Chorley Council

APPENDIX D

Report of	Meeting	Date
Chief Finance Officer	Special Council	28 February 2017

TREASURY STRATEGIES AND PRUDENTIAL INDICATORS (2017/18 TO 2019/20)

PURPOSE OF REPORT

1. To present for approval the Treasury Management Strategy, Investment Strategy, Minimum Revenue Provision (MRP) Policy Statement, and Prudential and Treasury Indicators for the years 2017/18 to 2019/20. Submission of these reports is a requirement of the Codes of Treasury Practice with which the Council must comply.

RECOMMENDATION(S)

2. That Council approve
   - The Prudential Indicators for 2017/18 to 2019/20
   - The Treasury Management Strategy for 2017/18 and Treasury Indicators
   - The Annual Investment Strategy 2017/18
   - The Annual Statement of MRP Policy 2017/18

EXECUTIVE SUMMARY OF REPORT

3. The report presents Prudential Indicators relating to capital expenditure and financing, and the level of external borrowing.

4. The proposed MRP Policy for 2017/18 is unchanged from that for 2016/17. It permits an "MRP Holiday" in respect of capital projects that take more than one financial year before completion. During 2015/16, Governance Committee approved an accounting policy of capitalising borrowing costs in specific circumstances, as explained in the report.

5. No changes are proposed to the Investment Strategy for 2017/18. It is proposed that the same investment limits should continue in 2017/18 as in 2016/17. The following limits would remain in force if approved:
   - The maximum that can be invested with the part-nationalised UK banks remains at £4m per group (RBS group only), and with other institutions (UK banks or buildings societies) £3m. Investments totals can be any combination of call account deposits, term deposits, or certificates of deposit.
   - Up to £3m can be deposited in CNAV Money Market Funds, which afford instant access; and £2m in VNAV Enhanced Money Market Funds, which also offer high liquidity.
   - Funds can be deposited for up to one year in UK banks and building societies, taking account of creditworthiness of the institution. Investments are likely to be for shorter periods.
   - Investments are restricted to United Kingdom-registered financial institutions.
   - Deposits with the Debt Management office are permitted up to the DMO limit of six months. There is no limit on the amount.
   - Investments with UK local authorities can be up to £3m per authority for one year, or £2m per authority for a maximum of 2 years. A maximum of £4m could be invested with local authorities

for more than one year. Investments of over 1 year would be regarded as 'non-specified', but the security of such deposits is high. However, it remains unlikely that cash balances would be high enough in the foreseeable future for this option to be used.

Confidential report Please bold as appropriate	Yes	**No**
Key Decision? Please bold as appropriate	Yes	**No**
Reason Please bold as appropriate	1, a change in service provision that impacts upon the service revenue budget by £100,000 or more	2, a contract worth £100,000 or more
	3, a new or unprogrammed capital scheme of £100,000 or more	4, Significant impact in environmental, social or physical terms in two or more wards

REASONS FOR RECOMMENDATION(S)

(If the recommendations are accepted)

6. With security of investments being the paramount objective, no further changes in the current narrow range of UK-registered counterparty institutions is proposed.

7. Approval of the Prudential Indicators, Treasury Management Strategy, Treasury Indicators, Annual Investment Strategy, and Annual MRP Policy Statement is necessary to comply with statutory requirements.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

8. None

CORPORATE PRIORITIES

9. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	

BACKGROUND

10. The Local Government Act 2003, gave local authorities greater discretion over capital expenditure by allowing prudential borrowing. It also sought to strengthen governance by making compliance with the Chartered Institute of Public Finance and Accountancy's Prudential Code and CIPFA's Treasury Management Guidance, statutory requirements. The former requires the production of Indicators showing that expenditure is affordable; the latter requires the approval of an annual Treasury Management Strategy incorporating Treasury Indicators and limits.

11. Consequential to the Prudential Borrowing powers is a requirement that authorities should make prudential provision for the repayment of borrowing (MRP). This is to be the subject of an annual policy statement to be made to the full Council prior to the start of each year.

12. Finally local authorities have, through the Local Government Act 2003, also been given greater discretion in investing surplus cash. They are required however, by guidance issued by the Department for Communities and Local Government (DCLG), to prepare an annual Investment Strategy to identify how that discretion should be applied.

13. This report therefore brings together these related requirements. The Governance Committee's role is to scrutinise these policies and practices, while the Council is required to approve them.

