APPENDIX 3

ELEMENTS FOR COUNCIL APPROVAL (including Prudential and Treasury Indicators, Minimum Revenue Provision & Investment Criteria)

In accordance with the current MHCLG Guidance, CIPFA Treasury Management Code of Practice, each council is required to set before the commencement of each financial year Treasury Management Prudential Indicators and limits, a Minimum Revenue Provision Statement and Investment criteria.

The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2018/19 – 2020/21 as detailed below.

TREASURY PRUDENTIAL INDICATORS AND LIMITS –

In accordance with the current CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the expected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and Council is required to approve the prudential indicators and limits affecting treasury management performance as shown below;

	2017/18 estimate £m	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m
Authorised Limit for External debt				
- External loan debt (01.04)	440.0	460.0	470.0	470.0
- Other long term Liabilities (PFI)	6.0	5.5	5.5	5.0
Total	**446.0**	**465.5**	**475.5**	**475.0**

Authorised external debt limit - maximum level of external debt that the authority will require for all known potential requirements and includes headroom to cover the risk of short-term cash flow variations that could lead to a need for temporary borrowing. This limit needs to be set or revised by Council and is the statutory limit determined under section 3(1) of the Local Government Act 2003.

	2017/18 estimate £m	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m
Operational Boundary for External debt				
- External loan debt (01.04)	420.0	440.0	450.0	450.0
- Other long term Liabilities (PFI)	6.0	5.5	5.5	5.0
Total	**426.0**	**445.5**	**455.5**	**455.0**

Operational boundary - calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year excluding any temporary borrowing and is not a limit.

	2017/18 estimate £m	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m
Upper limit for Principal sums invested over 364 & 365 days	**90**	**90**	**90**	**90**

Upper Limit for sums invested for over 364 & 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. Included within this limit are the Manchester Airport Shares which at 31 March 2017 were independently valued at £43.7m and the Church Commissioners Local Authorities Property Investment Fund investment of £5m. This limit also takes account of the proposed change in the CIPFA Treasury Code from a 364 day limit to 365 days.

	2017/18 estimate £m	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m
Upper limits on fixed interest rate exposure based on net debt	**6.1**	**13.7**	**14.2**	**14.7**
Upper limits on variable interest rate exposure based on net debt	**2.8**	**3.6**	**3.7**	**3.9**

Upper Interest Limits – identifies the maximum limit for both fixed and variable interest rates exposure based upon the Council's debt position net of investments.

Maturity structure of all external loan debt – 2018/19 to 2020/21	Lower limit %	Upper limit %
Under 12 months	0	20
12 months to 2 years	0	20
2 years to 5 years	0	20
5 years to 10 years	0	20
10 years to 20 years	0	20
20 years to 30 years	0	20
30 years to 40 years	0	20
40 years and above	0	90

Maturity Structure of Borrowing – these gross limits are set to reduce the Council's exposure to large sums falling due for refinancing and this indicator reflects the next date on which the lending bank can amend the interest rate for the Lender Option Borrower Option loans.

Gross Debt and the Capital Financing Requirement – this reflects that over the medium term, debt will only be for capital purposes. The Chief Finance Officer will ensure that all external debt does not exceed the capital financing requirement with any exceptions being reported to Council.

All the treasury prudential indicators and limits are monitored on a regular basis with any breaches being reported to Council at the earliest opportunity.

MINIMUM REVENUE PROVISION - (minor changes to policy as highlighted in order to comply with the latest guidance issued – 2 February 2018)

In accordance with the current MHCLG Guidance, the Council shall determine for the current financial year, an amount of minimum revenue provision that it considers to be prudent and submit an MRP Statement setting out its policy for its annual MRP to Council for approval. The following MRP Statement has been prepared in accordance with the Council's accounting procedures and is recommended for approval:

