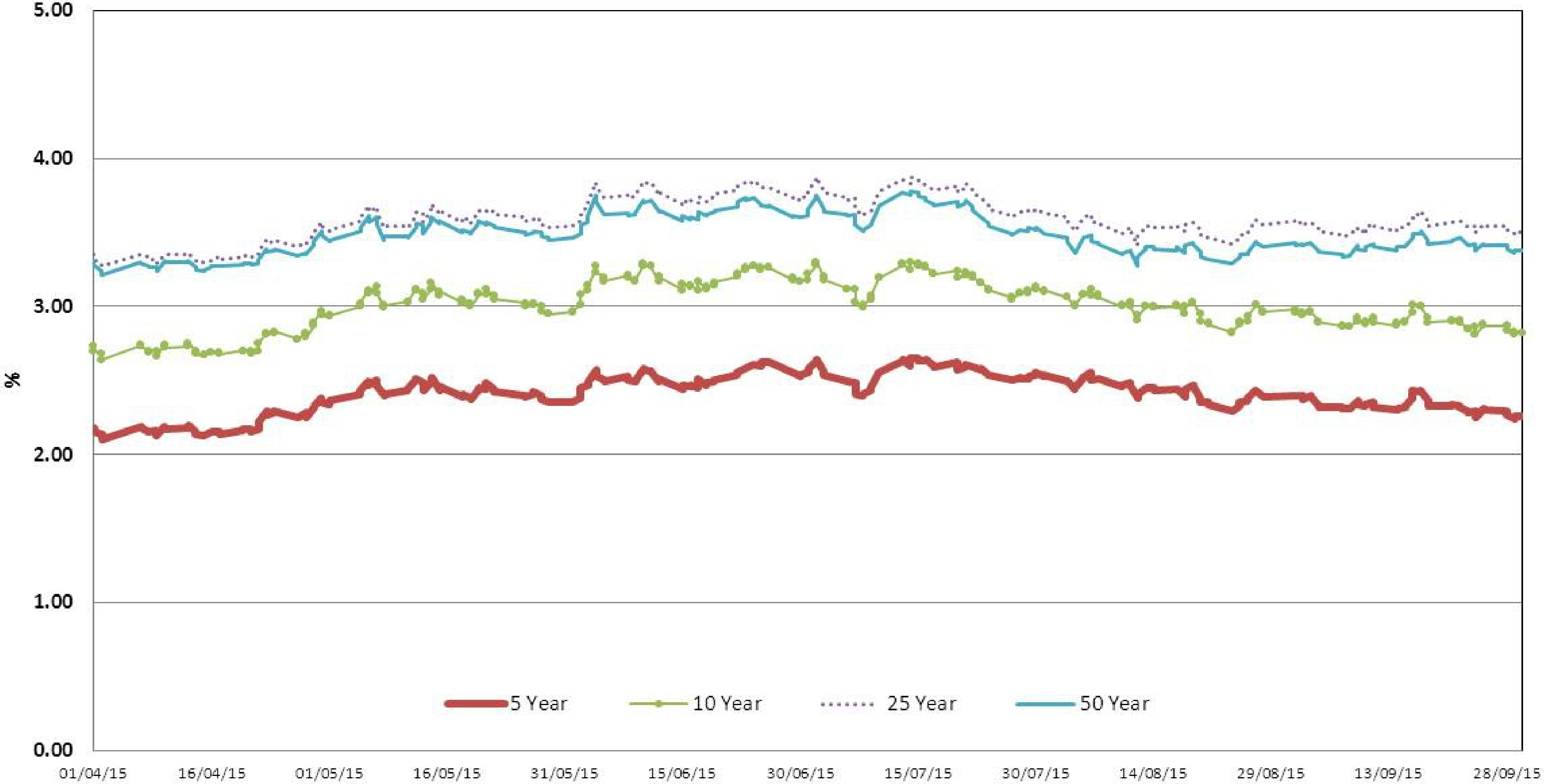
- Property Funds. Property funds can provide stable returns in terms of fixed period rents, whether commercial or industrial rentals. Property funds can be regulated or unregulated. An investment in share or loan capital issued by a regulated property fund is not treated as capital expenditure but an investment in an unregulated fund would count as capital expenditure. Given the nature of the property sector, a longer-term time horizon will need to be considered for this type of investment. The Council currently does not invest in this type of funds. It is recommended, however, that these funds can now be considered, after consulting and taking advice from the treasury management consultants.

- Floating Rate Notes (FRNs). These are typically longer term bonds issued by banks and other financial institutions which pay interest at fixed intervals. The floating rate nature of these instruments reduces the exposure to interest rate risk as the interest rate is re-fixed at the beginning of every interest rate period. The option to redeem before maturity is available through the secondary market. It is recommended that investments in FRNs be restricted to those issued by institutions on the Council's authorised lending list, after consulting and taking advice from the treasury management consultants.

