

Minutes of: CABINET

Date of Meeting: 25 November 2015

Present: Councillor M C Connolly (in the Chair)
Councillors R Shori, P Heneghan, T Isherwood, J Lewis,
A Simpson and S Walmsley

Apologies for

Absence: -

Public Attendance: 4 members of the public were in attendance

CA.505 DECLARATIONS OF INTEREST

Councillor Connolly declared a personal interest in any matters relating to the fact that his partner is employed by Persona Care and Support Ltd (Local Authority Trading Company).

CA.506 PUBLIC QUESTION TIME

A period of thirty minutes was allocated for any members of the public present at the meeting to ask questions about the work or performance of the Council or Council services.

Topic: Proposed Leisure Complex – Radcliffe

Question: Can Cabinet Members promise today that you will have the total funding to meet the cost of the new proposed Leisure Complex with civic facilities and if so, where will the money be coming from?

Response: The Council has capital funding available for a new build facility. What will be critical to the proposal is the outcome of the public consultation to determine what facilities the complex could provide and the amount the Council will need to borrow, the costs of repayments and the revenue that can be generated. This will be set out in the business plan as the proposal is developed.

Topic: Borough Civic Venues

Question: It has been reported that the financial loss of all of the Borough's Civic Venues is £300,000. How much of that sum of money has been incurred by Radcliffe Civic Hall alone?

Response: The subsidy for Radcliffe Civic Hall is £128,000, however the Council has not just considered this factor in isolation and has looked at the future of the Civic Hall as a sustainable Council asset.

CA.507 MINUTES

Delegated decision:

That the minutes of the meeting held on 4 November 2015 be approved and signed by the Chair as a correct record.

CA.508 CORPORATE FINANCIAL MONITORING REPORT - APRIL TO SEPTEMBER 2015

The Deputy Leader of the Council and Cabinet Member for Finance and Housing submitted a report informing Members of the Council's financial position for the period April to September 2015 and projections for the estimated outturn at the end of 2015/16. The report also provided Prudential Indicators in accordance with CIPFA's Prudential Code.

Delegated decision:

1. That the financial position of the Council as at 30 September 2015 be noted.
2. That approval the s151 officer's assessment of the minimum level of balances.

Reason for the decision:

The report has been prepared in accordance with the Council's Financial Regulations relating to budget monitoring.

Other option considered and rejected:

To reject the recommendations.

CA.509 HOMELESS RESCUE FUND - AMENDED POLICY AND PROCEDURE

The Deputy Leader of the Council and Cabinet Member for Finance and Housing submitted a report seeking approval to amend the current grants-only policy for awards made from the Homeless Rescue Fund (HRF).

The change, which does not alter eligibility or the type of support provided, will enable the Council to 'loan' money to qualifying households as well as continue to award grants depending on the applicant's financial prospects and ability to pay.

Delegated decisions:

That approval be given to the minor change to the way the Homeless Rescue Fund is operated as detailed in the report submitted.

Reasons for the decision:

The HRF is a useful tool in this respect as it enables households to overcome the small problems that lead to homelessness. The changes to the policy allow the recovery of payments in certain circumstances, which is a positive move. Recycling money makes the HRF more sustainable and enables more households to be assisted – in keeping with the Council's Vision, Purpose and Values of supporting vulnerable people.

Other option considered and rejected:

Retain the existing policy – which will result in the Fund running out of money sooner.

CA.510 MINUTES OF ASSOCIATION OF GREATER MANCHESTER AUTHORITIES / GREATER MANCHESTER COMBINED AUTHORITY

Delegated decision:

That the minutes of the meetings of the Association of Greater Manchester Authorities and Greater Manchester Combined Authority held on 30 October 2015 be noted.

CA.511 TREASURY MANAGEMENT - MID YEAR REVIEW

The Deputy Leader and Cabinet Member for Finance and Housing submitted a report providing a Mid-Year review of Treasury Management.

The report has been prepared in compliance with CIPFA's Code of Practice, and covered the following:

- An economic update for the 2015/16 financial year to 30 September 2015;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2015/16;
- A review of the Council's borrowing strategy for 2015/16;
- A review of any debt rescheduling undertaken during 2015/16;
- A review of compliance with Treasury and Prudential Limits for 2015/16;
- A review of the Council's MRP (Minimum Revenue Provision) Policy.

Delegated decision:

That the report be noted.