- Capital expenditure financed by Supported Borrowing: MRP will be calculated on a straight line basis over the expected average useful life of the assets (50yrs);
- Capital expenditure financed by Prudential Borrowing: MRP will be based on the estimated life of the assets and in accordance with MHCLG guidance;
- Expenditure incurred on the Capital Investment programme financed by Prudential Borrowing will be based on those periods outlined above stipulated within the MHCLG Guidance with annual reviews undertaken to ensure that this policy remains prudent;
- PFI schemes and leases shown on the balance sheet: MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure this final bullet payment can still be made in 2028/29;
- For expenditure that does not create an asset, or following the use of a Capitalisation Direction: provision will be made over a period not exceeding 20 years, in accordance with the 2010 Guidance;
- In instances where the Council incurs borrowing in order to lend funds to a third party, in accordance with the revised guidelines issued by the Secretary of State, MRP is required to be provided over the useful life of the asset created. The Council in this instance will not follow the guidance but rather treat any advance as "Serviced debt" and therefore no MRP will be set-aside providing there is an agreed repayment date. Annually the Council will undertake a financial assessment of the third parties ability to repay the debt and where any adverse changes are perceived to be occurring then a provision will be created to cover any future potential financial losses.
- In response to the policy agreed by Council on 22 February 2017, MRP on debt incurred pre 2007/08 was to be provided for using a more appropriately linked procedure based on the average useful life of its assets. As a result of this it was established that the Council has, during the period 2007/08 to 2014/15, previously over-provided MRP by £9.93m. This level of overpayment will be recovered by reducing the annual MRP charge equally over the next four years commencing 2016/17 with the unused MRP budget being

transferred to an Investment Fund' Earmarked Reserve. The use of this Investment Fund will only being deployed on sustainable income generating or 'invest to save' i.e. revenue saving programmes or projects of work and it is intended that it will be applied to support the additional shareholder loan for the Manchester Airport Group which was approved by the Executive on 30 October 2017.

<u>INVESTMENT CRITERIA</u> – (no change – Category 5)

Counterparty Selection

The Council will only use institutions which are located in a country with a minimum Sovereign Long term credit rating of AA-. The individual credit criteria, is highlighted below and for categories 1 to 4 this will be applied to both Specified and Non-specified investments. Category 5 applies only to The Church Commissioners Local Authorities Property Investment fund.

	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 1 – • UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place), • UK Building Societies Institutions must have an individual credit rating issued by Fitch, Moody's and Standard and Poor's of: Short Term – Fitch F1 or equivalent Long Term – Fitch A- or equivalent	AA to AAA A+ to AA- A- to A	£75m £25m £10m	3yrs 1yr 1yr
Category 2 – UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.	-	£20m	1yr
Category 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria.	-	n/a	1day
Category 4 – • Pooled Investment Vehicles –e.g. Money Market Funds & Ultra Short Dated Bond Funds (formerly known as Enhanced Money Market Funds) - (AAA rated); • UK Government (including treasury bills, gilts and the DMO) • Local Authorities • Supranational Institutions	-	£100m	3yrs
Category 5 – • Local Authority Property Investment fund	-	£30m	10yrs

Specified and Non Specified Investments – (no change)

In accordance with the current Code of Practice, the Council is required to set criteria which identify its investments between Specified and Non Specified investments and these are classified as follows;

- Specified investments are high security and high liquidity investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. All investments can be held under this definition,
- Non specified investments are any other type of investment not defined as specified above. A maximum of £90m is permitted to be held in this classification as detailed in Appendix 3, Prudential Indicator (5) Upper limit for sums invested over 364 and 365 days.

Instruments & Maximum period

All Investments will be undertaken in Sterling in the form of Term Deposits, Money Market Funds, Ultra Short Dated Bond Funds, Treasury Bills, Gilts or Certificates of Deposits unless otherwise stated below;

Specified Investments

Investment	Maximum Maturity
The UK Government including Local Authorities and Debt Management Office.	1 Year
Supranational bonds of less than one year duration (e.g. European Investment Bank)	1 Year
Pooled investment vehicles that have been awarded a AAA credit rating by Fitch, a credit rating agency, such as money market funds and low volatility bond funds.	1 Year
An institution that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society.	1 Year

Non-Specified Investments

Investment	Maximum Maturity
Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). The security of principal and interest on maturity is on a par with the Government and these bonds usually provide returns above equivalent gilt edged securities. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years

Gilt edged securities. These are Government bonds and provide the highest security of interest and principal. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years
The Council's own bank if it fails to meet the basic credit criteria with balances being kept to a minimum.	1 Day
UK Banks which have significant Government holdings	1 Year
Any bank or building society which meets the minimum long term credit criteria detailed in Appendix 3, for deposits with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment).	3 Years
The UK Government including Local Authorities and Debt Management Office.	3 Years
Any non-rated subsidiary of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to being guaranteed from the parent company and is included for clarity and transparency purposes.	3 Years
Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £43.7m as reported in the 2016/17 Statement of Accounts. It is not envisaged that this type of investment will be undertaken in the future.	Unspecified
Manchester Airport Group – This is in response to the restructuring of the airports existing debt and is included for clarity and transparency purposes only.	Term of loans
Church Commissioners Local Authorities Property Investment Fund - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.	10 Years