Report to:	Cabinet Council	Date of Meeting:	14 February 2019 28 February 2019
Subject:	Treasury Management Policy and Strategy 2019/20		
Report of:	Head of Corporate Resources	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

This report sets out the following proposed policy and strategy documents:

a) Treasury Management Policy (Annex A)
b) Treasury Management Strategy (Annex B)
c) Minimum Revenue Provision Policy Statement (Annex C).

Recommendation(s):

Cabinet is recommended to:
1) Recommend to Council that the Treasury Management Policy Document for 2019/2020 be agreed;
2) Recommend to Council that the Treasury Management Strategy Document for 2019/2020 be agreed;
3) Recommend to Council that the Minimum Revenue Provision Policy Statement 2018/2019 and 2019/20 be agreed.

Council is recommended to:
1) Agree the Treasury Management Policy Document for 2019/2020;
2) Agree the Treasury Management Strategy Document for 2019/2020;
3) Agree the Minimum Revenue Provision Policy Statement 2018/2019 and 2019/20.

Reasons for the Recommendation(s):

The Council has adopted CIPFA's Code of Practice on Treasury Management in the Public Services. The Code requires that the Council sets a policy and strategy for the effective operation of the Council's Treasury Management function during the financial year. This will ensure that cash flow is adequately planned, surplus monies are invested commensurate with the Council's risk appetite whilst providing adequate portfolio liquidity, and that the borrowing needs of the Council are properly managed to ensure that the Council can meet its capital spending obligations.

Alternative Options Considered and Rejected:

None

What will it cost and how will it be financed?

(A) Revenue Costs

All financial implications arising from this report are contained within the Councils overall revenue budget

(B) Capital Costs

All financial implications arising from this report are contained within the Councils overall capital budget

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): The policy and strategy will allow for the Council's investment income and the financing costs for the Capital Programme to be managed within the budget for 2019/20.
Legal Implications: None.
Equality Implications: None.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.
Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities, minimising the cost of borrowing, the effective consideration / management of associated risks which continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Head of Corporate Resources (FD5531/19.) is the author of the report.

Head of Regulation and Compliance (LD4655/19) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

The Council's external Treasury Management Advisors, Link Asset Services have provided advice with regards to the Treasury Management Policy and Strategy.

Implementation Date for the Decision

1st April 2019

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Appendices:

There are no appendices attached to this report.

Background Papers:

There are no background papers available for inspection.

1. Background

1.1. The Council has adopted CIPFA's revised 2017 Code of Practice on Treasury Management in the Public Services which recommends the production of annual Treasury Management Policy and Strategy Documents.

1.2. In addition, the Council has adopted and incorporated into both documents:

a) The requirements of the 2017 Prudential Code for Capital Finance in Local Authorities; and

b) An Investment Strategy produced in line with the Ministry of Housing Communities and Local Government (MHCLG) Statutory Guidance on Local Government Investments 2018. This sets out the manner in which the Council will manage its investments, giving priority to the security and liquidity of those investments.

1.3. A major change introduced under the 2017 Prudential Code and Treasury Management Code is the requirement to determine a Capital Strategy and produce a schedule of investments that are not part of the treasury management activity. The Capital Strategy will set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of outcomes.

1.4. The Capital Strategy document, which includes details of non-treasury investments (investment properties), will be introduced during the 2019/20 reporting cycle and is presented on the agenda.

2. Treasury Management Policy and Strategy Documents

2.1. The Code requires the Council to produce:

a) A Treasury Management Policy Document – which outlines the broad policies, objectives and approach to risk management of its treasury management activities;

b) A Treasury Management Strategy Document – This sets out specific treasury activities which will be undertaken in compliance with the Policy in 2019/2020; and

c) Suitable Treasury Management Practices, setting out the manner in which the organisation will seek to achieve these policies and objectives, prescribing how it will manage and control those activities.

The content of the Policy Statement and the Treasury Management Practices will follow the recommendations contained in sections 6 and 7 of the Treasury Management Code. The Treasury Management Practices will be amended to incorporate the changes to the 2017 Code pertaining to the management and reporting of non-treasury management investment activity. Any further amendment to reflect the particular circumstances of the Council will not result in the Council materially deviating from the Code’s key principles.

2.2. The proposed Policy and Strategy Documents are attached at **Annex A and B** respectively.

2.3. In view of the complex nature of Treasury Management, regular update reports will be presented to the Audit and Governance Committee and a mid-year report will also be presented to Cabinet and Council. An annual outturn report will also be presented to Audit and Governance Committee and both Cabinet and Council.

3. Financial Procedure Rules – Banking Arrangements

3.1. The Treasury Management Policy Document at **Annex A** delegates certain responsibilities to the Head of Corporate Resources, including all executive decisions on borrowing, investment or financing, in line with the Constitution of the Council.

4. Minimum Revenue Provision (MRP) Policy Statement

4.1. Local Authorities have a statutory requirement to set aside each year part of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision is in respect of capital expenditure incurred in previous years and financed by borrowing

4.2. Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146, as amended] require local authorities to make a prudent amount of minimum revenue provision (MRP).

