APPENDIX B

Revised guidance from the Ministry of Housing, Communities and Local Government (MHCLG) on Local Authority Investments and Minimum Revenue Provision (MRP)

This paper summarises the main changes to the guidance on Local Government Investments and Statutory Guidance on Minimum Revenue Provision (MRP) issued in February 2018.

1. Investment Guidance

- Investments now include all the financial assets of the authority and those non-financial assets held primarily or partially to generate a profit, including investment property and loans to subsidiaries and third parties.

- The guidance includes a definition of a "loan" being an agreement for the temporary transfer of cash to another party who promises to return it, unless the other party is a local authority when it is a specified investment instead.

- The guidance is effective from 2018/19, but strategies approved before 1 April 2018 need not comply with new requirements, only mid-year amendments.

- The threshold for parish councils requiring an investment strategy has been reduced to £100,000 of investments from £500,000.

- Treasury management investments should follow the principles of the CIPFA Treasury Management Code. The guidance then states that "the only other element of this guidance that applies to treasury management investments is the requirement to prioritise security, liquidity and yield in that order".

- Authorities must disclose in their strategies the contribution that non-treasury investments make towards service delivery objectives, for example income, economic growth, correcting market failure.

- There is a new requirement for indicators to show the authority's total risk exposure as a result of investment decisions, including debt servicing costs where borrowing to invest. Informal commentary gives nine recommended indicators.

- Security, liquidity and yield apply in that order of importance for treasury investments, but a different balance between the three can be struck for other investments.

- There is no change to the definitions of specified and non-specified investments; but strategies must now confirm whether investments have remained with the non-specified limits.

- Loans are neither specified or non-specified, but can only be made to local enterprises, local charities and local authority subsidiaries and joint ventures if certain conditions are met including keeping a proportionate exposure, following proper accounting practice, maintaining credit control procedures and setting formal lending limits.

- Security for investment property means keeping its fair value above the purchase price. If it falls below then the strategy must state what mitigating actions will be taken; this needs to be in an updated strategy if the fall in fair value is identified at year end after the annual strategy has been approved.

- A statement is required on how the competitive market for investments has been assessed.

- A statement on liquidity is now only required for non-treasury investments that are not loans. For financial investments, this will set out how the maximum period for investment is determined; for property investments, it must state how they will be sold e.g. to meet loan maturities.

- Where the balanced budget depends on profit generating investment, the strategy must explain the extent to which service delivery objectives are dependent on achieving the expected net profit and the contingency plans in place should this not be achieved.

- Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

  However, it is recognised that income generation can be important for the sustainability of local services therefore if an authority chooses to 'disregard' or ignore this guidance then it must explain why it is ignored and explain the policies for investing the money borrowed, including management of the risks, and the contribution the investment income makes to fund the delivery of local priorities and services.

- Statements are required on the steps taken to ensure that members and officers can make informed investment decisions; that they are aware of the prudential framework; and on the authority's corporate governance arrangements.

- The investment strategy no longer needs to state the circumstances in which a revised strategy should be prepared.

2. Minimum Revenue Provision Guidance

- The new guidance applies from 2019/20, except the ban on backdating MRP policy (see below) which applies from 2018/19.

- The definition of prudent MRP has been changed to *"put aside revenue over time to cover their CFR"*, which differs from the revised definition in last year's proposal. [CFR = Capital Financing Requirement, which is a measure of the underlying need to borrow for capital purposes].

- The four example methods of calculating MRP remain the same, and alternative methods can still be used if they are more appropriate.

- Authorities can choose to make more MRP than they consider the prudent minimum, and this should be explicit in the MRP statement. This will effectively be an overpayment of MRP.

- MRP cannot be a credit to revenue; and can only be zero if the CFR is zero, or if an explicitly identified overpayment is being unwound.

- MRP policy may be changed, but a change cannot be backdated to create an overpayment that permits future MRP to be reduced.

- There is an exception for MRP “holidays” already planned to unwind overpayments arising on policy changes approved before 31 March 2018, where the planned reductions may continue. This is not applicable for SSDC.

- When using the depreciation method, MRP must include impairment charges. SSDC does not currently use the depreciation method.

- MRP can still be delayed until the year after an asset becomes operational; but the definition of “operational” has been changed to match accounting practice.

- The maximum asset life used in MRP calculations is to be 50 years, unless a longer life is certified by an appropriately qualified professional adviser, or the asset has been acquired on a lease of longer than 50 years.

- The application of a new accounting standard - IFRS 16 - which takes effect from 2019/20 will bring additional leased assets onto the balance sheet and transitional MRP arrangements are included.

- The depreciation method is not to be used for investment properties, since they are not depreciated.

- The useful life of computer software should be the shorter than that of the software licence and the useful life of the hardware.