- Corporate Bonds are issued by corporate institutions for example General Electric, Vodafone, Volkswagen etc. They offer local authorities an alternative to the usual financial institutions. For Corporate Bonds, the minimum credit rating criteria of AA- should apply to fit within the Council's investment parameters. It is recommended that the use of this type of investment can now be considered, after consulting and taking advice from the treasury management consultants.

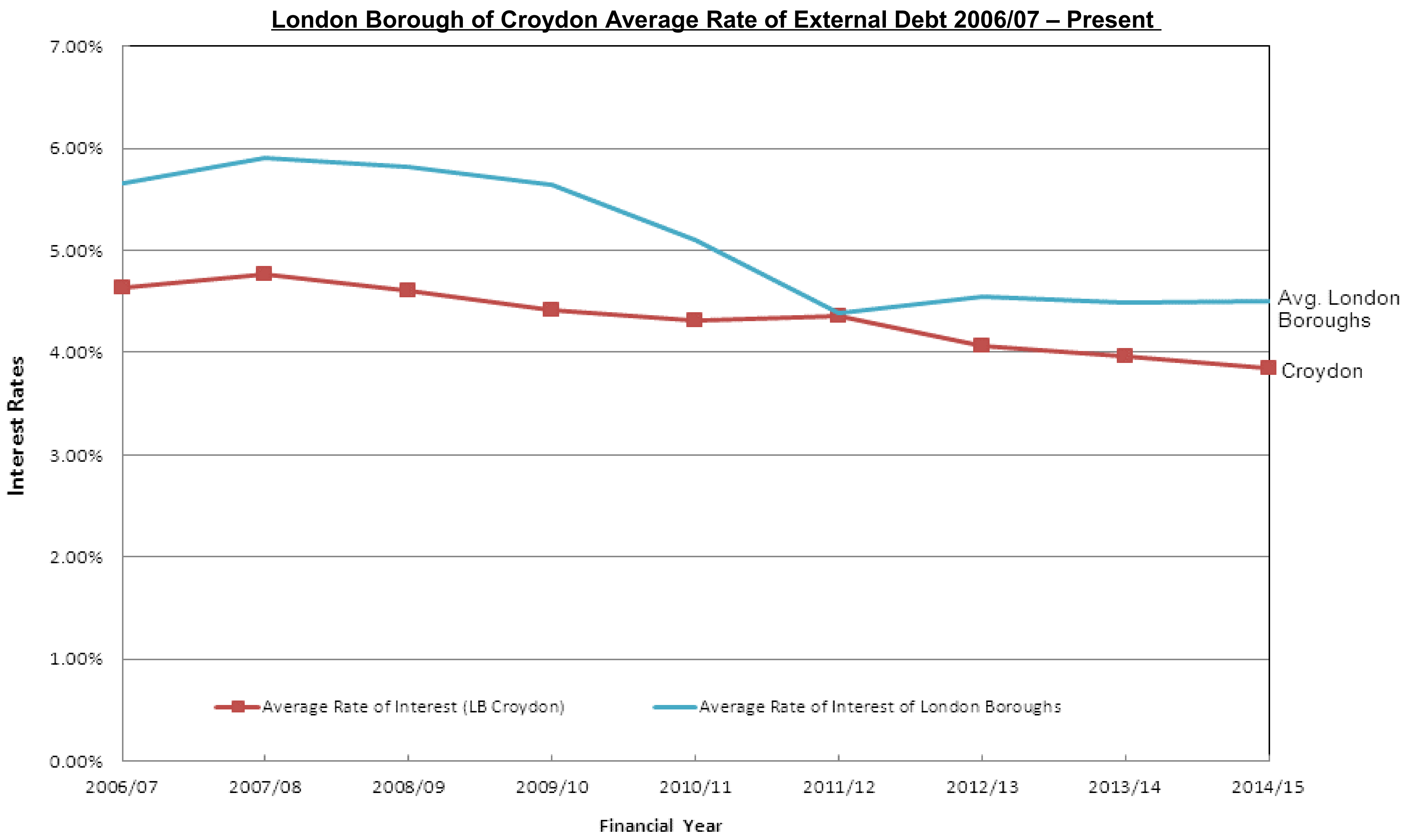
- Covered Bonds. These are a type of secured bond that is usually backed by mortgages or public sector loans. An important feature of covered bonds is that investors have dual recourse, both to the issuer and to the underlying pool of assets. It is recommended that the use of this investment can now be considered, after consulting and taking advice from the treasury management consultants.