Recommendation to Council:

That approval be given to amend the 2015/16 Minimum Revenue Provision Policy Statement to enable the Council to provide for Minimum Revenue Provision on previously supported General Fund borrowing at 2% in equal annual instalments over a 50 year period commencing 1 April 2015, subject to confirmation with the Council's External Auditors.

Reason for the decision:

The review has been produced in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

Other option considered and rejected:

To reject the recommendations.

(The Chair agreed to the consideration of the item under urgent business for the reason that a decision was required before the date of the next meeting of Cabinet)

CA.512 EXCLUSION OF PRESS AND PUBLIC

Delegated decision:

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items of business as it involves the likely disclosure of exempt information as detailed in the condition of category 9.

CA.513 THE MET - REFURBISHMENT

The Cabinet Member for Children, Families and Culture and the Deputy Leader of the Council and Cabinet Member for Finance and Housing submitted a report seeking approval to making a self-funding capital contribution to the refurbishment costs of The Met.

Bury Metropolitan Arts Association (BMAA) is the Council's longstanding tenant of The Met Arts Centre, Market Street, Bury.

BMAA have developed ambitious plans for the comprehensive refurbishment of The Met that combines the upgrading of the fabric and decoration of the building with the creation of new facilities. This is designed to make The Met more self-sustainable in the future. It is expected that the balance of the scheme costs will be met by a significant grant from the Arts Council and external contributions.

Delegated decisions:

1. That approval be given the making of a capital contribution to the refurbishment costs, the monies to be ring fenced to those items which will improve the value of this Council owned building.
2. That approval be given to the granting of a new 30 year lease of The Met and the Edwin Street recording studio to the Bury Metropolitan Arts Association and that delegated authority be given to the Chief Executive and Head of Property Services, in consultation with the Leader of the Council, to agree the detailed terms.

Reasons for the decision:

The proposed refurbishment will significantly improve the Council's building, making it more sustainable in the future and will reduce the running costs. It will also lever in significant external funding. The refurbishment will significantly increase audience capacity and the overall attractiveness of The Met as a key asset to Bury Town Centre.

Other options considered and rejected:

1. To make a smaller capital contribution, although this would require the refurbishment scheme to be scaled back.
2. Not to make any capital contribution.

COUNCILLOR M C CONNOLLY
Chair

(Note: The meeting started at 6:00pm and ended at 6:10pm)

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REPORT FOR DECISION

Agenda Item	
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DECISION OF:	CABINET COUNCIL
DATE:	25 NOVEMBER 2015 9 DECEMBER 2015
SUBJECT:	TREASURY MANAGEMENT STRATEGY – MID YEAR REVIEW 2015/16
REPORT FROM:	DEPUTY LEADER OF THE COUNCIL & CABINET MEMBER FOR FINANCE & HOUSING
CONTACT OFFICER:	STEPHEN KENYON, INTERIM EXECUTIVE DIRECTOR OF RESOURCES AND REGULATION
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	The report is within the public domain
SUMMARY:	<p>This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:</p> <ul style="list-style-type: none"> • An economic update for the 2015/16 financial year to 30 September 2015 • A review of the Treasury Management Strategy Statement and Annual Investment Strategy • The Council's capital expenditure (prudential indicators) • A review of the Council's investment portfolio for 2015/16 • A review of the Council's borrowing strategy for 2015/16 • A review of any debt rescheduling undertaken during 2015/16 • A review of compliance with Treasury and Prudential Limits for 2015/16 • A review of the Council's MRP (Minimum Revenue Provision) Policy
OPTIONS &	It is recommended that, in accordance with CIPFA's Code of Practice on Treasury Management, the report be

<p>RECOMMENDED OPTION</p>	<p>noted.</p> <p>That approval be given to the change in the Minimum Revenue Provision policy (subject to confirmation with the Council’s External Auditors).</p>
<p>IMPLICATIONS:</p>	
<p>Corporate Aims/Policy Framework:</p>	<p>Do the proposals accord with the Policy Framework? Yes</p>
<p>Statement by the S151 Officer: Financial Implications and Risk Considerations:</p>	<p>Treasury Management is an integral part of the Council’s financial framework and it is essential that the correct strategy is adopted in order to ensure that best value is obtained from the Council’s resources and that assets are safeguarded.</p>
<p>Statement by Interim Executive Director of Resources and Regulation:</p>	<p>Treasury management activities so far have produced a projected underspending for the year of £0.5m. This will help to support other areas of the Council’s budget that are under pressure from user demand or economic conditions.</p> <p>Revision of the MRP Policy will generate revenue savings in the medium term and ensure existing debt is fully cleared over 50 years.</p> <p>Initial discussions have taken place with the Council’s External Auditors regarding this approach.</p> <p>If Cabinet approve this approach, formal sign off will be obtained from the Auditors prior to consideration by Overview & Scrutiny and Full Council in December</p>
<p>Equality/Diversity implications:</p>	<p>No</p>
<p>Considered by Monitoring Officer:</p>	<p>Yes</p>
<p>Wards Affected:</p>	<p>All</p>
<p>Scrutiny Interest:</p>	<p>Overview & Scrutiny Committee</p>

