Oldham Council

Report to Council

Treasury Management Strategy Statement 2017/18

Including Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

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Reason for Decision

To present to Council, the strategy for 2017/18 Treasury Management activities including the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential Indicators.

Executive Summary

The report outlines the Treasury Management Strategy for 2017/18 including Prudential Indicators and the Minimum Revenue Provision policy.

The Strategy for 2017/18 covers two main areas.

Capital Issues

- The Capital Plans and the Prudential Indicators
- The Minimum Revenue Provision (MRP) Policy Statement

Treasury Management Issues:

- The Current Treasury Position
- Treasury Indicators for the three years 2017/18 to 2019/20
- Prospects for Interest Rates
- The Borrowing Requirement
- The Borrowing Strategy
- The Policy on Borrowing in Advance of Need
- Debt Rescheduling
- The Investment Strategy
- The Creditworthiness Policy
- The Policy regarding the use of external service providers.

The report therefore outlines the implications and key factors in relation to each of the above Capital and Treasury Management issues and makes recommendations with regard to the Treasury Management Strategy for 2017/18.

The Treasury Management Strategy was presented for scrutiny to the Overview and Scrutiny Performance and Value for Money Select Committee at its meeting on 26 January 2017. The Committee was content to commend the report to Cabinet following an update of Capital Expenditure Projections and associated Prudential Indicators. Cabinet duly considered and approved the report at its meeting on 20 February 2017 and commended the report to Council.

Recommendations

That Council approves the:

- Capital Expenditure Estimates as per paragraph 2.1.2;
- Capital Financing Requirement (CFR) Projections as per paragraph 2.2.3;
- Affordability Prudential Indicators as per section 2.4;
- MRP policy and method of calculation as per Appendix 1;
- Projected treasury position as at 31/03/2017 as per paragraph 2.5.3;
- Treasury Limits for 2017/18 to 2019/20 as detailed in paragraphs 2.6.2 and 2.6.3;
- Borrowing Strategy for 2017/18 as per section 2.8;
- Limits to interest rate exposures as set out in section 2.9.2;
- Upper and lower limits on fixed rate debt maturity structure as set out in section 2.9.3;
- Annual Investment Strategy as per section 2.13, the creditworthiness policy at section 2.14 and the level of investment in specified and non-specified investments detailed at Appendix 4.

Council **1 March 2017**

Treasury Management Strategy Statement 2017/18 Including Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

1 Background

1.1 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 investment risk appetite, providing adequate liquidity initially before considering investment return.

1.2 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.

1.3 Treasury management is defined 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. "
Source: CIPFA Treasury Management in the Public Service's Code of Practice.

Statutory Requirements

1.4 The Local Government Act 2003 and supporting regulations require 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. The Act therefore 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.

CIPFA Requirements

1.5 The Council has adopted the Revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2011. The primary requirements of the code are as follows:

- The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities;

- The creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- The receipt by full Council of an annual Treasury Management Strategy Statement (this report) which includes:
    - the capital plans of the Council, including Prudential Indicators;
    - A Minimum Revenue Provision (MRP) Policy Statement detailing how residual capital expenditure is charged to revenue over time;
    - the Treasury Management Strategy (how investments and borrowings are to be organised) including treasury indicators and;
    - an Annual Investment Strategy (the parameters within which investments will be managed).
- A mid-year review report, which updates members with the progress of the capital position, amending Prudential Indicators as necessary and revising any policies as required;
- An annual report, which provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy;
- Delegation by the Council of responsibilities for implementing and monitoring Treasury Management Policies and Practices and for the execution and administration of Treasury Management decisions. In Oldham, this responsibility is delegated to the Statutory Chief Finance Officer (Director of Finance). The Treasury Management role of the Chief Finance Officer is shown at Appendix 7;
- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee. The Treasury Management scheme of delegation is provided at Appendix 6.

It should be noted that although the Audit Committee has the scrutiny role, the Treasury Management Strategy was presented to the Overview and Scrutiny Performance and Value for Money Select Committee (PVFM) on 26 January 2017. This enabled the Select Committee to fulfil its role of reviewing all the budget reports and associated strategies. The role of the Select Committee is an established element of the budget scrutiny process at Oldham Council. The PVFM Select Committee was content with the Treasury Management Strategy and commended it to Cabinet. It was duly considered and approved at the Cabinet meeting on 20 February 2017 and commended to Council.

Treasury Management Strategy 2017/18

1.6 The Strategy for 2017/18 covers two main areas, capital issues and treasury Management issues set out below:

1.6.1 Capital Issues:

- The Capital Plans and the Prudential Indicators
- The MRP Policy Statement

1.6.2 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 Requirement
- The Borrowing Strategy
- The Policy on Borrowing in Advance of Need
- Debt Rescheduling
- The Investment Strategy
- The Creditworthiness Policy
- The Policy regarding the use of external service providers.

These elements are each addressed with the Treasury Management report.

Balanced Budget Requirement

1.7 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a Local Authority to calculate its Council Tax requirement for each financial year which will reflect the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure; and
- any increases in running costs from new capital projects.

are limited to a level which is affordable and within the projected income of the Council for the foreseeable future.

Treasury Management Consultants

1.8 Oldham 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 Council at all times and will ensure that undue reliance is not placed upon external service providers.

1.9 It is also recognised 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.

1.10 The contract engaging Capita Asset Services (as the Council's Treasury Management advisors was procured jointly with other Greater Manchester (GM) Local Government bodies and runs for a period of 3 years (with the option for a further year) effective from 1 April 2015.

1.11 On 8 December 2016, the parent company of Capita Asset Services announced its intention to sell the business. Capita Asset Services has assured the Council that "it's very much business as usual and there will be no disruption to service levels". The Council will monitor developments in this regard to ensure it continues to receive high quality, independent advice.

2 Capital Plans & Prudential Indicators 2017/18 – 2019/20

2.1 Capital Plans

2.1.1 The Council's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in Prudential Indicators, which are designed to assist Members' overview and confirm capital expenditure plans. These indicators as per the Capital Programme include previous years' actual expenditure, forecast expenditure for this current year and estimates for the next three year period.