TREASURY MANAGEMENT POLICY STATEMENT & TREASURY MANAGEMENT PRACTICES (TMPs)

14. The Treasury Management Policy Statement was updated and approved by Council on 1 March 2016. This report has been prepared in accordance with the approved Policy

15. The Council's Treasury Management Practices (TMPs) were also updated and approved by Council on 1 March 2016. No changes to the TMPs are required at present.

PRUDENTIAL INDICATORS 2017/18 to 2019/20

16. Local authorities have discretion to incur capital expenditure in excess of the capital resources provided by government, or those resources resulting from the sale of assets or the receipt of contributions from other parties. To do this however increases a Council's indebtedness and ultimately leads to a charge to the General Fund revenue budget.

17. To manage that process, Councils must set certain Indicators. These are designed to indicate that the expenditure is prudent and affordable. The following are the relevant indicators for Chorley.

Prudential Indicator 1 - Capital Expenditure

18. The following statement (Table 1) summarises the latest estimates of capital expenditure from 2016/17 to 2019/20, and the methods of financing the programme.

19. The programme includes major new schemes, in particular Market Walk Extension, and Digital Office Park, which require use of Prudential Borrowing to finance much of the expenditure. However, the schemes are essentially self-financing, the financing costs (MRP and interest) being matched or exceeded by the income generated when the assets become operational.

Prudential Indicator 1 - Capital Expenditure

Table 1 - Capital Expenditure	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital expenditure incurred directly by the Council	14,563	24,648	8,965	800
Less Capital resources				
Capital receipts	(2,678)	(1,215)	0	0
Grants & contributions	(5,386)	(11,284)	(2,312)	(370)
Revenue and reserves	(921)	(2,390)	(332)	(330)
Unfinanced amount (affects the CFR: see Prudential Indicator 2 below)	**5,578**	**9,759**	**6,321**	**100**
Of which:				
General capital expenditure	972	625	260	100
Primrose Retirement Village	711	331	4,836	
Market Walk Extension *	3,000	6,353		
Digital Office Park*	395	2,450	1,225	
Recycling Receptacles (Green Waste) *	500			

* Self-financing Prudential Borrowing

Prudential borrowing (unfinanced amount) in respect of Primrose Retirement Village will be reduced by application of commuted sums when received. In Table 2 below the cumulative Capital Financing Requirement for the asset is shown as being reduced in 2018/19 by voluntary set aside.

Prudential Indicator 2 – Capital Financing Requirement (CFR)

20. The CFR is a measure of the Council's indebtedness resulting from its capital programme. It increases when, as above, the Council incurs unfinanced capital expenditure or leases liabilities. Its importance lies in the fact that it results in a charge to the revenue account, to make provision to finance the expenditure (the Minimum Revenue Provision - MRP).

21. It should be noted that this indebtedness does not necessarily result in the Council having an immediate need to take out additional external borrowings. This is because the Council has various reserves, and the cash which supports those reserves can be used temporarily instead of borrowing from the Public Works Loan Board (PWLB) or elsewhere.

22. The CFR is important therefore because it creates a charge to the Council's General Fund, which therefore has an impact on Council Tax. The following table shows how the CFR is changing over the next few years.

Prudential Indicator 2 - Capital Financing Requirement (CFR)

Table 2 - CFR	31/3/16 Actual £'000	31/3/17 Revised £'000	31/3/18 Estimate £'000	31/3/19 Estimate £'000	31/3/20 Estimate £'000
Estimated CFR at year-end	34,497	39,544	48,760	53,378	52,579
Reasons for the annual change in the CFR					
Unfinanced capital expenditure (see Table 1)		5,578	9,759	6,321	100
Annual revenue charge (MRP)		(531)	(543)	(620)	(899)
Voluntary Set Aside (Commuted Sum)				(1,083)	
Of which:					
General capital expenditure		12,414	12,650	12,521	12,241
Primrose Retirement Village		711	1,042	4,795	4,723
Market Walk Shopping Centre *		22,916	22,762	22,601	22,433
Market Walk Extension *		3,108	9,461	9,391	9,208
Digital Office Park*		395	2,845	4,070	3,974

* Self-financing Prudential Borrowing

23. As indicated above, several of the major projects, which have been or will be financed with Prudential Borrowing, are essentially self-financing. They are intended to generate income for the Council in excess of the financing costs arising from financing by borrowing, as well as fulfilling service development objectives.

24. There will be an "MRP Holiday" in respect of new major assets which will take more than one financial year to construct, in particular Market Walk Extension, Primrose Retirement Village, and Digital Office Park. This means that MRP would be charged from the year after the asset becomes operational, in order to match financing costs with the use of the asset.

