REPORT TO:	Executive Board
DATE:	12 February 2015
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Resources
TITLE:	Treasury Management Strategy Statement 2015/16
WARDS:	Borough-wide

1.0 PURPOSE OF REPORT

1.1 To consider the Treasury Management Strategy Statement which incorporates the Annual Investment Strategy (AIS) and the Minimum Revenue Provision (MRP) Strategy for 2015/16.

2.0 RECOMMENDATION: That Council be recommended to adopt the policies, strategies, statements, prudential and treasury indicators outlined in the report.

3.0 SUPPORTING INFORMATION

3.1 This Treasury Management Strategy Statement (TMSS) details the expected activities of the treasury function in the forthcoming financial year (2015/16). Its production and submission to Council is a requirement of the CIPFA Code of Practice on Treasury Management.

3.2 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.3 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.4 Government guidance notes state that Authorities can combine the Treasury Strategy Statement and Annual Investment Strategy into one report. The Council has adopted this approach and the Annual Investment Strategy is therefore included as section 4.

3.5 The Council is also required to produce a Minimum Revenue Provision (MRP) Policy Statement. There is a formal statement for approval detailed in paragraph 2.3 with Appendix A detailing MRP in more detail.

4.0 POLICY IMPLICATIONS

4.1 The successful delivery of the strategy will assist the Council in meeting its budget commitments.

5.0 OTHER IMPLICATIONS

5.1 None.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

7.0 RISK ANALYSIS

7.1 The Authority operates its treasury management activity within the approved code of practice and supporting documents. The aim at all times is to operate in an environment where risk is clearly identified and managed. This strategy sets out clear objectives within these guidelines.

7.2 Regular monitoring is undertaken during the year and reported on a quarterly basis to the Executive Board.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact Officer
Working Papers	Financial Management	Matt Guest
CIPFA TM Code	Kingsway House	
CIPFA Prudential Code		

HALTON BOROUGH COUNCIL

TREASURY MANAGEMENT STRATEGY STATEMENT

2015/16

Financial Management Division
Finance Department
January 2015

TREASURY MANAGEMENT STRATEGY STATEMENT 2015/16

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 is required to receive and approve the following reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - which covers:

- The capital plans (including prudential indicators)
- A minimum revenue provision (MRP) policy - how residual capital expenditure is charged to revenue over time
- The treasury management strategy – how the investment and borrowing are organised, including treasury indicators
- An investment strategy – the parameters of how investments are to be managed

A mid-year treasury management report (Quarter 2) **–** This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, the Executive Board receives Quarter 1 and Quarter 3 reports.

An annual treasury report (Quarter 4) – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Treasury Management Strategy for 2015/16

The strategy for 2015/16 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 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
- Policy on use of external service providers

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

1.4 Training

Training is provided periodically for Members, to assist with undertaking their responsibilities with regard to treasury management. Similarly the training needs of treasury management officers are reviewed periodically and addressed as necessary.

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 service 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 2015/16 – 2017/18

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.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The table below summarises how these plans are being financed by capital or revenue resources, any shortfall of resources results in the need to borrow.

	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Capital Expenditure:					
Children & Enterprise	14,163	15,055	12,084	1,510	350
Policy & Resources	22,936	22,147	22,292	83,711	39,601
Communities	1,371	6,064	5,826	706	645
	38,470	**43,266**	**40,202**	**85,927**	**40,596**
Financed By:					
Capital receipts	(2,431)	(8,577)	(3,781)	(2,143)	(1,919)
Capital grants	(26,590)	(26,211)	(12,877)	(7,525)	(2,833)
Revenue	(914)	(1,874)	(140)	-	-
Net financing need for the year	**8,535**	**6,604**	**23,404**	**76,259**	**35,844**

The above financing need excludes other long term liabilities such as PFI and leasing arrangements which already include borrowing instruments.

