Report of:	Meeting	Date	Item no.
Cllr Alan Vincent, Resources Portfolio Holder and Clare James, Head of Finance	Council	6 April 2017	11

Treasury Management and Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2017/18

1. Purpose of report

1.1 Confirmation of the Treasury Management and Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy Statement 2017/18.

2. Outcomes

2.1 A Treasury Management and Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy Statement.

3. Recommendations

3.1 To approve the Treasury Management and Annual Investment Strategy and MRP Policy Statement for 2017/18 as considered by Cabinet at their meeting 22 March 2017.

4. Background

4.1 A review of the Treasury Management Policy Statement, Treasury Management Practices, Strategy and MRP Policy Statement is undertaken each year and reported to Cabinet in March.

4.2 However, in order to comply with the CIPFA Code of Practice for Treasury Management, the full Council is formally required to approve the Treasury Management and Annual Investment Strategy and the MRP Policy Statement for the forthcoming financial year.

5. Key issues and proposals

5.1 The Treasury Management and Annual Investment Strategy are attached at Appendix 1 and the MRP Policy Statement is attached at Appendix 2.

Financial and legal implications	
Finance	The financial implications arising from the adoption of the Treasury Management and Annual Investment Strategy and the MRP Policy Statement have been reflected in the Revenue Estimates which were agreed by Council at their meeting 2 March 2017.
Legal	Compliance with relevant legislation, codes of practice and guidance.

<u>Other risks/implications: checklist</u>

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with an x.

risks/implications	**✓ / x**
community safety	**x**
equality and diversity	**x**
sustainability	**x**
health and safety	**x**

risks/implications	**✓ / x**
asset management	**x**
climate change	**x**
data protection	**x**

report author	telephone no.	email	date
Julie Woods	01253 887601	Julie.woods@wyre.gov.uk	24/02/17

List of background papers:		
name of document	date	where available for inspection

<u>List of appendices</u>

Appendix 1 – Treasury Management and Annual Investment Strategy 2017/18
Appendix 2 – Minimum Revenue Provision Policy Statement 2017/18

arm/ex/cou/cr/17/0604jw1

Appendix 1

TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2017/18

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

CIPFA defines treasury management as:

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

1.2 Reporting requirements

The Council receives and approves, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and Treasury Indicators and Treasury Strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

An Annual Treasury Report – This provides details of compliance with prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

A Mid Year Treasury Management Report – This will provide members with the activities undertaken, any variation from agreed policies, amending prudential indicators as necessary, and whether any policies require revision.

Scrutiny
The Overview and Scrutiny Committee are responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies and their annual work programme reflects this requirement.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury Management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. All members responsible for scrutiny were invited to attend a Treasury Management training session delivered by our Head of Finance at the Overview and Scrutiny meeting 9 January 2017 and further training will be arranged as required.
The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management Consultants

The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.
The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external providers.
It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. The Capital Prudential Indicators 2017/18 to 2020/21

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The Cabinet at its meeting on 15 February 2017 approved the list of Prudential indicators which is set out at Annex 1.

2.1 Capital Expenditure

Capital expenditure plans and how these plans are being financed by capital or revenues resources were approved by Cabinet on 15 February 2017. Prudential indicator number 1 summarises the Councils capital expenditure plans. The table below illustrates how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a need to borrow.

	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Capital expenditure	24.253	22.810	1.735	1.863	1.945
Financed by:					
Capital receipts	0.371	0.144	0	0	0
Capital grants and Contributions	23.002	22.405	1.518	1.518	1.518
Revenue/Reserves	0.880	0.261	0.217	0.345	0.427
Net financing need for the year	0	0	0	0	0

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital sources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.
The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. PFI Schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council does not currently have any such schemes within the CFR.
Prudential indicator number 3 at Annex 1 summarises the Council's Capital Financing Requirement. This is shown gross of Adjustment A (the unreconciled difference between the previous credit ceiling and the new CFR per the Prudential Code). In essence, Adjustment A provides a debt liability of £9.5m which the Council is not required to repay through MRP.

2.3 Minimum Revenue Provision (MRP) Policy Statement
The council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).
CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Policy Statement at Appendix 4.

2.4 Affordability Prudential Indicators
The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. The indicators at Annex 1, provide an indication of the impact of the capital investment plans on the Council's overall finances.
Prudential indicator number 2 identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream.
Prudential indicator number 4 identifies the revenue cost associated with proposed changes to the capital programme approved by Cabinet on 15 February 2017 compared to previous approved commitments and current plans. As there is no new borrowing planned for 2017/18 or beyond, the increased costs reflect income foregone by using reserves and balances to finance the capital programme. The assumptions are based on the budget and therefore include some estimates.

3. Borrowing

The capital expenditure plans set out in Prudential indicator number 1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cashflow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1. Current portfolio position
The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised on the following table. The table shows the actual

external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR) highlighting any over or under borrowing.