4.3. The MRP regulations were revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414]. These regulations were complimented by the publication of guidance on determining the “prudent” level of MRP, to which authorities are required to have regard. The 2008 regulations and associated guidance allowed local authorities more flexibility in calculating their MRP annual charge.

4.4. Authorities are required to prepare an annual statement of their MRP policy for submission to their full Council before the start of each financial year. The aim is to give elected Members the opportunity to scrutinise the proposed application of the MRP guidance.

4.5. Revised guidance was published in February 2012 and again in February 2018. Changes made in the 2018 Guidance have been set out in the MRP policy statement. Most of the changes come into force from 1 April 2019 with some changes applying earlier from 1 April 2018.

4.6. The proposed MRP Policy Statement set out in **Annex C**, sets out the changes that will apply to both 2018/19 and 2019/20 financial years.

ANNEX A

Corporate Resources

Treasury Management Policy

2019/20

Sefton Council

1. Treasury Management Policy

1.1. The Council defines Treasury Management as:

The management of the Authority's borrowing, investments and cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

1.2. The Council's Statement of Treasury Management Policy is:

a) Effective Treasury Management is acknowledged as providing support towards the achievement of the Council's business and service objectives. It is therefore committed to the principles of achieving best value in Treasury Management, and to employing suitable performance measurement techniques, within the context of effective risk management.

b) The successful identification, monitoring and control of risk are regarded as the prime criteria by which the effectiveness of the Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation.

1.3. A dedicated team of three officers carries out the day-to-day treasury management activities. Two of the officers are qualified accountants, and one is a qualified accounting technician. The Service Manager – Treasury & Capital has obtained the CIPFA/Association of Corporate Treasurers sponsored qualification CertITM-PF, which is aimed at giving a solid grounding in treasury management and which is tailored to the public sector.

1.4. Members should receive training in the Treasury Management function in order to assist in the understanding of this complex area. This will be addressed via the provision of regular reporting to Cabinet, Corporate Services Cabinet Member meetings and the Audit and Governance Committee. Also, specific training and information on Treasury Management is available to all councillors on an annual basis. This is provided from the authority's external advisors.

2. Policy on the use of external service providers

2.1. The Council currently engages Link Asset Services as its treasury consultants. Link was engaged for the first time with effect from 1st April 2014, following a tendering exercise for the contract. The contract was put out to tender again in 2017 and was renewed with Link for a further 3 years from 1st April 2017.

2.2. The Council recognises that responsibility for treasury management decisions rests with the Council at all times. However, access to external treasury consultants provides access to specialist skills, knowledge, and advice. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly documented, and subjected to regular review.

3. Treasury Management Strategy

3.1. The Annual Strategy Document sets out in detail how the Treasury Management Activities are to be undertaken in a particular financial year to comply with the Council's Policy. The strategy for 2019/20 is attached at **Annex B**.

4. Delegated Powers

4.1. The Head of Corporate Resources, under the Council's Constitution, is given the following authority:

a) All money in the hands of the Council shall be aggregated for the purposes of Treasury Management and shall be under the control of the Head of Corporate Resources, the Officer designated for the purposes of Section 151 of the Local Government Act, 1972;

b) All executive decisions on borrowing, investment or financing shall be delegated to the Head of Corporate Resources (or in his/her absence the Deputy Section 151 Officer) who shall be required to act in accordance with the Council's Treasury Policy, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

5. Reporting Requirements/Responsibilities

5.1. Cabinet and Council will:

a) Approve, prior to each financial year, the Treasury Management Policy and Strategy Documents;

b) Monitor these documents and approve any in-year amendments necessary to facilitate continued effective Treasury Management activity; and

c) Receive a mid-year report on Treasury Management activity during the financial year and an annual outturn report following each financial year.

5.2. Audit and Governance Committee will:

a) Implement and monitor performance on at least a quarterly basis that is necessary to facilitate continued effective Treasury Management activity;

b) Receive an annual outturn report on Treasury Management activity following each financial year; and

c) Will be responsible for ensuring effective scrutiny of treasury management and policies.

5.3. The Head of Corporate Resources will:

a) Draft and submit to Cabinet and Council prior to each financial year, the Treasury Management Policy and Strategy Documents;

b) Implement and monitor these documents resubmitting any necessary in-year revisions/amendments (at least on a quarterly basis) to Cabinet and Council for approval;

c) Draft and submit a mid-year report during the financial year and an annual outturn report on Treasury Management activity to Cabinet and Council following each financial year-end;

d) Draft and submit an annual outturn report (and quarterly performance reports) on Treasury Management activity to the Audit & Governance Committee following each financial year-end;

e) Maintain suitable Treasury Management Practices (TMP), setting out the manner in which the Council will seek to achieve its objectives. The TMP's will also prescribe how the treasury activities will be managed and controlled;

f) Be responsible for the execution and administration of treasury management decisions; and

g) Act in accordance with the Council's Policy Statement and Treasury Management Practices, and also in accordance with CIPFA's Standard of Professional Practice on Treasury Management.

6. Borrowing and investments

6.1. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

6.2. The Council's primary objective in relation to investments remains the security and liquidity of capital. The yield earned on investments remains important but is a secondary consideration.