2.2 The Council's borrowing need – The Capital Financing Requirement

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, 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 the life of each asset.

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. An estimate of £100k has been used for finance leases in future years.

	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Capital Financing Requirement	**78,487**	**106,807**	**110,161**	**130,369**	**203,066**
Movement in CFR due to:					
Net financing need for the year	8,535	6,604	23,404	76,259	35,844
PFI / Finance Leases	25,076	100	100	100	100
Less MRP	(5,291)	(3,350)	(3,296)	(3,662)	(3,414)
Increase / (Decrease) in CFR	**28,320**	**3,354**	**20,208**	**72,697**	**32,530**

2.3 Minimum revenue provision (MRP) 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 called the Minimum Revenue Provision (MRP).

CLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. These options are further explained in Appendix A

The Council is recommended to approve the following MRP Statement.

For capital expenditure incurred before 1 April 2008 the MRP policy will be to follow Option 1 (regulatory method) and provide for an approximate 4% reduction in the borrowing need (CFR) each year.

For all unsupported borrowing since 1 April 2008, the MRP policy will be Option 3 (Asset Life Method) and is based on the estimated life of the assets. This will usually be charged using the equal instalment method, but the annuity method may also be used.

The MRP relating to PFI schemes and finance leases will be based on the annual lease payment, and will have no direct impact on the Council's revenue budget.

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. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.5 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing net of investment income) against the net revenue stream.

Ratio of Finance Costs to Net Revenue Stream	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Council's Net Budget	**115,114**	**108,243**	**101,188**	**95,000**	**90,000**
Finance Costs					
Net Interest Costs	954	1,008	1,152	1,028	587
Minimum Revenue Provision	2,269	2,201	2,306	2,843	2,776
	3,223	**3,209**	**3,458**	**3,871**	**3,363**
	2.8%	**3.0%**	**3.4%**	**4.1%**	**3.7%**

Interest costs relating to the Mersey Gateway project and have been excluded from the above estimates as these will not be a cost on the Council's revenue budget. Interest costs and MRP relating to PFI and finance leases have also been excluded for this reason.

2.6 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period. For this table it has been assumed that the tax base will remain the same for the following three years.

Incremental Impact of capital investment decisions on band D Council Tax	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Net cost of additional borrowing	353	661	541	72	38
Council Tax Base	31,189	31,400	31,400	31,400	31,400
Impact on Band D (£)	**11.31**	**21.05**	**17.21**	**2.29**	**1.19**

3 BORROWING

The capital expenditure plans set out in Section 2 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 cash flow 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 2014, with forward projections are summarised below. 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.

External Debt	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Borrowing					
Debt at 1 April	80,474	70,000	183,000	153,000	143,000
Expected Change in Debt	(10,474)	113,000	(30,000)	(10,000)	20,000
Debt at 31 March	**70,000**	**183,000**	**153,000**	**143,000**	**163,000**
Other long-term liabilities					
Debt at 1 April	1,228	23,282	22,518	21,713	20,879
Expected Change in Debt	22,054	(764)	(805)	(834)	(853)
Debt at 31 March	**23,282**	**22,518**	**21,713**	**20,879**	**20,026**
Total External Debt at 31 March	**93,282**	**205,518**	**174,713**	**163,879**	**183,026**
Capital Financing Requureiment	**106,807**	**110,161**	**130,369**	**203,066**	**235,596**
Under / (over) borrowing	**13,525**	**(95,357)**	**(44,344)**	**39,187**	**52,570**

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 2015/16 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 table above shows that the Council are expecting to be in an overborrowed position for 2014/15 and 2015/16. This is relating to the borrowing in advance of need that was done in respect to the Mersey Gateway project. Further detail is given in 3.5.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary

This 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.

