

Cherwell District Council

Accounts Audit and Risk Committee

25 June 2014

Update to Existing 2014-15 Treasury Strategy

Report of Interim Head of Finance and Procurement

This report is public

Purpose of report

To receive information on the proposed amendments of the existing Treasury Strategy for 2014-15 required to facilitate the proposals for the development of the Graven Hill and other projects. This is subject to any amendments the Accounts, Audit and Risk Committee may wish to make.

1.0 Recommendations

The meeting is recommended :

- 1.1 To consider and note the proposed amendments to the existing Treasury Strategy for 2014-15.
- 1.2 To note the proposal to provide delegated authority to the Director of Resources in the application of Minimum Revenue Provision (MRP).

2.0 Introduction

- 2.1 Included at Appendix 1 is a table of proposed amendments made to the existing Treasury Strategy for 2014-15.

3.0 Report Details

- 3.1 The Council prepares and adopts a Treasury Management Strategy on an annual basis. The current Strategy for 2014-15 was approved by full Council in February 2014 and is attached as Appendix 2 to this report for reference.
- 3.2 One key element of this Strategy is the Minimum Revenue Provision policy statement (MRP) (section 2.3 in existing Strategy). MRP is the means by which

capital expenditure which is financed through borrowing or credit arrangements is funded by council tax payers. Local authorities are required to set aside some of their revenues as provision for the repayment of this debt.

- 3.3 Under the existing strategy there are currently two options of applying the MRP –
- **Asset Life method** MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
 - **Depreciation method.** MRP will follow standard depreciation accounting procedures (option 4)

- 3.4 The business case for the development of Graven Hill details that the council will undertake significant levels of borrowing over the forthcoming years to provide loans to the company established to undertake said development. This in turn would require a significant revenue provision for repayment of that debt.

- 3.5 The Council is establishing a company which it will provide loans to on a commercial basis to facilitate the development of Graven Hill.. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of loans advanced and under the terms of contractual loan agreements are due to be returned in full by 2021, with interest paid annually.

Once funds are returned to the Authority, the returned funds are classed as a capital receipt, off-set against the CFR, which will reduce accordingly. As this is a temporary (7 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The outstanding loan/CFR position will be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will

- 3.6 To ensure that any further changes to this approach can be addressed promptly and prudently this update requests that there is now delegated authority to the Director of Resources to defer the charging of MRP in accordance with the Prudential Code and current accounting regulations in the following circumstances:
- There is a separately identifiable project with quantified borrowing costs.
 - The period from the projects inception to it becoming operational is significantly in excess of 12 months.
 - A business case has been produced incorporating the deferred MRP and capitalised interest which demonstrates that the project is prudent and affordable over its whole life.
 - The borrowing and MRP amounts are material, in excess of £250,000 annually.
 - The deferred MRP and accumulated interest will be charged to the appropriate revenue account on a prudent basis, once the project is operational.

It should be noted that this criteria will apply to all capital schemes for consideration over the treatment of MRP.

- 3.7 The Prudential Indicators in Section 2 of the strategy have also been updated to reflect the updated Capital Financing requirement in 2014/15 and 2015/16 and the Borrowing thresholds in Section 3 have been updated to facilitate the additional borrowing needs..
- 3.8 The Council is proposing to provide equity financing to the Graven Hill company to fund revenue expenditure. Appendix 3 of the Strategy has therefore been updated to detail under Non Specified Investments – “Investments in Share Capital of a wholly owned subsidiary company”. This provides the council with the power to invest in such an undertaking.
- 3.9 A further review and update will be completed in setting the 2015/16 Treasury Strategy alongside the budget setting the process for that year..
- 3.10 The above policies will be reviewed as further guidance or legislation becomes available.

4.0 Conclusion and Reasons for Recommendations

- 4.1 For the audit committee to consider and approve the proposed amendments to the Treasury Management Strategy for 2014-15.

5.0 Consultation

- 5.1 None

6.0 Alternative Options and Reasons for Rejection

- 6.1 None

7.0 Implications

Financial and Resource Implications

- 7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:

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Legal Implications

- 7.2 There are no legal implications arising directly from any outcome of this report.

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Risk Management Implications

7.3 There are no risk implications arising directly from any outcome of this report.

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8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

None

Document Information

Appendix No	Title
Appendix 1	Proposed Amendments to Treasury Management Strategy 2014-15
Appendix 2	Updated Treasury Management Strategy 2014-15
Background Papers	
None	
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