ANNEX B1

Corporate Resources

Treasury Management Strategy

2019/20

Sefton Council

1. Introduction

1.1. The Treasury Management Strategy Document sets out in detail how the Treasury Management Activities are to be undertaken in a particular financial year to comply with the Council's Treasury Management Policy.

1.2. The Strategy has been produced to incorporate the requirements of the CIPFA Code of Practice on Treasury Management 2017 and the Prudential Code for Capital Finance 2017.

2. Treasury Management Strategy 2019/20

2.1. The Strategy for 2019/20 covers:

a) Treasury Limits in force which will limit the borrowing activity of the Council (2.2);
b) Prudential Indicators 2019/20 to 2021/22 (2.3);
c) Credit Risk (2.4);
d) Markets in Financial Instruments Directive (MIFID II) (2.5);
e) Interest Rates (2.6);
f) Exchange Rates (2.7);
g) Capital Borrowing (2.8);
h) Debt Rescheduling opportunities (2.9);
i) Municipal Bond Agency (2.10);
j) Borrowing in advance of need (2.11);
k) The Use of Financial Instruments for the Management of Risks (2.12);
l) Investment Strategy (2.13);
m) Ethical Investing (2.14);
n) Member and Officer Training (2.15).

2.2. Treasury Limits for 2019/20

The Treasury Limits set by Council in respect of its borrowing activities are:

Affordable Borrowing Limit	Maximum	£205.000m

It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit'. The Affordable Borrowing Limit takes into account the Council's current debt, an assessment of external borrowing to fund the Capital Programme in 2019/20, the need to fund capital expenditure previously met from internal funding, and cash flow requirements.

Short-term Borrowing Limit	Maximum	£15m

The Short–Term Borrowing limit takes into account an assessment of any potential short-term financing the Council may need (e.g. bank overdraft, short-term funding in anticipation of grant receipts). Short-Term Borrowing is defined as being for less than 12 months.

Variable Borrowing Limit	Maximum 20%

The limit on variable rate borrowing gives the Council flexibility to finance expenditure at favourable market rates, but ensures Council exposure to variable interest commitments is within prudent levels.

2.3. Prudential Indicators

The following prudential indicators are considered relevant by CIPFA for setting an integrated Treasury Management Strategy:

2.3.1. Debt Maturity Indicators

These indicators are designed to be a control over an authority having large concentrations of debt needing to be replaced at times of high interest rates. The control is based on the production of a debt maturity profile, which measures the amount of borrowing that will mature in each period as a percentage of total projected borrowing. Any borrowing decision and related maturity dates will be taken by the Council mindful of maturity profile limits set out below to ensure large concentrations of debt do not fall due for repayment in any one future financial year. The profile reflects borrowing advice provided by Link, the Council's Treasury Management Advisors.

Maturity Structure of Fixed Rate Borrowing During 2019/20	**Upper Limit %**	**Lower Limit %**
Under 12 months	35%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 15 years	40%	0%
15 years and above	90%	25%

The table above shows, for each maturity period, the minimum and maximum amount of fixed rate debt that the Council can hold as a percentage of its total external fixed rate debt. For example, when deciding to take out a loan that is due to mature within the next 24 months, the Council must ensure that this does not take the total amount of debt due to be repaid to more than 40% of all Council debt.

The table below applies the same principle but shows the structure that applies to variable rate borrowing.

Maturity Structure of Variable Rate Borrowing During 2019/20	Upper Limit %	Lower Limit %
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

2.3.2. Principal sums invested for periods longer than 365 days

An upper limit on the value of principal sums invested for periods over 365 days is set at 40% of total investments. This limit is set to contain the Authority's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested.

This limit will be kept under review to take advantage of any opportunities in the current money market.

2.4. Credit risk

All investments involve a degree of risk. In order to mitigate these risks, the Council will consider the credit ratings supplied by a variety of recognised organisations as part of the process to determine the list of counterparties where the level of risk is acceptable, with security, then portfolio liquidity, being the key aims.

The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. This modelling approach is further outlined at **Annex B5.**

Sole reliance will not be placed on the use of this external service and the Council will also consider alternative assessments of credit strength, and information on corporate developments and of market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution;
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);

- Corporate developments, news, articles, markets sentiment and momentum;
- Background research in the financial press
- Discussion with our treasury consultants
- Internal discussion with the Head of Corporate Resources

The Council will only invest with institutions of high credit quality that meet the following criteria:

i. are UK based; and/or
ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA-
iii. have a minimum long-term Fitch rating of A- (or equivalent)

Further explanation of the Fitch ratings can be found at **Annex B3**.

The Council maintains a full record of each investment decision taken, each of which is authorised by an appropriate level of signatory.

2.5. MIFID II

2.5.1. From 3rd January 2018, the Financial Conduct Authority is obligated to treat all Local Authorities as “retail clients” under European Union legislation (MiFID II). The client status of the Local Authority relates to its knowledge and experience with regards to the use of regulated investment products and the decision-making processes it has in place for making such investments. The directive is focused on products such as Certificates of Deposit, Gilts, Corporate Bonds and investment funds, including Money Market Funds.