Operational boundary	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Debt	233,100	233,100	233,100	233,100
Other Long Term Liabilities	19,500	22,213	21,379	20,526
Total	**252,600**	**255,313**	**254,479**	**253,626**
Estimated Headroom	**47,082**	**80,600**	**90,600**	**70,600**

The boundary is significantly higher than the CFR until 2017/18. This is due to borrowing in advance of need for the Mersey Gateway.

The authorised limit for external debt

A further key prudential indicator 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.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Debt	250,000	250,000	250,000	250,000
Other Long Term Liabilities	20,000	20,000	20,000	20,000
Total	**270,000**	**270,000**	**270,000**	**270,000**
Estimated Headroom	**64,482**	**95,287**	**106,121**	**86,974**

3.3 Prospects for Interest Rates

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. The following table and commentary is the view of Capital Asset Services:

Quarter Average	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar-15	0.50	2.2	3.4	3.4
Jun-15	0.50	2.2	3.5	3.5
Sep-15	0.50	2.3	3.7	3.7
Dec-15	0.75	2.5	3.8	3.8
Mar-16	0.75	2.6	4.0	4.0
Jun-16	1.00	2.8	4.2	4.2
Sep-16	1.00	2.9	4.3	4.3
Dec-16	1.25	3.0	4.4	4.4
Mar-17	1.25	3.2	4.5	4.5
Jun-17	1.50	3.3	4.6	4.6
Sep-17	1.75	3.4	4.7	4.7
Dec-17	1.75	3.5	4.7	4.7
Mar-18	2.00	3.6	4.8	4.8

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 and especially during 2014, to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2015, particularly in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone.

There does need to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established. One drag on the economy is that wage inflation has been lower than CPI inflation so eroding disposable income and living standards, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by warranting increases in pay rates. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen in the near future.

The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- As for the Eurozone, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a triple dip recession since 2008. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. During July to October 2014, a building accumulation of negative news has led to an overall trend of falling rates. 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 new capital expenditure and/or to refinance maturing debt

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing Strategy

Apart from the borrowing relating to the Mersey Gateway (discussed in 3.5) 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 relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Operational Director - Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was 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 was 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 a greater than expected increase in the anticipated rate to US tapering of asset purchases, or 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.

3.4 Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Upper Limit for Interest Rate Exposure	2015/16 %	2016/17 %	2017/18 %
Fixed Rate	100	100	100
Variable Rate	30	30	30

Maturity Structure of Fixed Rate Borrowing	2015/16	
	Lower	Higher
Under 12 months	0%	40%
12 months to 24 months	0%	40%
24 months to 5 years	0%	40%
5 years to 10 years	0%	40%
10 years and above	0%	100%

3.5 Policy on 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 that value for money can be demonstrated and that the Council can ensure the security of such funds.

Due to very favourable interest rates available from the PWLB, the Council have borrowed £113m during 2014/15 to fund the Mersey Gateway Project. These funds will not be needed until the 2016/17 and puts the Council in an ‘over-borrowed’ position until then.

The funds borrowed have been invested in line with the Council’s Investment Strategy and the net cost of this borrowing (interest payable net of investment income) has been analysed separately to the Council’s other Treasury Costs. As the cost of this borrowing (interest and MRP) will be funded from the future revenue raised by the Mersey Gateway, this will have no effect on the Council’s revenue budget and has therefore been excluded from the costs shown in the prudential indicators shown in Section 2.

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:

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- 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 investments are likely to be lower than rates paid on current debt.

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, then yield.