TRACKING/PROCESS

DIRECTOR: STEVE KENYON

<p>Chief Executive/</p>	<p>Cabinet</p>	<p>Ward Members</p>	<p>Partners</p>
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Strategic Leadership Team	Member/Chair		
Yes (Chief Executive)	Yes	N/a	N/a
Scrutiny		Committee	Council
			9 th December

1.0 BACKGROUND

1.1 The Council operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

As a consequence treasury management is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

1.2 The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on 24 February 2010.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is: Overview & Scrutiny Committee.

1.3 This report fulfils the requirement to produce a mid-year review.

2.0 ECONOMIC UP-DATE (from Treasury Advisors)

2.1 Economic Performance to date

- 2.1.1 UK GDP growth rates for quarter 1 of 2015 were weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. Investment expenditure is expected to support growth, however, the Purchasing Manager's Index, (PMI), for services issued on 5 October indicates a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.
- 2.1.2 The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.
- 2.1.3 There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.
- 2.1.4 The American economy made a comeback after a weak first quarter's growth at +0.6% (annualised), to grow by 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

- 2.1.5 In the Eurozone, the ECB in January 2015 unleashed a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had some effect in helping a recovery in consumer and business confidence.
- 2.1.6 GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

2.2 Interest rate Forecasts and Outlook

2.2.1 The Council’s treasury advisor, Capita Asset Services, has provided the following forecast:

	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%

Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

- 2.2.2 Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE.
- 2.2.3 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this will last; it also remains exposed to vulnerabilities in a number of key areas.
- 2.2.4 The disappointing US nonfarm payrolls figures and UK PMI services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had previously been 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 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

Document Pack Page 354

to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

2.2.5 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.

UK economic growth turns significantly weaker than currently anticipated. Weak growth or recession in the UK's main trading partners - the EU, US and China.

A resurgence of the Eurozone sovereign debt crisis.

Recapitalising of European banks requiring more government financial support.

Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens.

2.2.6 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:-

Uncertainty around the risk of a UK exit from the EU.

The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.

The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

3.0 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UP-DATE

3.1 The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by the Council on 25 February 2015.

3.2 The underlying TMSS approved previously requires revision in the light of proposals to amend the method of calculation of the Minimum Revenue Provision. The proposed changes and supporting detail for the changes are set out below:

- MRP for supported borrowing will be calculated using 2% over 50 years in equal annual instalments as a variation on the 'Regulatory Method' of calculating MRP; further detail provided at Appendix A.
- The Asset Life method of calculating repayment provision will be used for unsupported borrowing.
- The Interim Executive Director of Resources and Regulation may from time to time and when it is beneficial to the efficient financial administration of

the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

4.0 THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the 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 activity.

4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget

Capital Expenditure	2015/16 Original Estimate £m	2015/16 Revised Estimate £m
Non-HRA	13.150	18.915
HRA	12.540	13.680
Total	25.690	32.595

The increase of the revised estimate over the original estimate is due to slippage from 2014/15 of £16.070m offset by estimated project reprofiling to 2016/17 of £9.165m

4.2 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the Capital Financing Requirement, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

	2015/16 Original Estimate £m	2015/16 Revised Estimate £m
Prudential Indicator - Capital Financing Requirement		
CFR – non HRA	119.584	117.146
CFR – HRA existing	40.531	40.531
Housing Reform Settlement	78.253	78.253
Total CFR	238.368	235.930
Prudential Indicator - External Debt / the Operational Boundary		
Borrowing	238.400	235.900
Other long term liabilities	6.700	6.700
Total	245.100	242.600

- 4.3.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.
- 4.3.2 The Interim Executive Director of Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.
- 4.3.3 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for External Debt	2015/16 Original Indicator £m	2015/16 Revised Indicator £m
Borrowing	273.400	270.900
Other long term liabilities	6.700	6.700
Total	280.100	277.600