Capital Expenditure Estimates

2.1.2 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 Council's capital expenditure forecasts are included in table 1 below:

Table 1 - Capital Expenditure Estimates

	2015/16	2016/17	2017/18	2018/19	2019/20
Capital Expenditure	**Actual £'000**	**Estimate £'000**	**Estimate £'000**	**Estimate £'000**	**Estimate £'000**
Cooperatives and Neighbourhoods	9,142				
Corporate and Commercial Services	793	3,002	3,904	2,849	2,249
Economy and Skills	54,007				
Health and Wellbeing	1,450	3,946	2,518	600	600
Economy, Skills and Neighbourhoods		44,584	53,113	51,112	29,936
Funds yet to be allocated		550	7,400	1,400	0
General Fund Services	**65,392**	**52,082**	**66,935**	**55,961**	**32,785**
HRA	396	1,603	2,848	0	0
HRA	**396**	**1,603**	**2,848**	**0**	**0**
Total	**65,788**	**53,685**	**69,783**	**55,961**	**32,785**

2.1.3 The capital expenditure shown above excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. It should be noted that new expenditure commitments are likely to increase the borrowing requirement

2.1.4 Table 2 below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

2.1.5 The borrowing need for capital expenditure in 2017/18 is currently expected to be £32.233m. This will however change if there is a change to the spending profile of the capital programme.

Table 2 - Funding of the Capital Programme

Capital Expenditure	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £'000	**Estimate £'000**	**Estimate £'000**	**Estimate £'000**	**Estimate £'000**
General Fund Services	65,392	52,082	66,935	55,961	32,785
HRA	396	1,603	2,848	0	0
Total	**65,788**	**53,685**	**69,783**	**55,961**	**32,785**
Financed by:					
Capital receipts	(1,290)	(13,658)	(6,221)	(7,106)	(2,880)
Capital grants & contributions	(26,259)	(19,277)	(28,581)	(30,776)	(7,664)
Revenue	(5,556)	(94)			0
HRA	(526)	(1,603)	(2,748)	(7,300)	0
Net financing need for the year	**32,157**	**19,053**	**32,233**	**10,779**	**22,241**

2.1.6 All other prudential indicators included within this report are based on the above capital estimates.

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

2.2.1 The second Prudential Indicator is the Council's CFR. The CFR represents total historic outstanding capital expenditure which has not yet been financed 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 financed from cash backed resources, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the Council makes 'prudent' provision for debt repayment which broadly reduces borrowing need in line with each asset's life. The approach to making prudent provision is set out in the MRP Policy Statement at Appendix 1.

2.2.3 The CFR includes other long term liabilities (e.g. Private Finance Initiative (PFI) schemes, finance leases etc.). Whilst these arrangements increase the CFR, and therefore the Council's borrowing requirement, such schemes also include a 'loan' facility meaning the Council is not required to make separate borrowing arrangements. The Council currently has £273m of such schemes within the CFR, decreasing to £263.782m in 2017/18.

Table 3 Capital Financing Requirement (CFR)

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
Capital Financing Requirement					
CFR	543,232	540,605	554,403	543,029	542,309
Total CFR	**543,232**	**540,605**	**554,403**	**543,029**	**542,309**
Movement in CFR	**15,868**	**(2,627)**	**13,798**	**(11,374)**	**(720)**
Movement in CFR represented by					
Net financing need for the year	32,157	19,053	32,233	10,779	22,241
PFI Additions	4,008				
Less MRP/VRP and other financing movements	(20,297)	(21,680)	(18,434)	(22,153)	(22,961)
Movement in CFR	15,868	(2,627)	13,798	(11,374)	(720)

2.3 Minimum Revenue Provision (MRP) policy statement

2.3.1 The Council is required to set aside prudent provision for debt repayment where borrowing or credit arrangements have been used to finance capital expenditure. The Council is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

2.3.2 Department for Communities and Local Government (DCLG) regulations require the Council to prepare an **MRP Policy Statement** in advance of each year to be decided upon and reported to Council. The Council has to ensure that the chosen options are prudent.

2.3.3 The Council's MRP Policy Statement is included at Appendix 1.

2.4 Affordability Prudential Indicators

2.4.1 The previous sections cover the overall capital programme and control of borrowing Prudential Indicators, but within this framework, Prudential Indicators are also 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. The Council's Affordability Indicators are set out in tables 4 and 5 below.

a) Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs reflect both current commitments and future capital programme spending proposals.

Table 4 Ratio of net financing cost to net revenue stream

	2015/16 Actual	2016/17 Forecast	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund excluding DSG*	17.67%	18.05%	16.99%	19.07%	19.38%

* Dedicated School Grant (DSG)

Table 4 above includes financing costs in relation to PFI schemes, for which the Council receives PFI grant direct from Central Government and therefore the above figures would reduce with the exclusion of PFI income and expenditure i.e. the Council's financing costs requiring funding from Council Tax revenues.

b) Incremental impact of new capital investment decisions on council tax

Table 5 identifies the revenue costs associated with proposed changes to the capital programme recommended in the report for 2017/18 compared to the Council's existing approved commitments and current plans. The indicators in both tables 4 and 5 are based on the current budget, but will invariably include some estimates and will change with any variation in the profile of expenditure.

Table 5 Incremental impact of new capital investment decisions on Band D Equivalent Council Tax

	2015/16 Actual	2016/17 Forecast	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Previous reported Increase in council tax (Band D)	45.47	60.86	55.13	45.17	3.13
Incremental change to previous capital plans		(24.09)	(23.66)	(14.97)	17.95
Revised Increase in Council tax (Band D)		36.77	31.47	30.20	21.08

2.4.2 The above calculation is based on Band D equivalent properties, using the proposed tax base for 2017/18 of 54,905 properties.

2.5 Borrowing

2.5.1 The capital expenditure plans set out in section 2.1 to a large extent drive the borrowing estimates included in this report. 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 and Prudential Indicators, the current and projected debt positions and the Annual Investment Strategy.

Current Borrowing portfolio position

2.5.2 The Council's treasury portfolio position at 31 March 2017, with forward projections is summarised below. Table 6 shows the actual external debt (the Treasury Management operations), against the underlying capital borrowing need, the CFR, highlighting any over or under borrowing.

2.5.3 Table 6 below shows the forecast position of gross borrowing as at 31 March 2017 at £411.895m and an under borrowed position of £128.710m.