In accordance with the above 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.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that 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 opinion 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 below and are split between 'specified' and 'non-specified' investment categories. These will be used in line with the Creditworthiness Policy, and Counterparty List detailed in 4.2 and 4.4 below:

Specified investments
These are sterling denominated with maturities up to a maximum of 1 year and include the following:

- Debt Management Agency Deposit Facility
- UK Government Gilts
- Bonds issued by an institution guaranteed by the UK Government
- Term Deposits – UK Government
- Term Deposits – Other LAs
- Term Deposits - Banks and Building Societies
- Certificates of deposit with banks and building societies

Non-specified investments
These are Investments that do not meet the specified investment criteria. A variety of investment instruments will be used, subject to the credit quality of the institution:

- Term deposits – UK Government (maturities over 1 year)
- Term deposits – Other LAs (maturities over 1 year)
- Term deposits – Banks and Building Societies (maturities over 1 year)
- Certificates of deposit with banks and building societies (maturities over 1 year)
- Money Market Funds (rated AAA)
- Property Funds

At the time of investing, no more than 30% of the Council's portfolio will be held in non-specified investments

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 ratings agencies
- CDS spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy counties

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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 and part nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour May not be used

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 whenever new lending takes place. The Council is alerted to changes to ratings of all three agencies through its use of Capita's 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 the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in 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 this Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

4.3 Country Limits

Other than the United Kingdom, the Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch or equivalent.

4.4 Counterparty Limits for 2015/16

The Council has set the following counterparty limits for 2015/16, and will invest in line with the creditworthiness policy detailed in 4.2.

	Maximum Limit per institution £m
UK Government	40
Nationalised and Part Nationalised Banks with a minimum rating of A	40
UK Banks/Building Societies with:	
- Minimum rating of AAA	30
- Minimum rating of AA	25
- Minimum rating of A	20
- Minimum rating of BBB	10
Foreign Banks in countries with a soverign rating of AAA and:	
- Minimum rating of AAA	20
- Minimum rating of AA	10
- Minimum rating of A	5
Money Market Funds	
- Minimum rating of AAA	20
Local Authorities	40
Note: No more than 25% of the total portfolio will be placed with one institution, except where balances are held for cash-flow purposes	

Due to the high level of investments the Council holds in relation to the Mersey Gateway project, the Counterparty limits have been increased for 15/16 to ensure the Council is able to obtain the best rates available. These levels will be reviewed once the final Mersey Gateway payments have been made.

4.4 Investment strategy

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

Investment treasury indicator and limit – Total principal funds invested for greater than 365 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.

Maximum principal sums invested > 365 days	2015/16 £000	2016/17 £000	2017/18 £000
Principal sums > 365 days	30	20	20

Please note that the indicator suggested in the treasury code is principal sums over 364 days. This has been changed to include investments of 365 days, as investments of 1 year are classed as short-term and specified investments.

4.5 End of year investment report

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

Appendix A

Minimum Revenue Provision

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

- "A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."
- The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).
- There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.
- The share of Housing Revenue Account CFR is not subject to an MRP charge.

Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

1. although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. it is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2
- no MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2

There are two methods of calculating charges under option 3: -

a. equal instalment method – equal annual instalments
b. annuity method – annual payments gradually increase during the life of the asset

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

Date of implementation

The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). Authorities are however reminded that the DCLG document remains as guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

Strategy Adopted for 2015/16 and future years

In order to determine its MRP for 2015/16 and taking into consideration the available options the Council has applied the following strategy:

- For all capital expenditure incurred before 2009/10 and for all capital expenditure funded via supported borrowing MRP to be calculated using Option 1 – The Regulatory Method.
- For all capital expenditure incurred from 2009/10 financed by prudential borrowing MRP to be calculated using Option 3 the Asset Life Method, with the MRP Holiday option being utilised for assets yet to come into service use
- For Mersey Gateway expenditure the options above will not be used. The MRP Holiday option will be utilised until the Council receives toll income to repay outstanding capital expenditure. MRP payments will then be matched with income received.
- Expenditure funded through the Regional Growth Fund is currently utilising the MRP holiday option. If the conditions are not met, MRP will be payable using the Asset Life Method.
- For credit arrangements such as on balance sheet leasing arrangements (finance leases) MRP charge to be equal to the principal element of the annual rental.
- For on balance sheet PFI contracts MRP charge to be equal to the principal element of the annual rental.