5.0 INVESTMENT PORTFOLIO 2015/16

- 5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.
- 5.2 The Council held £36.5m of investments as at 30 September 2015 (£32.3m at 31 March 2015) and the investment portfolio yield for the first six months of the year is 0.67% against Capita's suggested investment earnings rate for returns on investments placed, for periods up to three months in 2015/16, of 0.45%.
- 5.3 The investments held as at 30 September were:-

Type of Investment	£ Million
Call Investments (Cash equivalents)	13.5
Fixed Investments (Short term investments)	23.0
Total	36.5

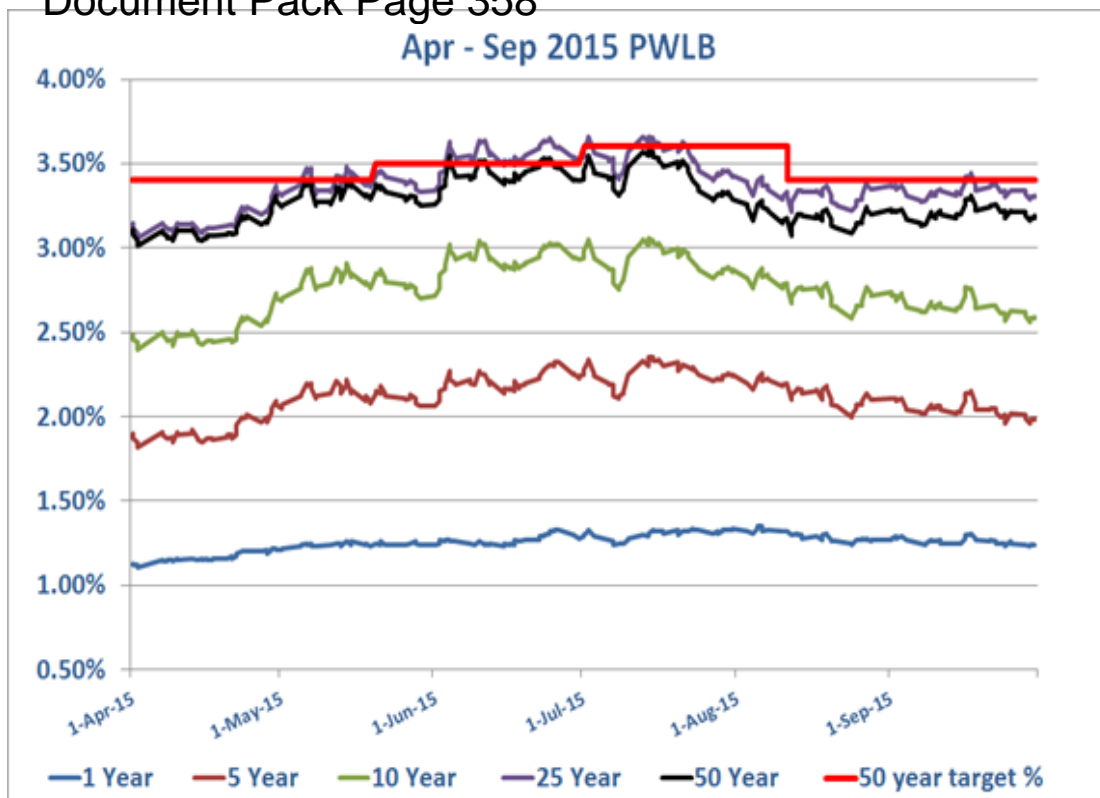
- 5.4 The Interim Executive Director of Resources & Regulation confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16.
- 5.5 The Council’s budgeted investment return for 2015/16 is £0.5m, and performance for the year to date is in line with the budget.
- 5.6 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.
- 5.7 The Cabinet have approved a “Property Investment Strategy” which aims to increase investment income by investing in property rather than investing with financial institutions where returns are low at present. Additional borrowing may need to be undertaken to finance property acquisitions; each investment will be subject to a robust business case and also non-financial factors (e.g. ethical stance) will be considered.

6.0 BORROWING

6.1 The Council’s capital financing requirement (CFR) for 2015/16 is £235.9m. The CFR denotes the Council’s underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table below shows the Council has borrowings of £191.5m and has utilised £44m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevail.