2.5.2. The Council will opt up to “professional status” in order to continue to have access to these funds as an investment option as they are not available to retail clients.

2.5.3. As at 31st January 2019 the Council has opted up to Professional status with the following funds:

Money Market Funds

- Aberdeen
- Amundi
- Aviva
- BNP Paribas
- Goldman Sachs
- Invesco
- Morgan Stanley
- Federated Investors
- Insight

Banks

- Australia and New Zealand Banking Group
- Commonwealth Bank of Australia
- Goldman Sachs International Bank
- Toronto Dominion Bank

Building Societies

- Coventry
- Leeds

Property Funds:

- CCLA

2.5.4. This list will be reviewed on a regular basis and counterparties will be added or removed as necessary for the Council's investment needs.

2.6. Interest Rates

2.6.1. Link Asset Services provide regular forecasts of interest rates to assist decisions in respect of:

a) Capital Borrowings (2.8);
b) Debt Rescheduling opportunities (2.9);
c) Temporary borrowing for cash flow; and
d) Investments strategy (2.13).

2.6.2. **Annex B2** gives details of Link's central view regarding interest rate forecasts.

2.6.3. Interest rate exposure is principally managed by monitoring interest rate risk. An internal view of the likely path of interest rates is formulated and this is considered along with the cash flow for the Council and any future requirements for potential borrowing such as to fund the Capital Programme. This then forms the basis of when to borrow, whether to borrow short or long term, and whether at fixed or variable rates. The maturity date for any loan is then set after a review of the Council's debt maturity profile to ensure a smooth maturity profile. Any plans for borrowing are discussed with our treasury consultants at regular strategy meetings to ensure the most advantageous position.

2.6.4. The current borrowing portfolio position is monitored via the borrowing charges incurred by the Council, which are monitored on a monthly basis.

2.6.5. The advice from Link takes into account financial activity both in the UK and world economies and the impact of major national and international events. It is essential that borrowing and investment decisions are taken mindful of independent forecasts as to interest rate movements. The Council will continue to take account of the advice of treasury management advisors.

2.7. <u>Exchange Rate Risk Management</u>

2.7.1. The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income and expenditure levels.

2.8. <u>Capital Borrowing</u>

2.8.1. The Authority's current debt portfolio is presented below:

Debt Portfolio	31/01/2019
Average Interest Rate	3.86%
<u>Debt Outstanding – Fixed Rate</u>	£m
PWLB	148.692
Other Long-Term Liabilities	9.928
Total Debt	158.620

Other long-term liabilities represent transferred debt from the Merseyside Residuary Body (£3.282m) and finance lease liabilities (£6.646m).

2.8.2. The Council will raise its required finance, following advice from treasury management advisors, from the Public Works Loan Board (PWLB), or other local authorities, and any other body that is considered suitable.

The Council's forecast borrowing requirement for 2019/20 is as follows:

Borrowing Requirement	**Estimate £m**
New Borrowing	7.182
Replacement Borrowing	0
Total Borrowing	**7.182**

The new borrowing represents the unsupported borrowing as required by the Capital Programme in 2019/20. As noted in 2.8.4 (below) the Council is internally borrowed, and may take additional borrowing if required in order to reverse this position.

2.8.3. The Link Asset Services forecast for interest rates is set out at **Annex B2**. This would suggest that the following strategy is followed:

- The cheapest borrowing will be internal borrowing, which involves reducing cash balances and foregoing interest earned at the current historically low rates. Consideration will always be given to long term borrowing rates and the possibility of rates rising, which could mean borrowing at future higher rates which could erode the advantages of internal borrowing

- Temporary borrowing from money markets or other local authorities.

2.8.4. The authority borrows from the PWLB in order to fund part of the Capital Programme, the maximum that the Council can borrow being the Capital Financing Requirement (CFR) which measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose.

2.8.5. PWLB borrowing as at 31st January 2019, plus other long-term liabilities, is £158.620m, as against an estimated CFR of £236.141m for 2018/19. This means that we are in a position to borrow a further £77.521m which would take the current borrowing level to the level of the CFR. This strategy is described as being internally borrowed which does have the advantage of reducing exposure to interest rate and credit risk. To be internally borrowed is a conscious decision to use cash balances to fund capital expenditure, rather than borrow from the PWLB. This position can be reversed at any time by borrowing from the PWLB, or any other appropriate organisation.

2.8.6. Despite the recent small increase in interest rates, 2019/20 is expected to experience a continuation of a relatively low base rate. Hence, internal borrowing is a sensible option where interest rates on deposits are much lower than the current PWLB borrowing rates, but this will be reviewed should interest rates change significantly.

2.8.7. However, as noted in 2.8.3, savings have to be weighed against the potential for incurring long term extra costs by delaying unavoidable new borrowing until later years when PWLB rates are forecast to be higher. This issue will be left under review and discussions with treasury management advisors will be ongoing to ascertain the optimum time for undertaking future borrowing.

2.8.8. Against this background, caution will be adopted in undertaking borrowing in 2019/20. The Head of Corporate Resources will monitor the interest rate market and following advice from Link, adopt a pragmatic approach to changing circumstances during the year.