PWLB Movement since 1st April 2015



Appendix C

Appendix B



London Borough of Croydon Average Rate of External Debt 2006/07 – Present
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
Interest Rates
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
Financial Year
Avg. London Boroughs
Croydon
Average Rate of Interest (LB Croydon)
Average Rate of Interest of London Boroughs

Appendix C

Appendix D

Appendix E

PRUDENTIAL INDICATORS FOR 2015/16

		2015/16	2015/16	Notes
	PRUDENTIAL INDICATORS	**Indicators** **£'000**	**Revised Indicators** **£'000**	
1	**Prudential Indicators for Capital Expenditure**			
1.1	Capital Expenditure General Fund HRA	 115.500 36.621	 127,893 42,957	
	Total	152.121	170,850	1
1.2	In year Capital Financing Requirement General Fund (gross of MRP costs). HRA	 61,226 6,000	 42,932 6,000	
	Total	67,226	48,932	2
1.3	Capital Financing Requirement as at 31 March 2016 – **balance sheet figures** General Fund (net of MRP costs). HRA (includes the £223.126m borrowed for the HRA Self Financing settlement sum paid to CLG on 28 March 2012).	 657,000 333,905	 565,000 333,905	
	Total	990,905	898,905	3
2	**Prudential Indicators for Affordability**			
2.1	Ratio of financing costs to net revenue stream General Fund HRA	 13.0% 16.50%	 10.0% 16.50%	 4 5
2.2	General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum). - In year increase	£9.00	£10.00	6
2.3	HRA impact of Prudential (unsupported) borrowing on housing rents (per annum).	0	0	

Appendix E

	PRUDENTIAL INDICATORS	2015/16 Indicators £'000	2015/16 Revised Indicators £'000	Notes
3	**Prudential Indicators for External Debt**			
1.				
3.1	External Debt and Borrowing Requirement			
	Long Term Debt brought forward 1 April	834,100	760,839	
	Estimated Long Term Debt carried forward 31 March (includes the £223.126m in loans taken up to repay CLG for the HRA Self Financing settlement sum)	985,278	887,354	
	Additional Borrowing	151,178	126,515	7
3.2	Operational boundary for external debt (excludes revenue borrowing)			
	- Borrowing	985,278	887,354	
	- Other long term liabilities	0	0	
	Total Operational limit (excludes revenue borrowing)	985,278	887,354	
	Add margin for cashflow contingency	40,000	40,000	8
3.3	Affordable Borrowing Limit (includes revenue borrowing)	1,025,278	927,354	
	Authorised limit for external debt (includes revenue borrowing)			
	- Borrowing	1,025,278	927,354	
	- Other long term liabilities	0	0	
3.4	Authorised Borrowing Limit	1,025,278	927,354	
4	**Prudential Indicators for Treasury Management**			
2. 4				
4.1	Borrowing limits - upper limit for fixed interest rate exposure expressed as:-			
	Net principal re fixed rate borrowing / investments	1,025,278	927,354	9
4.2	Borrowing limits - upper limit for variable rate exposure expressed as:-			
	Net principal re variable rate borrowing / investments	20%	20%	9
4.3	Lending limits - upper limit for total principal sums invested for over 364 days expressed as a % of	30%	30%	9

	total investments			

Appendix E

Notes:

1. The General Fund (GF) and HRA capital expenditure estimated outturn positions take into account slippage from 2014/15.

2. Long term funding of £42.932m has been estimated to be used to finance GF capital expenditure in the year. This includes the additional £10.0m advance to the Real Lettings Property Fund -see 3.3.7 above. Borrowing to fund HRA capital expenditure in 2015/16 is estimated at £6.0m.

3. The Capital Financing Requirement (CFR) reflects the local authority's underlying need to borrow for a capital purpose.

4. This reflects the impact on the GF of the Council's external debt. The GF's net revenue stream consists of the amount to be met from government grants and local taxpayers.

5. This reflects the impact on the HRA of the HRA's portion of external debt. The HRA's net revenue stream consists of net rental income received.

6. This represents the extra annual levy on a Band D tax bill arising from the take up of GF unsupported borrowing in the year.

7. The estimated long term debt outstanding at 31/3/2016 takes into account the borrowing requirement for 2015/16 of £126.515m (see 3.4.5). It should be noted that not all of the borrowing requirement may be taken up as internal balances could be utilised instead.

8. The cashflow contingency assumes a worst case scenario for example in the event of the unexpected late receipt of major income such as Council Tax, Housing Benefit subsidy or other government grants. The £40m represents the maximum in short term borrowing that is affordable and which could be undertaken to ease cashflow difficulties in such instances.

9. These Prudential limits are set to provide maximum flexibility for debt management.

APPENDIX F

MINIMUM REVENUE PROVISION POLICY STATEMENT FOR 2015/16 - REVISED

The Council has implemented the new Minimum Revenue Provision (MRP) Guidance from 2008/09, and will continue to assess their MRP for 2015/16 in accordance with the main recommendations contained within the Guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003.