Table 6 Current and Forecast Treasury Portfolio

	2015/16 Actual £000	Forecast position as at 31/3/17 £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
External Debt					
Debt @ 1st April	148,117	148,113	148,113	176,613	197,613
Expected change in debt	(4)	0	28,500	21,000	30,000
Other long-term liabilities	278,543	273,009	263,782	255,971	245,992
Expected change in OLTL*	(5,534)	(9,227)	(7,811)	(9,979)	(10,747)
Actual gross debt at 31 March	**421,122**	**411,895**	**432,584**	**443,605**	**462,858**
The Capital Financing Requirement	**543,232**	**540,605**	**554,403**	**543,029**	**542,309**
Under / (over) borrowing	**122,110**	**128,710**	**121,819**	**99,424**	**79,451**

** (OLTL) - Other Long Term Liabilities*

2.5.4 Table 6 above shows the Council will need to undertake significant additional borrowing in future years if capital programme expenditure matches the anticipated spending profile. The borrowing requirement is a key driver of the borrowing strategy as set out in section 2.8 below. However, the Council has yet to draw down additional borrowing and the timing of the borrowing is being closely monitored.

2.5.5 There are a number of key Prudential Indicators to ensure that the Council operates its activities within well-defined limits. The Council must ensure that 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 2017/18 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. It is clear from the table above that the Council's gross borrowing position remains within these limits.

2.5.6 The Council has complied with this Prudential Indicator in the current year and does not envisage any difficulties with compliance in the future. This view takes into account current commitments, existing plans, and the proposals set out in this report.

2.6 Treasury Limits for 2017/18 to 2019/20

2.6.1 The Council is required to determine its operational boundary and authorised limit for external debt for the next three financial years.

Operational boundary

2.6.2 The forecast operational boundary for 2016/17 together with the proposed operational boundaries for 2017/18 to 2019/20 are set out in Table 7 below. The boundary reflects the maximum anticipated level of external debt consistent with

budgets and forecast cash flows, and the CFR. This boundary will be used as a management tool for ongoing monitoring of external debt, and may be breached temporarily due to unusual cash flow movements. However a sustained or regular trend above the operational boundary should trigger a review of both the operational boundary and the authorised limit. The Operational Boundary is set out in table 7 below.

Table 7 Operational Boundary

Operational boundary	2016/17 Forecast £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Borrowing	290,000	310,000	310,000	315,000
Other long term liabilities	260,000	250,000	245,000	235,000
Total	**550,000**	**560,000**	**555,000**	**550,000**

Authorised limit

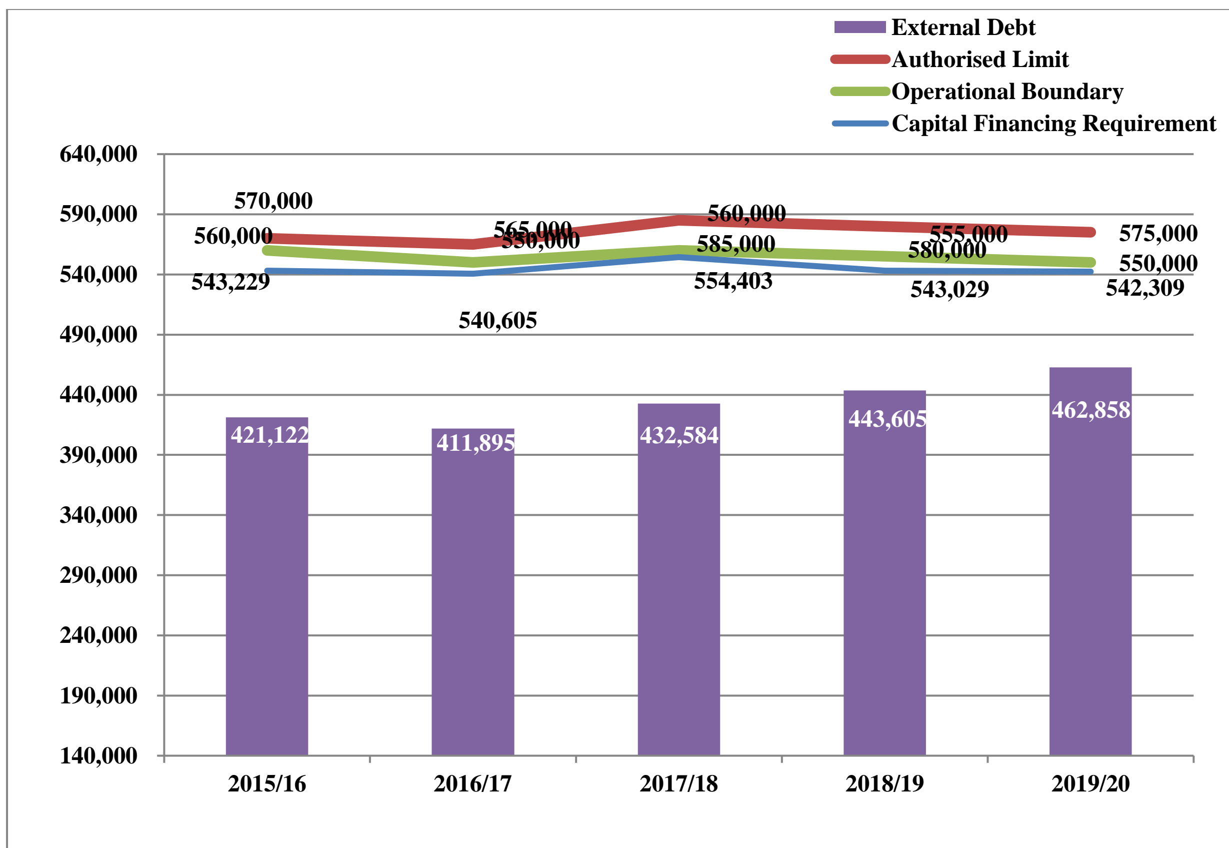
2.6.3 A further Prudential Indicator controls the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit may only be determined by the full Council. It reflects the level of external debt which, while not desired, is affordable in the short term, 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 yet to be exercised.