2.9. <u>Debt Rescheduling Opportunities</u>

2.9.1. Restructuring of external debt is now much less attractive than before due to the introduction by the PWLB of significantly lower rates on 1 November 2007. This has been compounded by a considerable further widening of the difference between new borrowing rates and repayment rates which has meant that large premiums would be incurred to repay debt early.

2.9.2. The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has therefore adversely affected the scope to undertake meaningful debt restructuring. The situation will be monitored however, and the Council will consider the option of debt restructuring during 2019/20, should the financial circumstances change.

2.10. Municipal Bond Agency

2.10.1. It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

2.11. Borrowing in advance of need

2.11.1. The Council will not borrow more than, or in advance of, its needs purely to profit from the investment income made on the extra sums borrowed. Any decision to borrow in advance of need will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

2.11.2. In determining whether to borrow in advance of need the Council will: -

- Ensure that there is a direct link between the Capital Programme and maturity profile of the existing debt portfolio which supports the need to borrow in advance of need;
- Ensure that the revenue implications of such borrowing have been considered in respect of future plans and budgets; and
- Consider the merits of other forms of funding.

2.11.3. The total amount borrowed will not exceed the authorised borrowing limit of £205.000m. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

2.12. The Use of Financial Instruments for the Management of Risks

2.12.1. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. Lender Option Borrower Option (LOBO) loans – typically a very long-term loan (40-70 years) and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires councils to clearly detail their policy on the use of derivatives in the annual strategy.

2.12.2. The Council's policy on such items is that it will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

2.12.3. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

2.12.4. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use. At the present time, no such arrangements are in place.

2.13. Investment Strategy

2.13.1. The Council manages the investment of its surplus funds internally, and operates in accordance with the Statutory Guidance on Local Government Investments issued by MHCLG, the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 and the CIPFA Treasury Management in Public Services Guidance Notes 2018 for Local Authorities. Surplus funds are invested on a daily basis ensuring security, followed by portfolio liquidity.

2.13.2. The Council's investment priorities are, in order of priority:

1. The security of capital
2. The liquidity of capital
3. Yeild that can be generated

The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security of principal sums invested and portfolio liquidity, whilst ensuring that robust due diligence procedures cover all external investments.

2.13.3. Under the system of guidance investments are classified as Specified or Non-Specified.

Specified Investments are those which satisfy the following conditions:
a) The investment and all related transactions are in sterling;
b) The investment is short-term i.e. less than 12 months;
c) The investment does not involve the acquisition of share capital;
Either:
i) The investment is made with the UK Government or local authority; OR
ii) The investment is made with a body or scheme, which has been awarded a high credit rating by a credit rating agency (A- or above).

Non-Specified Investments are those that do not meet the above definition.

2.13.4. The Council's investment portfolio as at 31st December 2018 is set out below:

Investments Portfolio	£m
Specified Investments Non-Specified Investments Total	21.920 5.000 26.920

2.13.5. The Council banks with National Westminster Bank, which is part of the Royal Bank of Scotland Group. It is currently a part government-owned institution. At the present time, it does meet the minimum credit criteria of A- (or equivalent) long term. There may be occasions however, when the bank's rating may temporarily fall below these minimum criteria to a BBB rating. The Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) to ensure business continuity when no other options are available.

2.13.6. The Council Strategy will be:

a) To make Specified Investments in line with the above conditions;

b) To make Non-Specified Investments which satisfy all of the above with the exception of 2.13.3 b) which is extended to a period of less than 2 years for fixed term deposits, and is open ended for negotiable instruments such as CDs;

2.13.7. It is suggested that the following investment vehicles should be made available to the authority:

Investment	Reason	Risk
Term deposits made with banks with a high credit quality (see **Annex B3**). Deposits also acceptable on an overnight call basis. Can also deposit with Local Authorities.	Certainty of rate of return and repayment of capital	Liquid, with potential for deterioration in credit risk. Most Local Authorities are not credit rated.
Certificates of Deposit with Banks and Building Societies	Certainty of rate and liquid	If not held until maturity, can be sold for a capital loss on the secondary market
Supra-national bonds	Greater levels of security of investment. A fairly liquid investment, though not as liquid as Gilts	High credit rating as placed with EIB and World Bank (AAA rated). Bond price may vary if sold early
Investments with Registered Providers	Certainty of rate of return and repayment of capital	Most Registered Providers are not credit rated.
Investments with organisations that do not meet the Council's specified investment criteria (subject to an external credit review and specific advice from TM advisor). Such investments include property funds.	Greater diversification and allows a small portion of the portfolio to be invested at higher rates of return	Investments may not be with credit rated organisations

AAA rated Money Market Funds (MMFs), three types: i. Constant Net Asset Value ii. Low Volatility Net Asset Value iii. Variable Net Asset Value	Same day liquidity and high credit worthiness due to considerable diversification	Low Volatility Net Asset Value (LVNAV) and Variable Net Asset Value (VNAV) funds – potential for receiving less than paid in.
Other Money Market and Collective Investment Schemes	Strong portfolio diversification	Variable Net Asset Value (VNAV) funds – potential for receiving less than paid in. Plus long lead time for return of investment.
Corporate Bonds	Can be sold on the secondary market	Can be sold for a capital loss
Gilts	Liquid and very secure. Interest paid every six months	High credit rating as Government backed (AAA rated). Bond price may vary if sold early
Treasury Bills	Liquid and very secure. Duration of < 1year	No interest paid – they are zero-coupon rated, but are typically bought at a discount.
Debt Management Agency Account Deposit Facility (DMADF)	Secure investment	High credit rating as Government backed (AAA rated). Interest earned low. Investment cannot be repaid early.