£000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
External Debt						
Debt at 1 April	1,552	1,552	1,552	1,552	1,552	1,552
Expected change in Debt	0	0	0	0	0	0
Other Long Term Liabilities (OLTL)	9	9	9	9	9	9
Expected change in OLTL	0	0	0	0	0	0
Actual Gross Debt at 31 March	**1,561**	**1,561**	**1,561**	**1,561**	**1,561**	**1,561**
Capital Financing Requirement	**11,643**	**11,547**	**11,451**	**11,355**	**11,259**	**11,163**
Under/(over) borrowing	**10,082**	**9,986**	**9,890**	**9,794**	**9,698**	**9,602**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited, early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2. Treasury Indicators: Limits to Borrowing Activity

The Treasury Management indicators at Annex 2 were approved by the Cabinet at its meeting on 15 February 2017.

The Authorised Limit (Treasury management indicator number 1) represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The Operational Boundary (Treasury management indicator number 2) is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

3.3. The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates and provide an economic commentary as follows:-

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2017	0.25	1.60	2.90	2.54
June 2017	0.25	1.60	2.90	2.70
Sept 2017	0.25	1.60	2.90	2.70
Dec 2017	0.25	1.60	3.00	2.70
March 2018	0.25	1.70	3.00	2.80
June 2018	0.25	1.70	3.00	2.80
Sept 2018	0.25	1.70	3.10	2.90
Dec 2018	0.25	1.80	3.10	2.90
March 2019	0.25	1.80	3.20	3.00
June 2019	0.50	1.90	3.20	3.00
Sept 2019	0.50	1.90	3.30	3.10
Dec 2019	0.75	2.00	3.30	3.10
March 2020	0.75	2.00	3.40	3.20

The Monetary Policy Committee, (MPC), cut the Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut the Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half of 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, the Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising the Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded (though the period for negotiations could be extended). However, if strong domestically generated inflation (e.g. from wage increases within the UK) were to emerge, then the pace and timing of increases in the Bank Rate could be brought forward.

Therefore economic and interest rate forecasting remains difficult, with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

Investment rates are likely to remain low during 2017/18 and beyond. Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt. There will remain a 'cost of carry' to any new long-term borrowing that causes a temporary increase in cash balances, as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.4. Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- **if it were felt that there was a significant risk of a sharp FALL in long and short term rates,** (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- **if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast**, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Any decisions will be reported to Council at the next available opportunity.

Treasury Management limits on activity

There are three debt related treasury activity limits, the purpose of which are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movements in interest rates. These can be found at Annex 2 Treasury Indicators numbers 4 to 6 which were approved by Cabinet on 15 February 2017.

3.5 Policy in Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

a) The generation of cash savings and/or discounted cash flow savings;

b) Helping to fulfil the treasury strategy;

c) Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investment are likely to be lower than rates paid on current debts.

All rescheduling will be reported as soon as possible after completion of the exercise to Council.

4. Annual Investment Strategy

4.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinions of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in TMP 1 Schedule 1 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.2 Creditworthiness Policy

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

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (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 (only Local Authorities)
- Dark Pink 5 years for Enhanced Cash Funds with a credit score of 1.25
- Light Pink 5 years for Enhanced Cash Funds with a credit score of 1.5
- 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

Organisation	**Minimum credit criteria / colour band**	**Max Amount per institution**	**Max. maturity Period**
Term deposits with UK Clearing Banks and UK Building Societies	Purple Orange Blue Red Green	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year Up to 1 year* Up to 6 months Up to 100 days
Certificates of Deposit with UK Clearing Banks and UK Building Societies	Purple Orange Blue Red Green	£6m £6m £6m £6m £6m	Up to 2 years Up to 1 year Up to 1 year* Up to 6 months Up to 100 days
UK Local Authorities	Yellow	£6m £6m	Up to 5 years Up to 1 year
Enhanced Cash Funds with credit score of 1.25	Dark pink / AAA	£6m	liquid
Enhanced Cash Funds with credit score of 1.5	Light pink / AAA	£6m	liquid
Money Market Funds	AAA	£6m	liquid

* Part nationalised banks

Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just once agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly but the Council is alerted to changes to ratings of all three agencies through the use of Capita Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

4.3 Country Limits

Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from countries, other than the UK, with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at 16 December 2016 are shown in Annex 3. This list will be updated prior to any investments being made outside of the UK.

4.4 Investment Strategy

In-House Funds

Investments will be made with reference to the level of earmarked reserves and cashflow requirements and the outlook for short term interest rates (i.e. rates for Investments up to 12 months).

Investment returns expectations

The Bank Rate is forecast to remain unchanged at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are as follows: -

- 2016/2017 0.25%
- 2017/2018 0.25%
- 2018/2019 0.25%
- 2019/2020 0.75%

The suggested budgeted investment earnings rates for returns on investments placed for periods of up to 100 days during each financial year for the next eight years are as follows:

- 2016/2017 0.25%
- 2017/2018 0.25%
- 2018/2019 0.25%
- 2019/2020 0.50%
- 2020/2021 0.75%
- 2021/2022 1.00%
- 2022/2023 1.50%
- 2023/2024 1.75%
- Later years 2.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside (i.e. start of increases in Bank Rate occurs later) in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. However, should pace of growth quicken and/or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and/or at a quicker pace. The Council has determined the budget for investment returns at 0.35% on investments placed during the 2017/18 financial year. This was based on the current investment profile.