The Authorised Limit for each financial year from 2016/17 to 2019/20 is set out in table 8 below:

Table 8 Authorised Limit

Authorised limit £'000	2016/17 Forecast	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing	300,000	330,000	330,000	335,000
Other long term liabilities	265,000	255,000	250,000	240,000
Total	**565,000**	**585,000**	**580,000**	**575,000**

2.6.4 The graphs below disclose how the two indicators above, the Operational Boundary and the Authorised Limit compare to actual external debt and the CFR.



2.7 Prospects for Interest Rates

2.7.1 The Council has appointed Capita Asset Services as its Treasury Adviser and part of its service is to assist the Council to formulate a view on interest rates. Appendices 2 and 3 draw together a number of current city forecasts for short term (Bank Rate) and longer term fixed interest rates. Appendix 3 also sets out a more detailed narrative of the economic background on which this Strategy is based. The following table gives the Capita Asset Services interest rate view to March 2020.

2.7.2 For the last four years the Council has been able to take advantage of the Public Works Loans Board (PWLB) certainty rate, whereby there is a 20 basis points discount on standard loans from the PWLB under the prudential borrowing regime for authorities that provide improved information on their long term borrowing and associated capital spending plans. The obvious benefit to the Council of the certainty rate will be reflected in the future with reduced Treasury Management borrowing costs in relation to any PWLB borrowing undertaken. It has been confirmed that the Council has qualified for certainty rate for the period 1 November 2016 to 31 October 2017. The table below reflects the certainty rate 20 basis points reduction.

Table 9 Interest Rate Forecast

Annual Average %	Bank Rate %	PWLB Borrowing Rates %			
		5 year	10 year	25 year	50 year
Mar-17	0.25	1.60	2.30	2.90	2.70
Jun-17	0.25	1.60	2.30	2.90	2.70
Sep-17	0.25	1.60	2.30	2.90	2.70
Dec-17	0.25	1.60	2.30	3.00	2.80
Mar-18	0.25	1.70	2.30	3.00	2.80
Jun-18	0.25	1.70	2.40	3.00	2.80
Sep-18	0.25	1.70	2.40	3.10	2.90
Dec-18	0.25	1.80	2.40	3.10	2.90
Mar-19	0.25	1.80	2.50	3.20	3.00
Jun-19	0.50	1.90	2.50	3.20	3.00
Sep-19	0.50	1.90	2.60	3.30	3.10
Dec-19	0.75	2.00	2.60	3.30	3.10
Mar-20	0.75	2.00	2.70	3.40	3.20

2.7.3 The Monetary Policy Committee, (MPC), reduced the Bank Rate from 0.50% to 0.25% on 4 August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016.

2.7.4 However, economic data since August has indicated much stronger growth in the second half of 2016 than forecast. Inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August prompted by the outcome of the EU referendum. Consequently, the Bank Rate was not reduced again in November or December and, on current trends, it now appears unlikely that there will be another reduction, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.

2.7.5 During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU (referred to as Brexit), 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.

2.7.6 Accordingly, a first increase in bank rate to 0.50% is not forecast to occur, until quarter two of 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 Bank Rate could be brought forward.

2.7.7 Economic and interest rate forecasting remains challenging 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.

2.7.8 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, investors will switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields.

2.7.9 The action of central banks since the financial crisis of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors sought higher returns and acquired riskier assets.

2.7.10 A sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, US monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established.

2.7.11 The expected substantial rise in the Federal Reserve (Fed) rate over the next few years may make holding US bonds much less attractive to investors and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

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

2.7.13 The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the terms of Brexit and the timetable for its implementation.

2.7.14 Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.

- Major national polls:
    - Italian constitutional referendum on 4.12.16 which resulted in a no vote which led to the resignation of Prime Minister Renzi, meaning Italy needs to appoint a new Government;
    - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
    - Dutch general election due on 15 March 2017;
    - French presidential election to take place in April/May 2017;
    - French National Assembly election to take place in June 2017;
    - German Federal election planned for August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants as well as threats from terroism.

- Weak capitalisation of some European banks, especially Italian financial institutions.

- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.

- UK economic growth and increases in inflation are weaker than we currently anticipate.

- Weak growth or recession in the UK's main trading partners - the EU and US.

2.7.15 The potential for **upside risks to current forecasts** for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include:

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.

- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

2.7.16 Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;

- Borrowing rates have been on a generally downward trend during most of 2016 up to mid-August; but then fell sharply to historically low levels after the referendum and then even further after the MPC meeting of 4 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 Council’s policy of avoiding new borrowing by reducing spare cash balances, has served well over the last few years. However, this needs to be carefully monitored to avoid incurring higher borrowing costs in later periods when the Council 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.

2.8 Borrowing strategy

2.8.1 The factors that influence the 2017/18 strategy are:

- The movement in CFR as set out in Table 3 above;
- Forthcoming ‘Option’ dates on £54m of Lender Option Borrower Option loans (LOBO’s) in 2017/18;
- The interest rate forecasts (set out in Table 9 above);
- Aiming to minimise revenue costs to reduce the impact on the Council Tax Requirement;
- The impact of the Council’s Investment Programme.

2.8.2 The Council is currently maintaining an under-borrowed position. This means that the CFR 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. However, as interest rates are low, consideration will be given to taking advantage of this by securing fixed rate funding and reducing the under borrowed position.

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

- if it was considered 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 borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was considered 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.

2.8.4 The gross borrowing requirement in Table 6 above shows, based on current estimates, that the Council will need to drawdown a significant amount of new borrowing, to support the capital programme. Any additional borrowing will be completed with regard to the limits, indicators and interest rate forecasts set out above.

2.8.5 During 2017/18, £54m of LOBO (Lender Option Borrower Option) debt will reach the option renewal date. Table 11 below sets out the maturity structure of fixed rate debt. At the renewal date the loans will either:

- Move to the option rate of interest, which in all cases will be the same as the current rate or:

- Be offered at a rate above the option rate, in which case the Council has the option to repay. This would then require refinancing at the prevailing market rates. Based on current interest rates it is not anticipated that these loans will require refinancing.

2.8.6 Due to the current interest rate forecast it is not anticipated that any of these LOBO loans will be called.

2.8.7 The 2017/18 capital programme now shows anticipated prudential borrowing of £32.233m with £10.779m in 2018/19 and £22.241m in 2019/20. These figures have been reflected in this report and factored into the borrowing strategy for 2017/18 and future years.