2.13.8. The maximum that can be invested in any of the above vehicles is £25m, except for term deposits, MMF's and UK Government investments for which no limit is set. The maximum maturity period in any is 2 years for non-tradable deposits, and 5 years for deposits that are tradable on the secondary market. However, advice from Link will be taken into account in determining whether shorter maximum investment period is more appropriate during the year.

2.13.9. It is not proposed that the Council will be making any Non-Specified Investments in 2019/20 that do not comply with the above, however, should the situation change, the Head of Corporate Resources will report to Cabinet requesting appropriate approval to amend the Strategy before any such investments are made.

2.13.10. The Bank of England Base Rate has remained low at 0.75%. Link's projection of is for a rise to 1.00% by the end of June 2019 increasing to 1.25% by March 2020 (**Annex B2**). Given the volatility of the market, the forecasts can only be used as a general guide to the future position. Consequently for 2019/20, the Authority has taken a prudent view and budgeted for an investment return based upon Link's base rate projection during 2019/20.

2.13.11. In order to pursue the strategy of maximising returns from surplus funds at an acceptable level of security and portfolio liquidity, the following Brokers will be utilised for investments of over one month:

ii) BGC Brokers LP;
iii) Tradition UK Limited;
iv) Tullet Prebon Limited.

There are 3 brokers within this list, however as with previous years, this is to provide maximum protection to the council. It is unlikely that these institutions will all be utilised during the financial year.

2.13.12. As noted in previous year's reports, Council agreed that the limit of investments that can be made to any approved UK or international banking institution is £25m. On an operational basis however, an institutional or group limit of 10% of total investments has been implemented in order to increase security of capital by spreading risk.

2.13.13. The current list of countries at **Annex B4** has been produced for information; this takes account of the most up-to-date credit ratings available in respect of the countries named, and utilising Link's creditworthiness advice. It should be noted that a maximum of £25m can be invested with any one country outside of the UK. The investment counterparties within each country will be monitored daily with the assistance of treasury management advisors to ensure they continue to meet the requirements for high credit quality as outlined at **Annex B3**. In the event of a change in credit rating or outlook, the Council, with advice from treasury management advisors, will evaluate its significance and determine whether to include (subject to Council approval) or remove a country from the approval list.

2.13.14. If any of the Council's investments appear at risk of loss due to default (i.e. this is a credit related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make an assessment of whether a revenue provision of an appropriate amount is required.

2.13.15. Performance monitoring will be reported to the Audit and Governance Committee on a quarterly basis, with mid-year reports and outturn reports also presented to Cabinet and Council.

2.14. Ethical Investment Principles

2.14.1. The Local Authority routinely invests surplus funds with third party organisations and institutions. In deciding and then approving the counterparty list in which the Council will invest, the principles of security, liquidity and yield will always be the primary consideration in order to ensure compliance with statutory guidance.

2.14.2. As part of this evaluation, the Council will consider ethical investment opportunities. Investments will be made in a responsible manner and exclude direct investment in organisations which do not contribute positively to society and the environment.

2.14.3. In order for these organisations to be included on the Council's counterparty list they will be evaluated against the same criteria as other counterparties. The Council's Treasury Management Team will be continually engaged on progress in this sector, understanding where possible that Council investments and deposits are aligned with its core values – for example, generating income for social reinvestment.

2.14.4. This approach will be supported by considering the opportunity for ethical investments as part of the development of the annual Treasury Management Strategy and engaging with the Council's Treasury Management Advisors as to whether any investment is contrary to the Council's values.

2.14.5. The Local Authority publishes a list of its investments to ensure openness and transparency.

2.15. Member and Officer training

2.15.1. CIPFA's Code of Practice requires the Head of Corporate Resources to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

2.15.2. In order to address this, the Service Manager – Treasury & Capital has obtained the CIPFA/Association of Corporate Treasurers sponsored qualification CertITM-PF, which is aimed at giving a solid grounding in treasury management and which is tailored to the public sector. Training will be provided for Members of the Audit & Governance Committee on 20th March 2019 and it is intended for such training to occur at least annually.

ANNEX B2

INTEREST RATE FORECAST

Link Asset Services Interest Rate Forecast as at 7th January 2019

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view:

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

ANNEX B2

INTEREST RATE FORECAST

The interest rate forecasts provided by Link Asset Services are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK:

- *The overall balance of risks to economic growth in the UK is probably neutral.*
- *The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.*

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

ANNEX B3

FITCH RATING EXPLANATION

Short term rating
This places greater emphasis on the liquidity necessary to meet financial commitments.