		30th Sept 2015		
		Principal		Avg. Rate
		£000	£000	
Fixed rate funding				
	PWLB Bury	131,453		
	PWLB Airport	2,555		
	Market Bury	57,500	191,508	
Variable rate funding				
	PWLB Bury	0		
	Market Bury	0	0	
Temporary Loans / Bonds		3	3	
Total Debt			191,511	3.92%
Total Investments			<u>36,500</u>	0.67%

- 6.2 No new borrowing has been undertaken in the first 6 months of 2015/16 but due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement – CFR), it is anticipated that new temporary external borrowing may be undertaken during the remainder of this financial year, dependent upon cash flow.
- 6.3 The graph below shows the movement in PWLB certainty rates for the first six months of the year to 30.09.15:



7.0 DEBT RESCHEDULING

7.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2015/16.

Councillor Rishi Shori
Deputy Leader and Cabinet Member for Finance and Housing

List of Background Papers:-
 None

Contact Details:-
 Stephen Kenyon, Interim Executive Director of Resources, Tel 0161 253 6922
 E-mail s.kenyon@bury.gov.uk

APPENDIX A

BURY COUNCIL

Minimum Revenue Provision Policy

2015/16 (Revised November 2015)

1.0 BACKGROUND

- 1.1 Local authorities have a statutory requirement to set aside each year a “prudent” amount of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision relates to capital expenditure incurred in previous years and financed by borrowing. Statutory Guidance covering Minimum Revenue Provision (published February 2012 by the Department for Communities and Local Government) sets out various options and boundaries for calculating prudent provision.
- 1.2 Whilst “prudent provision” is not specifically defined, the guidance suggests that debt ought to be repaid over a period that is either commensurate with that over which the capital expenditure to which it relates provides benefits, or in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant.
- 1.3 The guidance requires authorities to publish an annual MRP policy statement outlining how prudent provision is to be made. To be valid, the policy statement must be approved by a full Council Meeting. Bury Council’s policy statement was approved as part of the annual Treasury Management Strategy report on 25 February 2015.
- 1.4 The guidance sets out various options for calculating prudent MRP but does not rule out alternative approaches that are not specifically mentioned. One of the options presented in the guidance is the ‘Regulatory Method’ which equates to setting aside 4% of the opening balance outstanding relating to supported borrowing, less an adjustment (Adjustment A) that ensures consistency with previous capital regulatory regimes no longer in force. This option is available for all capital expenditure incurred prior to 1 April 2008.
- 1.5 Many Local Authorities initially adopted the above method but several councils have recently amended their methods of calculation whilst others across AGMA are currently reviewing their MRP policies.
- 1.6 The purpose of this report is to set out the case for changing the method of provision for ‘previously supported borrowing’ to one which is arguably more prudent (on a whole life basis) than the current approach.

- 2.1 General Fund debt which was previously supported through the local government finance regime (previously supported borrowing) is worth around £122.0m (as at 31 March 2015). This 'debt' figure is notional and forms part of the Council's Capital Financing Requirement (CFR).
- 2.2 The council currently applies the 'Regulatory Method' to this element of the CFR which equates to setting aside 4% of the opening balance outstanding on a reducing balance basis. Before applying 4%, the debt figure is reduced by £10.2m, (Adjustment A). For the 'previously supported borrowing' element of the CFR, the MRP charge for 2015/16 is currently estimated to be around £4.5m.
- 2.3 This approach to providing MRP, that is the 4% calculation applied on a reducing balance basis, means that the 'debt' is never fully repaid. Furthermore, the £10.2m of debt referred to in paragraph 2.2 will never be repaid.

3.0 PROPOSED APPROACH

- 3.1 An alternative method, which also delivers significant medium term revenue budget savings, provides for the outstanding debt over a 50 year period in equal instalments (2% per annum). On a whole life basis, this approach is arguably more prudent than the current 'Regulatory Method' as it results in this debt being fully extinguished within 50 years.
- 3.2 Adopting the 50 year 'Equal Instalments' approach to calculating MRP for previously supported General Fund borrowing will result in an annual MRP charge of £2.4m (£122.0m / 50 years). This results in a saving of around £2.0m for 2015/16 and a further £5.1m for the period 2016/17 to 2018/19. A breakdown of MRP charges and savings is shown in the table below:

Financial Year	Current Charge £000	Proposed Charge £000	Annual Saving £000
2015/16	4,475	2,441	2,034
2016/17	4,296	2,441	1,855
2017/18	4,124	2,441	1,683
2018/19	3,959	2,441	1,518

- 3.3 Savings and Costs for the whole of the 50 year period from 2015/16 to 2064/65 are shown at Annex 1.
- 3.4 From 2030/31, the revenue cost of the equal instalments approach to MRP begins to exceed the cost of the current 'Regulatory Method'. In the final year of repayment (2064/65), the revenue cost compared to the regulatory method is expected to peak at around £1.8m per annum.
- 3.5 Under the equal instalments approach to MRP, previously supported General Fund borrowing is fully extinguished by 31 March 2065 but under the current 'Regulatory Method', some £25.7m of debt remains outstanding as at the same date.