2.9 Treasury Management Prudential Indicators – Limits on Activity

2.9.1 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 limits are too restrictive they will impair the opportunities to reduce costs and, or improve Treasury Management 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;

- The 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.

2.9.2 The limits on interest rate exposures are set out in table 10 below:

Table 10 - Limits on Interest rate exposures

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Upper Limit on Fixed Interest Rate Exposure	100%	100%	100%	100%
Upper Limit on Variable Interest Rate Exposure	40%	40%	40%	40%

2.9.3 Table 11 below sets out the proposed upper and lower limits on the maturity structure of fixed rate debt, for 2017/18. The maturity structure guidance of LOBOs changed in the 2011 guidance notes whereby the call date is now deemed to be the maturity date. LOBO's are classified as fixed rate debt until the call date. Within the next 12 months 2017/18 up to 37% of LOBO debt will reach its call date, however it is not anticipated that these loans will be called by the lending institutions and should not require refinancing.

Table 11 Upper and lower limits on maturity structure of fixed rate debt

Maturity Structure of fixed interest rate debt	2017/18	
	Upper Limit	Lower Limit
Under 12 months	40%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	20%	0%
10 years and above	80%	40%

2.10 Policy on Borrowing in Advance of Need

2.10.1 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 CFR 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.

2.10.2 Borrowing in advance will be made within the constraint that the Council would not look to borrow more than 24 months in advance of need.

2.10.3 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.11 Debt Rescheduling

2.11.1 As short term borrowing rates are considerably lower 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).

2.11.2 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;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

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

2.11.4 All re-scheduling will be reported to Cabinet and Council at the earliest meeting following its action.

2.12 Local Capital Finance Company (originally Municipal Bond Agency)

2.12.1 It is likely that Local Capital Finance Company, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB).

2.12.2 The Council has currently invested £0.100m in the Company and intends to make use of this new source of borrowing as and when appropriate.

2.13 Annual Investment Strategy

Investment Policy

2.13.1 The Council’s investment policy has regard to the Department for Communities and Local Government (DCLG’s) Guidance on Local Government Investments (“the Guidance”) and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”). The Council’s investment priorities are:

- firstly, the security of capital;
- secondly, the liquidity of its investments;
- thirdly, the optimum return on its investments comensurate with proper levels of security and liquidity;
- finally, ethical investments.

2.13.2 In accordance with the above guidance from the DCLG 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 avoids risk concentration. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

2.13.3 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 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

2.13.4 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.

2.13.5 Investment instruments identified for use in the financial year are listed in Appendix 4 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be set through the Council’s Treasury Management practices and are also included within Appendix 4.

2.14 Creditworthiness policy

2.14.1 Oldham Council applies the creditworthiness service provided by Capita Asset Services Treasury Advisors. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poor. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.14.2 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 duration and maximum investment value for each counterparty.

2.14.3 Institutions are split into colour bandings and the Council will therefore use counterparties within these colours, durational bands and investment limits. Table 12 below shows these limits.

Table 12 Investment Criteria

	Capita Colour Band and Long Term Rating where applicable	Maximum Duration	Maximum Principal Invested per Counterparty £
Banks	Yellow (Note 1)	5 Years	£10m
Banks	Dark Pink (Note 2)	5 Years	£10m
Banks	Light Pink (Note 3)	5 Years	£10m
Banks	Purple	2 Years	£20m
Banks	Blue (Note 4)	1 Year	£20m
Banks	Orange (Note 5)	1 Year	£15m
Banks	Red	6 months	£10m
Banks	Green	100 days	£10m
Banks	No Colour	Not to be used	Not to be used
Local Authorities	Internal Due Diligence	5 Years	£10m
GMWDA	Internal Due Diligence (Note 6)	5 Years	£30m
GMCA	Internal Due Diligence (Note 6)	5 Years	£30m
Money Market Funds (MMF)	AAA	Liquid	£20m
Debt Management Account Deposit Facility (DMADF)	AAA	6 months	£20m

Note 1 – UK Government debt or equivalent

Note 2 – Enhanced money market funds (EMMF) with a credit score of 1.25

Note 3 - Enhanced money market funds (EMMF) with a credit score of 1.5

Note 4 – Blue Institutions only applies to nationalised or semi nationalised UK Banks, which currently include the RBS Group (Royal Bank of Scotland, Natwest Bank and Ulster Bank).

Note 5 - Includes the Council's banking provider (currently Barclays), if it currently falls into category below this colour band.

Note 6 – The higher maximum principal is to facilitate joint initiatives and activities related to the devolution agenda.

2.14.4 The 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 one agency's ratings.

2.14.5 Typically the minimum credit ratings criteria the Council uses 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 this instance consideration will be

given to the whole range of ratings available, or other topical market information, to support their use.

2.14.6 All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Sevices Treasury Advisory 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 or notice given to withdraw immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in the Credit Default Swap Index against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided by Capita Asset Services. Extreme market movements may result in the downgrading of an institution or its removal from the Council's lending list.

2.14.7 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 banks to help support the decision making process.

2.15 Country and Sector Limits

2.15.1 It is not proposed to restrict the Council's investment policy to only UK banks and building societies, however in addition to the credit rating criteria set out above consideration will be given to the sovereign rating of the country before any investment is made.

2.15.2 In February 2013 the UK lost its AAA rating and moved to an AA rating. The Council will continue to invest with UK Banks, providing the individual institutions still meet the relevant criteria.

2.15.3 The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy, therefore for illustrative purposes the appended list is extended to also show AA i.e. the countries currently assesed to be in the rating below those that currently qualify.

2.16 Investment Strategy

2.16.1 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). The Council currently has investments totalling £29.5m which span the financial year as shown in Table 13. These investments are either current as at February 2017 or forward deals that commence in the new financial year 2017/18.