F1 – highest credit quality (+ denotes exceptionally strong)
F2 – good credit quality
F3 – fair credit quality

Long term rating

AAA	highest credit quality – lowest expectation of credit risk and exceptionally strong capacity to pay financial commitments
AA	very high credit quality – very low credit risk and very strong capacity to pay financial commitments
A	high credit quality – low credit risk and considered to have strong capacity to pay financial commitments, but may be vulnerable

Viability rating
This assesses how a bank would be viewed if it were entirely independent and could not rely on external support.

aaa	- highest fundamental credit quality
aa	- very high fundamental credit quality
a	- high fundamental credit quality
bbb	- good fundamental credit quality
bb	- speculative fundamental credit quality
b	- highly speculative fundamental credit quality
ccc	- substantial fundamental risk
cc	- very high levels of fundamental credit risk
c	- exceptionally high levels of fundamental credit risk
f	- failed

Support rating
Judgement of a potential supporter's (either sovereign state of parent) propensity to support the bank and its ability to support it.

1 – extremely high probability of external support
2 – extremely high probability of external support
3 – moderate probability
4 – limited probability
5 – cannot rely on support

ANNEX B4

SEFTON COUNCIL – APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher (based on the lowest from the ratings awarded by Fitch, Moody's or S&P as at 07/12/2018) and also have banks operating in sterling markets which have credit ratings of green or above in Link Asset Services' credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- USA

AA+

- Finland

AA

- France
- United Kingdom

AA-

- Belgium

ANNEX B5

LINK ASSET SERIVES - CREDITWORTHINESS

The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings. The Council will also be alerted to changes to the primary ratings of all three agencies through its use of the creditworthiness service.

ANNEX C

Corporate Resources

Minimum Revenue Provision Policy Statement

2018/19 and 2019/20

Sefton Council

SEFTON COUNCIL

MINIMUM REVENUE PROVISION POLICY

1. Background

Local Authorities have a statutory requirement to set aside each year part of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision is in respect of capital expenditure incurred in previous years and financed by borrowing.

Previously the Council was required to follow a prescriptive MRP calculation as set out in former regulations 27, 28 and 29 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 2003/3146, as amended]. This system was revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414].

As part of those regulations the Government issued guidance recommending local authorities to prepare an annual statement of its strategic policy on the MRP, to be approved by the full council. The guidance requires each authority to determine its own MRP within the given framework and that the amount of MRP charged is a prudent amount.

The broad aim of a prudent amount is to ensure that the debt is repaid over a period that is either reasonably commensurate with the period over which the capital expenditure provides benefit, or, in the case of borrowing supported by formula grant, reasonably commensurate with the period implicit in the determination of that grant.

2. Strategic Options

The Council is free to determine its own method for calculating a prudent provision, but the guidance includes four options for calculating MRP. The Council can choose from or use a combination of the available options. The options are as follows:

Option 1 – Regulatory Method

This provides for local authorities to continue to calculate MRP in line with the minimum existing statutory charge of 4% of outstanding debt related to supported borrowing only, less an adjustment 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.

Option 2 – Capital Financing Requirement Method

This is very like the regulatory method but it does not take account of the adjustment that ensures authorities do not pay more MRP than under the previous capital regulatory regimes. For most authorities, this method may not be appropriate as it would result in a higher level of provision than option 1.

Option 3 – Asset Life Method

This method is appropriate for calculating MRP in relation to debt incurred as unsupported borrowing (also known as prudential borrowing), and must be used for revenue expenditure capitalised by direction or regulation (such as that for equal pay). Under this option there are two methods available:

(i) **Equal instalment method.** This generates a series of equal annual amounts over the life of each asset that is financed by borrowing, with the life determined upon acquisition. This means that the charge to revenue closely matches the period of economic benefit of the asset.

(ii) **Annuity method**. This method links the MRP to the flow of benefits from an asset where the benefit is expected to increase in later years.

Under this option authorities should consider the type of assets that they finance through prudential borrowing, as the type of asset may have a significant impact on the level of MRP and the method used to calculate the MRP.

Finance Leases and PFI

The guidance indicates that for finance leases and on balance sheet PFI contracts, the MRP requirement is met by making a charge equal to the element of the finance lease rental that goes to write down the balance sheet liability under proper accounting practices. This is in effect a modified version of the annuity method of Option 3.

Option 4 – Depreciation Method

This method is appropriate for calculating MRP in relation to debt incurred as unsupported (prudential) borrowing. Under this method, MRP is equal to the amount of depreciation charged on assets funded from unsupported borrowing. This method may cause volatility in the annual charge for MRP because assets are revalued on a periodic basis, giving rise to significant changes in the amount of depreciation charged. Given this potential adverse impact on future budgets this option is not considered viable.

Use of Capital Receipts

In addition to the four options listed above, the Local Authorities (Capital Finance and Accounting) Regulations 2003 [SI 2003/3146] allow local authorities to use capital receipts to meet "any liability in respect of credit arrangements, other than any liability which, in accordance with proper practices, must be charged to a revenue account".