25. The Council also adopted the accounting policy of capitalising borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset, where the costs are incurred in more than one financial year before an asset becomes operational and where budgeted Prudential Borrowing required to finance the asset is £4m or more. This means that the relevant interest costs would be added to the capital cost of the assets rather than charging interest to the revenue budget before the assets are in use. It helps to match the revenue cost of the assets to the years they are in operational use.

Prudential Indicator 3 – Ratio of financing costs to the net revenue stream

25. This indicator shows the proportion of the receipts from government grants and local taxation (Council Tax and Business rates) that is required to meet the costs associated with capital financing (interest and principal - MRP, net of interest received).

26. The ratio shows an increase from 2017/18 onwards. The revenue stream is expected to reduce each year, mainly as a result of reductions in government funding, in particular Revenue Support Grant and New Homes Bonus. Financing costs increase as a result of additional prudential borrowing. The income to the Council generated by self-financing assets such as Market Walk and its Extension, or Primrose Retirement Village cannot be reflected in this calculation, thereby making the revenue cost of the capital programme appear greater than it really is.

Table 3 - Ratio of financing costs	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Ratio	7.01	8.11	11.36	15.30

Prudential Indicator 4 – Incremental impact of capital investment decisions on the band D Council Tax

27. This table shows the cumulative effect on council tax levels of the changes between the capital programme reported in this strategy and that submitted a year ago. It has to be stressed that the complexity, and notional nature, of the calculations mean that the figures should only be treated as being indicative. In particular, the figures do not take account of the fact that several of the capital projects included in the capital programme for 2016/17 to 2019/20 are not only self-financing, but are intended to generate an income to help finance the Council's services, as well as achieving service development objectives. Rather than increasing council tax, as implied by the prudential indicator, the assets should help to protect service delivery. The reduction in 2017/18 reflects rephasing of schemes and amendments to the sources of financing.

Table 4 - Impact of capital investment decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase/(decrease) in Band D charge	23.11	(1.84)	4.26	5.20

TREASURY MANAGEMENT STRATEGY 2017/18 to 2019/20

Background

27. The treasury management service fulfils an important role in the overall financial management of the Council's affairs. It deals with "*the management of the 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"* (CIPFA).

<u>Prudential Indicators 5 and 6</u>

28. The Council has a statutory obligation to have regard to the CIPFA Code of Practice, and is required to adopt both the Code and the Treasury Management Policy Statement therein. Both of these were adopted by Council on 2 March 2010 (Financial Procedure Rule 4 refers). The TM Policy Statement was updated and approved by Council on 1 March 2016.

Reporting

29. This strategy statement has been prepared in accordance with the current Code. As a minimum, a mid-year monitoring report, and a final report on actual activity after the year-end, will be submitted to the Council. Additional reports will be made to the Governance Committee during the year as required.

Borrowing and Investment Projections

30. The Council's borrowings and investment are inter-related. The following table details the estimated changes in borrowings and cash balances available for investment, consistent with the capital and revenue budgets. The table is prepared on the assumption that most Prudential Borrowing incurred for capital financing (Table 1) will be external (PWLB or other sources) rather than internal cash balances.

<u>Prudential Indicators 5 and 6</u>

Table 5 - Borrowing and Investments	**2016/17 Revised £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
Borrowing at period start	12,800	27,115	39,868	43,698
Borrowing repaid in year	(1,263)	(2,006)	(2,491)	(2,427)
Borrowing in year	15,578	14,759	6,321	100
Borrowing at period end	**27,115**	**39,868**	**43,698**	**41,371**
Surplus cash for investment at year end	(3,000)	(2,500)	(2,000)	(1,500)
Net borrowing/(investments)	**24,115**	**37,368**	**41,698**	**39,871**

External borrowing is assumed to be taken in the year that capital expenditure financed by Prudential Borrowing is incurred. In practice, the timing of borrowing will be influenced by the availability of internal cash balances, and current and forecast interest rates. If at any point there was a strong likelihood of borrowing interest rates increasing to a greater extent than estimated at present, then the profile of borrowing would be reconsidered. Longer-term savings could be achieved by borrowing at an early date if rates were expected to rise subsequently.

Surplus cash available for investment generally declines by year-end, but can peak at much higher levels during the year for short periods. See Treasury Indicator 1 (Table 8) for the estimated maximum cash balance per financial year.