Table 13 Investments maturing in 2017/18

Counterparty	Amount	Maturity Date	Rate
Glasgow City Council	£5,000,000	03/04/2017	0.30%
Plymouth City Council	£5,000,000	03/04/2017	0.30%
Bank of Scotland	£3,000,000	10/04/2017	0.65%
Leeds Building Society	£3,000,000	18/04/2017	0.45%
Nationwide Building Society	£5,000,000	24/04/2017	0.42%
Abbey National Treasury Services	£3,500,000	26/04/2017	0.86%
Bank of Scotland	£5,000,000	18/05/2017	0.60%
Total	**£29,500,000**		

2.16.2 The Bank Rate is forecast to remain unchanged at 0.25% until quarter two of 2019 and not to rise above 0.75% by quarter one of 2020. Bank rates forecasts for financial year ends are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%
- 2020/21 0.75%
- 2021/22 1.00%

2.16.3 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows.

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.50%

2.16.4 The overall balance of risks to these forecasts is skewed to the downside in the view of uncertainty over the terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be delayed. On the other hand, should the 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.

2.16.5 The Council will maintain sufficient cash reserves to give it its necessary liquidity and may place investments for up to seven years if the cash flow forecast allows and the credit rating criteria is met.

2.16.6 The Council will avoid locking into longer term deals i.e., “more than 364 days” while investment rates are down at historically low levels unless attractive rates are

available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by the Council.

2.16.7 For daily cash management, the Council will seek to utilise its business reserve instant access accounts, 15 and 30 day accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

2.16.8 Funds available for investment are likely to be lower than in recent years due to a proposal to pay employer superannuation contributions up-front to the Greater Manchester Pension Fund. This is expected to make a significant contribution to the £1.000m savings proposal CCS-COM-044 (Prepayments & Refinancing of Outstanding Long Term Liabilities) which was approved by Council on 14 December 2016.

Investment Treasury Indicator and Limit

2.16.8 This indicator considers total principal funds invested for greater than 364 days. These limits have regard to the Council's liquidity requirements and to reduce the need for the early redemption of investments, and are based on the availability of funds after each year end.

Table 14 – Maximum principal sum invested greater than 364 days

	2016/17	2017/18	2018/19
Principal sums invested > 364 days	£50m	£50m	£50m

2.17 Investment Risk Benchmarking

2.17.1 These benchmarks provide a simple guide to upper limits regarding investment risk, and may be breached from time to time, depending on movements in interest rates and counterparty criteria. These benchmarks provide Officers with a baseline against which current and trend positions can be monitored. It may be necessary to amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft facility £0.100m
- Liquid short term deposits of at least £10m available with a week's notice.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID (London Interbank Bid Rate) rate multiplied by 5%
- Investments – internal returns above the 1 month LIBID rate multiplied by 5%
- Investments – internal returns above the 3 month LIBID rate multiplied by 5%
- Investments – internal returns above the 6 month LIBID rate multiplied by 5%

- Investments – internal returns above the 12 month LIBID rate multiplied by 5%

2.17.2 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report, which is in accordance with required practice and is presented to Cabinet and then Council for approval.

3 Options/Alternatives

3.1 In order to comply with the CIPFA Code of Practice on Treasury Management, the Council has no option other than to consider and approve the contents of the report. Therefore no options/alternatives have been presented. The role of Council is to consider and approve the proposed Treasury Management Strategy. The document presented for approval is intended to be robust and enables the financial position of the Council to be safeguarded.

4 Preferred Option

4.1 The preferred option is that the report is approved by Council.

5 Consultation

5.1 There has been consultation with Capita Asset Services, Treasury Management Advisors. The consideration of the Treasury Management Strategy for 2017/18 by the Overview and Scrutiny Performance and Value for Money Select Committee on 26 January 2017 was also a key strand in the consultation process. Cabinet also considered and approved the Strategy at its meeting on 20 February 2017 and commended it to Council.

6 Financial Implications

6.1 Financial Implications are detailed within the report.

7 Legal Services Comments

7.1 There are no legal implications.

8 Co-operative Agenda

8.1 The Treasury Management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the co-operative ethos of the Council.

9 Human Resources Comments

9.1 There are no Human Resource Implications.

10 **Risk Assessments**

10.1 There are considerable risks to the security of the Authority's resources if appropriate Treasury Management strategies and policies are not adopted and followed. The Council has established good practice in relation to Treasury Management which has previously been acknowledged in the External Auditors' Annual Governance Report presented to the Audit Committee.

11 **IT Implications**

11.1 There are no IT Implications

12 **Property Implications**

12.1 There are no Property Implications.

13 **Procurement Implications**

13.1 There are no Procurement Implications.

14 **Environmental and Health & Safety Implications**

14.1 There are no Environmental and Health & Safety Implications.

15 **Equality, community cohesion and crime implications**

15.1 There are no Equality, community cohesion and crime implications.

16 **Equality Impact Assessment Completed?**

16.1 No

17 **Key Decision**

17.1 Yes

18 **Key Decision Reference**

18.1 CFHR-16-16

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are provided in Appendices 1 - 8
Officer Name: Andy Moran (Assistant Director of Finance)
Contact No: 0161 770 4467

20 Appendices

Appendix 1	Minimum Revenue Provision (MRP) Policy Statement
Appendix 2	Capita Asset Services - Treasury Advisor's Interest Rate Forecast 2016-2020
Appendix 3	Economic Background
Appendix 4	Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Appendix 5	Approved Countries for Investments
Appendix 6	Treasury Management Scheme of Delegation
Appendix 7	Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)
Appendix 8	Treasury Management Indicators

Appendix 1 - Minimum Revenue Provision (MRP) Policy Statement

1.1 General Principles and Practices

1.1.1 Local authorities are required to set aside 'prudent' provision for debt repayment where they have used borrowing or credit arrangements to finance capital expenditure. Department for Communities and Local Government (DCLG) regulations require the full MRP Statement to be decided upon at least annually and reported to the Council Meeting. The Council has to ensure that the chosen options are prudent

1.2 Link to Asset Life/Economic Benefit

1.2.1 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP will normally be determined by reference to asset life, economic benefit or DCLG Guidance.

1.2.2 Asset Life and the period over which to charge MRP will be consistent with the periods set out in the Council's depreciation policy (where possible and permitted by DCLG Guidance).

1.2.3 To the extent that expenditure cannot be linked to the creation/enhancement of an asset and is of a type that is subject to estimated life periods that are referred to in the DCLG guidance (paragraph 24), these periods will generally be adopted by the Council.