For both finance leases and PFI contracts, proper accounting practices require that the element of the annual rental relating to the repayment of the liability is used to write down that liability on the balance sheet and is not charged to revenue. It therefore follows that local authorities are permitted to apply capital receipts to fund the principal element of the annual rental of a finance lease or on balance sheet PFI contract.

3. Revised MRP Statutory Guidance (February 2018)

In February 2018, the Government issued revised statutory guidance on the minimum revenue provision. The revised guidance applies for accounting periods starting on or after 1 April 2019, except for the guidance on changing methods for calculating MRP, which apply from accounting periods starting on or after 1 April 2018.

Changes that apply from 1 April 2018

The key changes to the guidance that apply from 1 April 2018 are:

- Where a local authority changes the method(s) that it uses to calculate MRP, it should explain in its Statement, why the change will better allow it to make prudent provision.

- The calculation of MRP under the new method(s) should be based on the residual Capital Financing Requirement (CFR) at the point the change in method is made (i.e. it should not be applied retrospectively). Changing the method used to calculate MRP can never give rise to an overpayment in respect of previous years, and should not result in a local authority making a reduced charge or a charge of £nil for the accounting period in which the change is made, or in any subsequent period, on the grounds that it needs to recover overpayments of MRP relating to previous years.

Changes that apply from 1 April 2019

The key changes to the guidance that apply from 1 April 2019 are:

- The definition of ‘Prudent Provision’ used in the guidance has been updated so that the broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their CFR.

- A charge to a revenue account for MRP cannot be a negative charge.

- If a local authority chooses to offset a previous year’s overpayment, they should disclose this fact and any remaining cumulative overpayment of MRP in the Statement presented to full council.

- Where a local authority uses MRP options 3 or 4 or where it uses another methodology that has the useful life of assets as a component to the calculation, it should normally not exceed a maximum useful life of 50 years. Local authorities can exceed this maximum in two scenarios:

  - where a local authority has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years it can use the life suggested by its professional advisor; and

  - for a lease or PFI asset, where the length of the lease/PFI contract exceeds 50 years. In this case the length of the lease/PFI contract should be used.

Impact of Guidance Changes on Sefton's MRP Policy.

There are no changes proposed to method used to calculate the Council's MRP in 2018/19, so the revised guidance has had no impact on the MRP charge made in this year.

The Council has previously recouped all prior year overpayments and applies a maximum useful life of 50 years within the MRP calculation, except for PFI & Lease agreements which are based on the life of the contract, so the changes to the guidance are expected to have no impact on the Council's MRP policy in 2019/20 or the charges forecast in the Medium Term Financial Plan.

4. MRP Policy for both 2018/19 and 2019/20

The recommended MRP policy is summarised below:

Category	Basis of MRP Calculation
Supported borrowing	Annuity Basis - Calculated over 50 years (commencing from 1 April 2015)
Unsupported (prudential) borrowing	Annuity Basis - Calculated using (Option 3) the estimated life method

PFI and Leasing Arrangements	Basis of MRP Calculation
On balance sheet PFI contracts	MRP charge to be equal to the principal element of the annual rental
On balance sheet leasing arrangements (finance leases)	MRP charge to be equal to the principal element of the annual rental

Standard asset lives to be applied to calculate the MRP charge for unsupported (prudential) borrowing:

Intangibles (Software)	3 Years
Vehicles, Plant & Equipment	5 to 10 Years
Revenue Expenditure Funded for Capital Under Statute – Capitalised Redundancy Costs	20 Years
Revenue Expenditure Funded for Capital Under Statute - Other	25 Years
Community Assets (Parks, Gardens etc.)	25 Years
Land	50 Years
Buildings – Scheme Value under £250,000	25 Years
Buildings – New Build (Value over £249,999)	Building Life per Asset Register*
Buildings – Acquisitions (Value over £249,999)	
Buildings – Refurbishment / Remodelling (Value over £249,999)	30 Years
Buildings – New Strand Shopping Centre	25 Years
Infrastructure - Capitalised Highways Maintenance	10 Years
Infrastructure - Other	40 Years

* The building life used in the MRP calculation will be subject to a maximum of 50 years.

The standard lives used for Vehicles, Plant & Equipment has been changed from a fixed period of 5 years. The amended MRP policy (above) allows the cost of borrowing to fund vehicle purchases to be extended to up to 10 years. The actual period used will reflect the forecast useful life of the vehicles at the point of purchase.

The Chief Finance Officer will retain discretion to use alternative lives for assets (capital schemes) that have characteristics that mean using the standard life would not be considered appropriate. It is anticipated that this will only apply in very limited circumstances.

<u>Commencement of MRP Charges</u>

Provision for debt under Option 3 (Asset Life Method) will normally commence in the financial year following the one in which the expenditure is incurred. However, the MRP guidance highlights an important exception to this rule. In the case of the provision of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This delay would be perhaps 2 or 3 years in the case of major projects, or possibly longer for some complex infrastructure schemes.

<u>Use of Capital Receipts to Reduce MRP Charges</u>

Any proposal to use capital receipts to reduce future MRP charges will be presented to Cabinet for approval prior to the application of the capital receipts.