Prudential Indicator 7

31. The Prudential Code requires authorities to make comparison between net borrowing and the CFR. At its greatest net borrowing should not exceed the current year's CFR plus the estimated increases in CFR for the following two years. The figures reported above meet this requirement

Prudential Indicator 8 The Operational Boundary for External Debt

32. The Council is required to set two limits on its borrowings. The first is the Operational Boundary. This should reflect the most likely, but not worst case scenario consistent with the Council's budget proposals. This table assumes that additional external borrowing will be taken from 2016/17 onwards to finance new capital expenditure, to replace the use of internal cash balances, and to replace loans repaid in the period.

Table 6 - Operational Boundary	31/3/17 Revised £'000	31/3/18 Estimate £'000	31/3/19 Estimate £'000	31/3/20 Estimate £'000
Borrowings	27,115	39,868	43,698	43,698
Other long-term liabilities	15	15	15	15
Operational boundary	**27,130**	**39,883**	**43,713**	**43,713**

Prudential Indicator 9 The Authorised Limit

33. This is the second limit. It should allow headroom above the Operational Boundary to accommodate the fluctuations that can occur in cash flows. The following is proposed:

Table 7 - Authorised Limit	31/3/17 Revised £'000	31/3/18 Estimate £'000	31/3/19 Estimate £'000	31/3/20 Estimate £'000
Borrowings	30,115	42,868	46,698	46,698
Other long-term liabilities	15	15	15	15
Authorised Limit	**30,130**	**42,883**	**46,713**	**46,713**

Economic outlook and expected movement in interest rates

34. The report of the Council's consultants, Capital Asset Services, is attached at Appendix D (1).

35. Capita indicate that investment returns are likely to remain relatively low during 2017/18, but should start to improve from 2019/20 onwards. Bank Rate is not expected to increase in until the June quarter of 2019.

36. Appendix D (1) also presents estimated PWLB borrowing rates through to 2019/20. The rates are lower than estimated a year ago, 50-year loans being around 0.70% lower as at March quarter of 2019 than in the equivalent table last year.

Borrowing strategy

37. Prudential Indicators presented in this report reflect are prepared on the assumption that Prudential Borrowing to finance new capital expenditure between 2016/17 and 2019/20 will require external borrowing rather than use of internal cash balances. Additional loans will be taken to replace internal borrowing in respect of existing capital assets, in order to generate cash balances required for operational purposes. In addition, loans repayable from 2016/17 onwards will be replaced. The timing of any additional borrowing and estimated changes in interest rates would be discussed with the Council's treasury advisors, Capital Asset Services.

Treasury Management Limits on Activity

38. The Authority is required to set the following Treasury Indicators. The purpose of these is to minimise the risk resulting from movements in interest rates.

<u>Treasury Indicator 1 – Upper limit on Variable rate exposure</u>

39. The Council is exposed to interest rate movements on its invested cash. The amount varies significantly over the course of the year, and in recent years peaks have been for only very short periods. The peak during 2016/17 to date has been under £12m, compared to the approved Treasury Indicator for the year of £25m. So far this year the Council's own cash balances have been the source of prudential borrowing for capital financing, rather than external borrowing, and borrowing has been repaid and not replaced. This approach contributes to savings in the Net Financing Transactions budget, and means that cash balances tend to be lower than they might otherwise have been.

Table 8 - Variable rate upper limit	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Upper limit on variable rate exposure	14	13	12	11

<u>Treasury Indicator 2 – Upper limit on fixed rate exposure</u>

40. The Council is exposed to fixed rate interest on any long term liabilities and PWLB borrowings. It is proposed that up to 100% of the debt be at fixed rates.

Table 9 - Fixed rate upper limit	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Upper limit on fixed rate exposure	100%	100%	100%	100%

Treasury Indicator 3 - Maturity structure of borrowing

41. The Council is required to determine upper and lower limits for the maturity structure of its debt. This Treasury Indicator is calculated as at 31 March 2018, and the upper limit assumes that there would be further PWLB borrowing during 2016/17 and 2017/18 to replace the use of internal cash balances and to finance new capital schemes. The indicator is based on the assumption that new loans are for a range of repayment periods. Taking loans for periods of 10 years and above when interest rates are relatively low and likely to increase in future years helps to protect against refinancing risk, because rates could increase considerably by the time shorter-term loans need to be repaid.