1.2.4 Where certain 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.

1.2.5 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.

1.3 Methods for Calculating MRP

1.3.1 Any of the methods for calculating MRP that are set out below may be used. MRP will commence in the financial year after the completion of assets rather than when expenditure is incurred. All methods, with the exception of the approach taken to Previously Supported General Fund Borrowing are based on Asset Life/Economic Benefit. These methods include but are not limited to:

The Annuity Method

1.3.2 This calculation seeks to ensure the revenue account bears an equal annual charge (for principal and interest) over the life of the asset by taking account of the time value of money. Since MRP relates only to 'principal', the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to either prevailing or average PWLB rates.

Equal Instalments of Principal

1.3.3 MRP is an equal annual charge calculated by dividing the original amount of borrowing by the useful life of the asset.

Previously Supported General Fund Borrowing

1.3.4 General Fund Borrowing that was previously supported through the RSG system will be provided for in equal annual instalments over a 50 year period commencing 1 April 2016. As at 1 April 2016, the value of this borrowing equalled £137,119,251 and results in an equal annual minimum revenue provision of £2,742,385; the final instalment of which will be provided for by no later than 31 March 2066. In the event of:

- transfers of Capital Financing Requirement between the General Fund element and Housing element;
- additional voluntary revenue provision being made

the annual MRP charge will be adjusted to ensure that full provision will continue to be made by no later than 31 March 2066.

Bespoke Repayment Profiles:

1.3.5 With regard to credit arrangements that are implicit in Finance Lease or PFI arrangements, any 'debt' repayment element (notional or otherwise) included in charges associated with these arrangements will be classified as MRP.

1.4 Voluntary Revenue Provision

1.4.1 The Council has the option of making additional Voluntary Revenue Provision (VRP) in addition to MRP. The Council may treat VRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly. The Council may in some circumstances apply VRP to relatively short-life assets/expenditure in order to facilitate a reduction in the future base revenue budget needed to fund capital financing costs.

1.5 Local Exceptions to the Guidance

1.5.1 The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the DCLG guidance are not appropriate to local circumstances. Examples include:

Assets under Construction

1.5.2 No MRP charge will 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.

Local Authority Mortgage Scheme (LAMS)

1.5.3 The Council currently operates a Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a five year deposit from the Local Authority to match the five year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending and is treated as capital expenditure and a loan to a third party. The CFR will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the Local Authority, the returned funds are classed as a capital receipt, which will be applied to reduce the CFR. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside MRP to repay the debt liability in the interim period.

Loans to third parties

1.5.4 The Council has agreed the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties, and concluded that provision is not necessary. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor and the associated obligation to make repayments.

1.6 Borrowing in Lieu of Capital Receipts

1.6.1 The Council has concluded that provision is not necessary for capital expenditure incurred in lieu of capital receipts. Any such schemes will be classified by the Capital Investment Programme Board (CIPB) as 'Borrowing in Lieu of Capital Receipts'. CIPB will also determine which capital receipts will be allocated to the scheme and as the receipts are achieved they will be applied to repay the debt.

The Application of Capital Receipts in Lieu of MRP

1.6.2 Where the Council has received uncommitted and unapplied Capital Receipts, it retains the option to set aside those Capital Receipts as part of its arrangements for making 'prudent' provision for debt repayment rather than using them for capital financing purposes.

1.6.3 As Capital Receipts may form part of the Councils arrangements for making 'prudent' provision, setting aside Capital Receipts in this manner can be carried out in lieu of MRP whereby the MRP charge will be reduced by an amount equal to that set aside from Capital Receipts.

1.7 HRA Capital Financing Requirement (CFR)

1.7.1 MRP will equal the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations (SI 2003/3146), as if they had not been revoked. This approach is consistent with paragraph 7 of the DCLG Guidance on MRP.

1.7.2 The basic MRP charge relating to the HRA CFR is therefore nil. However, the Council may make 'Voluntary Revenue Provision' provided such an approach is prudent and appropriate in the context of financing the HRA capital programme and is consistent with the delivery of the HRA Business Plan.

APPENDIX 2 – Capita Asset Services Interest rate forecast 2016 – 2020

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Capita Asset Services Interest Rate View														
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	-
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	-
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	-
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	-
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	-
Bank Rate														
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	-
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%
5yr PWLB Rate														
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	-
Capital Economics	1.40%	1.60%	1.80%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%	3.20%
10yr PWLB Rate														
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	-
Capital Economics	2.20%	2.30%	2.40%	2.55%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%	3.60%
25yr PWLB Rate														
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	-
Capital Economics	2.75%	2.90%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%	4.15%
50yr PWLB Rate														
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	-
Capital Economics	2.70%	2.80%	2.90%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%	4.10%

APPENDIX 3: Economic Background

Set out below is a more detailed analysis of the Economic background used to support the preparation of the 2017/18 Treasury Management Strategy Statement

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.6%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter three was a surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4 August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a reduction in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3 November** left the Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to reduce Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could increase or decrease depending on how economic data evolves in the coming months. It is therefore expected that the Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter two 2019 (unchanged from our previous forecast). However, there still could be a risk of a reduction in Bank Rate if economic growth were to take a significant dip downwards. Forecasting as far ahead as mid 2019 is challenging as there are many potential economic headwinds which could affect the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on economic forecasts.

The pace of Bank Rate increases in forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter three i.e. a sharp slowdown in growth from +0.7% in quarter two, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in quarter 4 grew reasonably strongly, increasing by 1.2% and added 0.1% to GDP growth. In addition, the GfK consumer confidence index has recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, by December it had fallen back to -7 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank of England and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the Public Sector Borrowing Requirement (PSBR) deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not be expected to solely take action to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. The Autumn Statement did indeed revise the anticipated timeline with a budget surplus not expected in the life of this Parliament.

The other key factor in forecasts for Bank Rate is **inflation** whereby the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017 (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against

the euro (as at the MPC meeting date – 15.12.16). This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.6% in December. However, prices paid by factories for inputs are rising very strongly although producer output prices are still behind.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter three at +0.5% quarter on quarter, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016, but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December for (November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth rate for the year at 2.4%. Quarter one of 2016 at +0.8%, (on an annualised basis), and quarter two at 1.4% left average growth for the first half at a weak 1.1%. However, quarter three at 3.5% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which as expected in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if President Elect Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

The outcome of the American election has had a profound effect on the **bond market and bond yields** rose sharply following the election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the all the policies outlined during the election campaign.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EuroZone (EZ). In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively reduced its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.6% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of

structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.
- **Dutch general election on 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.