4.0 PROPOSED AMENDMENT TO THE COUNCIL'S MRP POLICY STATEMENT

4.1 To enable Bury Council to adopt the 'equal instalments' approach to providing for MRP on previously supported General Fund borrowing, it is necessary to revise the Council's MRP policy statement to:-

- MRP for supported borrowing will be calculated using 2% over 50 years in equal annual instalments as a variation on the 'Regulatory Method' of calculating MRP.
- The Asset Life method of calculating repayment provision will be used for unsupported borrowing.
- The Interim Executive Director of Resources and Regulation may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

5.0 CONCLUSION

5.1 The equal instalments approach to calculating MRP is arguably more prudent than the regulatory method as it results in debt being fully repaid after 50 years. Under the current version of the 'Regulatory Method', more than £25.7m of debt remains outstanding in 50 years' time with around half of this figure never being repaid at all. In present value terms, the equal instalments method is also more cost effective than the regulatory method being some £5m lower in present value terms. In nominal terms, the revenue cost of the equal instalments method is higher than the regulatory method between 2030/31 and 2064/65 but it does provide significant medium term revenue budget savings which will provide valuable support for the forthcoming medium term financial plan.

6.0 RECOMMENDATION

6.1 It is recommended that full Council is asked to amend the 2015/16 MRP Policy Statement to enable the Council to provide for MRP on previously supported General Fund borrowing at 2% in equal annual instalments over a 50 year period commencing 1 April 2015.

Councillor Rishi Shori
Deputy Leader and Cabinet Member for Finance and Housing

Stephen Kenyon CPFA
Interim Executive Director of Resources

Proposed Change to Minimum Revenue Provision
Annual Savings and Costs

Financial Year	Current Charge £000	Proposed Charge £000	Annual Saving £000
2015/16	4,475	2,441	2,034
2016/17	4,296	2,441	1,855
2017/18	4,124	2,441	1,683
2018/19	3,959	2,441	1,518
2019/20	3,801	2,441	1,360
2020/21	3,649	2,441	1,208
2021/22	3,503	2,441	1,062
2022/23	3,363	2,441	922
2023/24	3,228	2,441	787
2024/25	3,099	2,441	658
2025/26	2,975	2,441	534
2026/27	2,856	2,441	415
2027/28	2,742	2,441	301
2028/29	2,632	2,441	191
2029/30	2,527	2,441	86
2030/31	2,426	2,441	-15
2031/32	2,329	2,441	-112
2032/33	2,236	2,441	-205
2033/34	2,146	2,441	-295
2034/35	2,060	2,441	-381
2035/36	1,978	2,441	-463
2036/37	1,899	2,441	-542
2037/38	1,823	2,441	-618
2038/39	1,750	2,441	-691
2039/40	1,680	2,441	-761
2040/41	1,613	2,441	-828
2041/42	1,548	2,441	-893
2042/43	1,486	2,441	-955
2043/44	1,427	2,441	-1,014
2044/45	1,370	2,441	-1,071
2045/46	1,315	2,441	-1,126
2046/47	1,262	2,441	-1,179
2047/48	1,212	2,441	-1,229
2048/49	1,163	2,441	-1,278
2049/50	1,117	2,441	-1,324

Proposed Change to Minimum Revenue Provision
Annual Savings and Costs

Financial Year	Current Charge £000	Proposed Charge £000	Annual Saving £000
2050/51	1,072	2,441	-1,369
2051/52	1,029	2,441	-1,412
2052/53	988	2,441	-1,453
2053/54	949	2,441	-1,492
2054/55	911	2,441	-1,530
2055/56	874	2,441	-1,567
2056/57	839	2,441	-1,602
2057/58	806	2,441	-1,635
2058/59	773	2,441	-1,668
2059/60	743	2,441	-1,698
2060/61	713	2,441	-1,728
2061/62	684	2,441	-1,757
2062/63	657	2,441	-1,784
2063/64	631	2,441	-1,810
2064/65	605	2,441	-1,836

Balance remaining at 31/3/65	24,688	0
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