Table 10 - Maturity structure of borrowing	As at 31/3/18 Lower Limit	Upper Limit
Under 12 months	6%	7%
12 months to 2 years	5%	5%
2 to 5 years	15%	16%
5 to 10 years	28%	28%
10 years and above	44%	46%

Treasury Indicator 4 – Total principal sums invested for greater than 364 days

42. It is not planned to make any investments for periods over 364 days, which is the Council's usual practice. Such investments are classified as being 'non-specified'. However, in principle a maximum of £4m could be invested with UK local authorities, subject to a maximum of £2m per authority. This option was introduced into the investment strategy during 2015/16 to reflect the high degree of security of local authority investments. Capita advices that local authorities are suitable for investments up to five years, but the Council has adopted a maximum duration of up to two years. It is unlikely that cash balances would be such that this option would be used. In addition, the rate of interest offered by other local authorities is often not very competitive, so high security would be achieved at the expense of a low rate of return.

Use of Treasury Advisors

43. The Council recognises that responsibility for treasury decisions cannot be delegated to its treasury advisor but remains its responsibility at all times.

Performance Indicators

44. Investments – the generally accepted indicator is 7-day LIBID (The London Interbank Bid rate). This is the rate that could be obtained by the "passive" deposit of money onto the money market. Active investment, in normal times, should outperform this. Average 7-day LIBID plus 15% has been set as a performance indicator for Shared Financial Services. This means, for example, that if average 7-day LIBID were 0.35%, the target would be to achieve 0.40%. Actual investment returns have exceeded this target during 2016/17 to date, but it is likely that the margin above the target will reduce. Cash balances are often available to invest for only short periods, which tends to mean that low interest rate call accounts and MMFs are used rather than higher-rate term deposits.

INVESTMENT STRATEGY 2017/18

Introduction

45. Under the Power in Section (15) (1) of the Local Government Act 2003 the DCLG has issued Guidance on Local Government Investments. This was updated with effect from 1 April 2010. Each Authority is recommended to produce an annual strategy that sets out its policies to manage investments, giving priority to security and liquidity. This strategy follows the guidance.

46. The major element in the guidance is that authorities should distinguish between lower risk (specified investments), and other investments (non-specified). These terms are explained in more detail below.

47. The specific issues to be addressed in the Investment Strategy are as follows:

- How “high” credit quality is to be determined
- How credit ratings are to be monitored
- To what extent risk assessment is based upon credit ratings and what other sources of information on credit risk are used
- The procedures for determining which non specified investments might prudently be used
- Which categories of non-specified investments the Council may use
- The upper limits for the amounts which may be held in each category of non- specified investment and the overall total.
- The procedures to determine the maximum periods for which funds may be committed.
- What process is adopted for reviewing and addressing the needs of members and treasury management staff for training in investment management.
- The Council’s policies on investing money borrowed in advance of spending needs. The statement should identify measures to minimise such investments including limits on (a) amounts borrowed and (b) periods between borrowing and expenditure

Chorley Council’s Strategy 2017/18

Objectives

49. The Council’s investment priorities are:
    - The security of capital and
    - The liquidity of its investments.

50. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

51. The borrowing of monies purely to invest or on-lend and to make a return is unlawful, and this Council will not engage in such activity. The Council will restrict borrowing in excess of its immediate need, to the additional amount envisaged to be required in the following eighteen months.

Use of Specified and Non-Specified Investments

52. Specified investments are those made:
    - with high “quality” institutions, the UK Government or a local authority,
    - for periods of less than one year and
    - denominated in sterling.

53. Other investments are ‘non-specified’. These could include investments in gilts, bond issues by other sovereign bodies and those issued by multilateral development banks, commercial paper,

and any deposits for a period exceeding one year. Deposits with other UK local authorities for more than one year but less than two would be ‘non-specified’

54. The Council’s practice has been only to make specified investments, though the option of placing deposits with UK local authorities for one to two years (which would be non-specified) was adopted during 2015/16. This option is unlikely to be used.

55. The Council normally uses only the simplest instruments such as money market deposits or deposits in call accounts and Money Market Funds. The investment strategy permits use of certificates of deposit (CDs) as an alternative to term investment. These offer the potential for greater liquidity than term deposits, though the rate of return is usually lower than for term deposits.