4.5 Investment treasury indicator

There are currently no plans for funds to be invested for a period greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end. For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds, short rated deposits (overnight to 100 days) and 6 month deposits in order to benefit from compounding of interest.

4.6 Investment Risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID (London Interbank Bid Rate).

4.7 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Prudential and Treasury Management Indicators **Annex 1**

Prudential Indicators

Indicator No.

1. The actual capital expenditure incurred in 2015/16 and the estimates of capital expenditure for the current and future years that are recommended for approval are:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000	£000
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
Housing	957	1,500	1,515	1,498	1,498	1,498
Environmental Protective and Cultural Services	18,496	22,753	21,295	237	365	447
Total	19,453	24,253	22,810	1,735	1,863	1,945

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2015/16 are:

Ratio	0.00%	0.58%	0.85%	0.96%	0.55%	0.53%

The estimates of financing costs include current commitments and the proposals in the budget report.

3. Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31st March 2016 are:

	31/3/16	31/3/17	31/3/18	31/3/19	31/3/20	31/3/21
	£000	£000	£000	£000	£000	£000
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
Total Capital Financing Requirement	11,643	11,547	11,451	11,355	11,259	11,163

(Expenditure less capital grants and use of usable/setaside receipts)

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose.

To ensure that debt over the medium term is only for capital purposes, debt should not except in the short term exceed the Capital Financing Requirement for the previous, current and next two financial years.

4. Estimates of Impact of Capital Investment Decisions on the Band D Council Tax

	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£
	Estimate	Estimate	Estimate	Estimate	Estimate
Wyre Council Band D Council Tax	183.36	183.37	183.40	183.45	183.51

These forward estimates reflect the impact of future capital programmes, are not fixed and do not commit the Council.

Annex 2

Prudential and Treasury Management Indicators

Treasury Management

Wyre Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services.

Indicator
No.

1. External Debt - Authorised Limit (Old Section 45 Limit/New Section 3 Limit)

	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
	Estimate	Estimate	Estimate	Estimate	Estimate
Borrowing	24,000	24,000	24,000	24,000	24,000
Other Long Term Liabilities	0	0	0	0	0
Total Authorised Limit	24,000	24,000	24,000	24,000	24,000

Limit for total external debt (gross of investments).

2. External Debt - Operational Boundary (Reasonable Limit-day to day)

	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
	Estimate	Estimate	Estimate	Estimate	Estimate
Borrowing	13,643	13,643	13,643	13,643	13,643
Other Long Term Liabilities (Deferred Liabilities)	9	9	9	9	9
Total Operational Boundary	13,652	13,652	13,652	13,652	13,652

Limit for total external debt (gross of investments).

3. Actual External Debt

	31/03/16
	£000
	Actual
External Debt-Temporary Borrowing	0
External Debt-PWLB	1,552
Other Long Term Liabilities	9
Total Actual External Debt	1,561

It should be noted that actual external debt is not directly comparable to the authorised limit or operational boundary, since the actual external debt reflects the position at one point in time.

4. Fixed Interest Rate Exposures

	2016/17	2017/18	2018/19
	%	%	%
	Estimate	Estimate	Estimate
Principal sums outstanding in respect of borrowing at fixed rates	100	100	100
Principal sums outstanding in respect of investments that are fixed rate investments	25	25	25

5. Variable Interest Rate Exposures

	2016/17	2017/18	2018/19
	%	%	%
	Estimate	Estimate	Estimate
Principal sums outstanding in respect of borrowing at variable rates	25	25	25
Principal sums outstanding in respect of investments that are variable rate investments	100	100	100

6. Maturity Structure of Borrowing

It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowing as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a % of total projected borrowing that is fixed rate at the start of the period.

	Upper Limit	Lower Limit
Under 12 months	100	0
12 months and within 24 months	45	0
24 months and within 5 years	75	0
5 years and within 10 years	75	0
10 years and above	100	0

7. Total principal sums invested for periods longer than 364 days

	2014/15	2015/16	2016/17
	£000	£000	£000
	Estimate	Estimate	Estimate
Total principal sum invested to final maturities beyond the period end	0	0	0

Approved Countries for Investment (as at 16/12/16)

Countries listed by sovereign ratings of AA- or higher and also (except Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium

Appendix 2

MINIMUM REVENUE PROVISION POLICY STATEMENT 2017/18 (England and Wales)

1. The Council's Adopted Approach

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess their MRP for 2017/18 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

All expenditure reflected within the debt liability at 31 March 2008 will under delegated powers be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method (Asset Life Method). For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.