- **French presidential election;** first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in Japan is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to

liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. which is unlikely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

Appendix 4: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments

	Minimum credit criteria / colour band	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government Debt Management Account Deposit Facility	N/A	**100%**	**6 months**
UK Government gilts	UK sovereign rating	£20m	12 months
UK Government Treasury bills	UK sovereign rating	£20m	12 months
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	£10m	6 months
Money Market Funds	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.25	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.5	AAA	£20m	Liquid
Local authorities	N/A	£20m	12 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use

	Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£10m	
REPO's (Collateralised deposit)	100% Collateral	£5m	12 months
GMCA	Internal Due Diligence	£30m	12 months
GMWDA	Internal Due Diligence	£30m	12 months

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue implications, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

NON-SPECIFIED INVESTMENTS: A maximum of 50% will be held in aggregate in non-specified investments.

Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	** Max % of total investments	Max. maturity period
Term deposits – local authorities and other public institutions	--	In-house	£10m	5 years
Term deposits – banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Short-term F1 Long-term AA	Fund Managers	£5m	2 years
Collateralised deposit	UK sovereign rating	In-house and Fund Managers	£5m	2 years
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	£10m	5 years
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	£10m	3 years
Sovereign bond issues (other than the UK Government)	AAA	In-house and Fund Managers	£5m	2 years
Corporate bonds	Short-termF1 Long-term AA	In-house and Fund Managers	£5m	5 years
Green Energy Bonds	Internal Due Diligence	In-house and Fund Managers	£10m	10 years
Property Funds	Internal Due Diligence	In-house	£10m	10 years
Floating Rate Notes	Long Term A	In-house	£5m	5 years
REPO's (Collateralised deposit)	100% Collateral	In-house	£5m	5 years
GMCA	Internal Due Diligence	In-house	£30m	5 years
GMWDA	Internal Due Diligence	In-house	£30m	5 years
Covered Bonds	Long term A	In-house	£5m	5 years
Local Capital Finance Company (Municipal Bonds Agency)		In-house	£1m	10 years
Local Authority Fixed Income Fund	Internal Due Diligence	In-house	£5m	10 years
Unrated Bonds, backed by securitised Assets	Internal Due Diligence	In-house and fund managers	£5m	5 years

	* Minimum Credit Criteria	Use	** Max % of total investments	Max. maturity period
Asset Backed Pooled Investment Funds	Internal Due Diligence	In-house and fund managers	£5m	5 years

APPENDIX 5: Approved countries for investments as at February 2017

AAA

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

AA+

- Finland
- U.S.A.

AA

- France
- U.K.

AA-

- Belgium

APPENDIX 6: Treasury Management scheme of delegation

The scheme of delegation is as follows:

Full council is the responsible body for:

- receiving and reviewing reports on Treasury Management policies, practices and activities;
- the approval of the annual strategy, mid-year review and outturn report.
- approval of/amendments to the organisation's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;

Cabinet is the responsible body for:

- reviewing the Treasury Management Policy and Procedures and making recommendations to the responsible body.
- Reviewing Treasury Management reports and commending to Council.

Audit Committee is responsible for scrutiny:

- reviewing the Treasury Management Policy and Procedures and making recommendations to the responsible body.
- Reviewing Treasury Management reports and making recommendations to the responsible body.

Cabinet Member for Finance and HR is responsible for:

- approving the selection of external service providers and agreeing terms of appointment

APPENDIX 7: The Treasury Management role of the Statutory Chief Finance Officer (Director of Finance)

The Statutory Chief Financial Officer will discharge the Treasury Management role by:

- recommending clauses, Treasury Management Policy/Practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular Treasury Management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the Treasury Management function;
- ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- ensuring the adequacy of internal audit processes, and liaising with external audit;
- recommending the appointment of external service providers.

APPENDIX 8 - TREASURY MANAGEMENT INDICATORS

Table 1 Prudential indicators	2015/16 actual £000	2016/17 probable out-turn £000	2017/18 estimate £000	2018/19 estimate £000	2019/20 estimate £000
Capital Expenditure					
General Fund	65,392	52,082	66,935	55,961	32,785
HRA	396	1,603	2,848	0	0
TOTAL	**65,788**	**53,685**	**69,783**	**55,961**	**32,785**
In year Capital Financing Requirement (Including Long term Liabilities)					
General Fund	15,868	(2,627)	13,799	(11,374)	(720)
Capital Financing Requirement as at 31 March (Including Long Term Liabilities)					
General Fund	543,232	540,605	554,403	543,029	542,309
Borrowing requirement	(4)	0	28,500	21,000	30,000
Ratio of financing costs to net revenue stream					
General Fund	17.67%	18.05%	16.99%	19.07%	19.38%
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	45.47	(24.09)	(23.66)	(14.97)	17.95

TABLE 2: Treasury management indicators	2015/16 actual £000	2016/17 probable out-turn £000	2017/18 estimate £000	2018/19 estimate £000	2019/20 estimate £000
Operational Boundary for external debt -					
borrowing		290,000	310,000	310,000	315,000
other long term liabilities		260,000	250,000	245,000	235,000
TOTAL		**550,000**	**560,000**	**555,000**	**550,000**
Authorised Limit for external debt -					
borrowing		300,000	330,000	330,000	335,000
other long term liabilities		265,000	255,000	250,000	240,000
TOTAL		**565,000**	**585,000**	**580,000**	**575,000**
Actual external debt	421,122				
Upper Limit on Fixed Interest Rate Exposure		100%	100%	100%	100%
Upper Limit on Variable Interest Rate Exposure		40%	40%	40%	40%
Upper limit for total principal sums invested for over 364 days		50,000	50,000	50,000	50,000

TABLE 3: Maturity structure of new fixed rate borrowing during 2017/18	Upper Limit	Lower Limit
under 12 months	40%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	20%	0%
10 years and above	80%	40%