This MRP statement is a revision to the Annual MRP Policy Statement 2015/16 approved by Council on **23 February 2015 (Item 6 Minute C20150223)**. The 2015/16 MRP charge will be calculated on the basis of this revised policy as follows:

1. For the proportion relating to historic debt (incurred up to 31 March 2008) and to Government-supported capital expenditure incurred since, the MRP policy will be to adapt **Option 1 - the Regulatory Method** by providing a fixed amount each financial year, calculated at 2% of the balance at 31 March 2015, reducing on a straight line basis so that the whole debt is repaid after 50 years.

2. For unsupported borrowing undertaken since 1 April 2008, reflected within the Capital Financing Requirement (CFR) debt liability at 31st March 2015, the MRP policy will be to adopt **Option 3 – Asset Life Method – Annuity method from the Guidance**. Estimated life periods will continue to be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the Guidance would not be appropriate.

3. As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

4. Where schemes are not fully completed at the end of the financial year, MRP charges will be deferred until the schemes are complete and the assets are operational.

5. MRP on Public Finance Initiative (PFI) schemes debt is to be charged on an annuity basis over the remaining life of each scheme.

6. The Council retains the right to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP).

7. The Council’s cash investment in the Real Lettings Property Fund LP under a 6 year life arrangement is due to be returned in full at maturity with interest paid annually. The cash investment will be treated as capital expenditure with the Council’s Capital Financing Requirement (CFR) increasing by this amount. At maturity, the funds returned to the Council will be treated as a capital receipt and the CFR will reduce accordingly. As this is a temporary arrangement over 6 years, and as the funds are to

be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, and therefore no MRP application is required.

8. Loans borrowed from Amber Green LEEF 2LLP or an alternative source to fund energy efficiency and carbon reduction schemes at certain educational institutions within the Borough will be recovered in full from these institutions. As such, there is no need to set aside prudent provision to repay the debt liability in the interim period, and therefore no MRP application is required.

Appendix G

GLOSSARY OF TERMS USED IN THE TREASURY MID-YEAR REVIEW 2015/16 REPORT

"Adjustment A"	The Prudential System came into force in 2004/05. The former system relied on the maintenance of credit ceilings for both GF and HRA to determine the MRP due for both. The new Prudential system uses figures derived from the authority's consolidated balance sheet to calculate MRP due. A safeguard was built into the new system to ensure that the transition did not lead to any artificial increase in MRP liability. This was based on calculating an amount known as "Adjustment A".
Affordable Borrowing Limit and Authorised limit for external debit	The maximum amount the Council can borrow for capital and revenue purposes, allowing for unexpected events. It reflects a level of borrowing which, while not desirable, is affordable in the short term. This limit reflects the temporary nature of the borrowing.
Borrowing for Capital Purposes - Supported	 The amount of borrowing to finance capital projects for which the Government will give revenue support and specific grants.
- Unsupported	Additional borrowing the Council may wish to undertake, but for which there will be no financial contribution through the grant system.
CIPFA Treasury Management Code of Practice	The professional code governing treasury management, which the Council has formally adopted.
Capital Financing Requirement (CFR)	The authority's underlying need to borrow to finance capital expenditure.
Consumer Price Index (CPI)	This is a measure of the general level of price changes for consumer goods and services but excludes most owner occupier housing costs such as mortgage interest payments, council tax, dwellings insurance, rents depreciation and the like.
FITCH	An internationally recognised rating agency which is used and approved by the Council's Treasury Advisers, Capita Asset Services.
Gross Domestic Product (GDP)	Gross Domestic Product (GDP) is a measure of a country's economic activity, including all the services and goods produced in a year within that country.

Appendix G

G7	The Group of Seven (G7) is an informal bloc of seven industrialised democracies – the USA, Canada, France, Germany, Italy, Japan and the UK that meets annually to discuss issues such as global economic governance, international security and energy policy.
Lenders Option / Borrowers Option Loans (LOBO's)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period of time, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercise the option to change the interest rate the borrower can then decide whether to accept the new terms or repay the loan with no penalty.
London Interbank Bid Rate (LIBID)	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Minimum Revenue Provision (MRP)	The amount which must be set aside from revenue each year to cover future repayment of loans. There is no MRP requirement for HRA borrowing.
Net Revenue Stream (NRS)	The NRS for the General Fund is the "Amount to be met from Government Grant and Council Tax contributions", as shown in the consolidated revenue account. This represents the budget requirement for the Council. The NRS for the Housing Revenue Account is the amount to be met from net rent income as shown in the HRA accounts.
Operational boundary for external debt	The maximum amount of external debt according to probable events and consistent with the level of external debt projected in the estimates.
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.