Counterparty Selection Criteria

56. In determining which institutions are “High Quality” the Council uses the creditworthiness service provided by its treasury advisor Capital Asset Services. This combines the credit ratings from all three rating agencies (Fitch, Moody, Standard and Poor) in a sophisticated modelling process. It does not however rely solely on these ratings, but also uses

- Credit watches and credit outlooks from the agencies
- Credit Default Spreads (CDS) to give early warning of likely changes in ratings
- Sovereign ratings to select counterparties from only the most credit worthy countries

57. These factors are combined in a scoring system, and results in counterparties being colour coded:

- Yellow – suggested maximum duration 5 years **
- Purple – suggested maximum duration 2 years
- Blue (used for part-nationalised UK Banks) – 1 year
- Orange – 1 year
- Red – 6 months
- Green – 3 months
- No colour – not to be used

** The UK Government and Local Authorities are included in this category. However, the strategy restricts investments to shorter period than the maximum duration suggested by Capita.

The Council only lends to UK-incorporated financial institutions. This strategy does not therefore specify a minimum sovereign rating.

The Council may use AAA rated Money Market Funds.

The Council may lend to the UK Government (which includes the Debt Management Office)

The Council may lend to other Local Authorities.

The duration of deposits takes account of the Capita colour coding as explained above.

There are dozens of banks and building societies registered in the UK, but only a small minority are of “High Quality” and therefore suitable for placing investments.

Monitoring of Credit ratings

56. Capital Asset Services supply rating warnings and changes by e-mail immediately following their issuance by the rating agencies. The colour-coded counterparty lists are reissued weekly, updated by such changes. The information is also available at any time via Capita's Passport web site. Members of the Shared Financial Services' Financial Accountancy team are also registered with the three credit rating agencies so that ratings can be checked online independently of Capita.

Time and money Limits

57. No changes to the present limits are proposed. The limits applying to each category of institution are specified in the Investment Counterparties 2017/18 table on the following page.

Member and Staff Training

58. We will be scheduling appropriate awareness training for councillors in 2017/18. Treasury management staff in the Shared Financial Services' Financial Accountancy team will attend workshops and seminars provided by the Council's treasury advisor or CIPFA where appropriate.

Financial Institutions and Investment Criteria (2017/18 Treasury Strategy)

Investment Counterparties 2017/18

Category	Institutions	CAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed entities	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 1 year 2 years	Unlimited £3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£3m per group (or institution if independent)
Money Market Funds				
Money Market Funds (CNAV)	MMFs of high credit quality - AAA rated		Instant access	£3m per fund
Enhanced Money Market Funds (VNAV)	EMMFs of high credit quality - AAA rated		T+2 or T+3	£2m per fund; £4m in total

ANNUAL STATEMENT OF MRP POLICY 2017/18

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require a local authority to determine each year an amount of Minimum Revenue Provision (MRP) which it considers to be prudent. This should be by reference to the calculated Capital Financing Requirement (CFR). Linked to this regulation, the Department for Communities and Local Government (DCLG) produced statutory guidance (updated in February 2012), which sets out what may constitute prudent provision.

In accordance with the DCLG guidance, this statement sets out the Council's MRP policy for the forthcoming financial year, 2017/18.

The aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits.

MRP shall commence in the financial year following that in which the capital expenditure is incurred, or in the year following that in which the relevant asset becomes operational.

In respect of the proportion of the Capital Financing Requirement which relates to debt incurred prior to 2008/9, MRP shall be charged on this at the rate of 4% in accordance with option 1 of the guidance, otherwise known as the Regulatory Method.

The MRP liability on debt incurred from 2008/09 onwards shall be based on the estimated useful life of the asset, (option 3 of the guidance, known as the Asset Life Method). The MRP shall be calculated using the following methods, as appropriate for specific capital expenditure:

- Equal instalments: where the principal repayments made are the same in each year
- Annuity: where the principal repayments increase over the life of the asset

Estimated life periods shall be determined under delegated powers, with reference to the guidance, in the year that MRP commences and shall not be revised. As some types of capital expenditure are not capable of being related to an individual asset, the MRP shall be assessed on a basis which most reasonably reflects the anticipated period of benefit arising from the expenditure.

IMPLICATIONS OF REPORT

This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal	✓	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

These are contained in the report

COMMENTS OF THE MONITORING OFFICER

The recommendations are appropriate as explained in the body of the report.

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
CIPFA Treasury Management in the Public Services: Code of Practice & Guidance Notes			Town Hall
CIPFA Prudential Code for Capital Finance in Local Authorities			Town Hall
CIPFA Standards of Professional Practice: Treasury Management			Town Hall
DCLG Guidance on Local Government Investments			Town Hall
DCLG Guidance on Minimum Revenue Provision			Town Hall

Report Author	Ext	Date	Doc ID
Michael L Jackson	5490	8 February 2017	Treasury Strategy 2017-18–2019-20.doc