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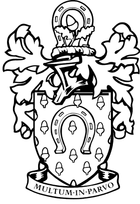

Rutland County Council

Catmose, Oakham, Rutland, LE15 6HP.
Telephone 01572 722577 Facsimile 01572 758307 DX28340 Oakham

Meeting:	**RESOURCES SCRUTINY PANEL**
Date and Time:	**Thursday, 11 February 2016 at 7.00 pm**
Venue:	**COUNCIL CHAMBER, CATMOSE, OAKHAM, RUTLAND, LE15 6HP**
Clerk to the Panel:	**Jane Narey 01572 758311** **email: corporatesupport@rutland.gov.uk**

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Helen Briggs
Chief Executive

A G E N D A

APOLOGIES

1) RECORD OF MEETING

To confirm the record of the meeting of the Resources Scrutiny Panel held on 12 November 2015 and 13 January 2016 (previously circulated).

2) DECLARATIONS OF INTEREST

In accordance with the Regulations, Members are invited to declare any disclosable interests under the Code of Conduct and the nature if those interests in respect of items on this Agenda and/or indicate if Section 106 of the Local Government Finance Act 1992 applies to them.

3) PETITIONS, DEPUTATIONS AND QUESTIONS

To receive any petitions, deputations and questions received from Members of the Public in accordance with the provisions of Procedure Rule 217.

The total time allowed for this item shall be 30 minutes. Petitions, declarations and questions shall be dealt with in the order in which they are received. Questions may also be submitted at short notice by giving a written copy to the Committee Administrator 15 minutes before the start of the meeting.

The total time allowed for questions at short notice is 15 minutes out of the total time of 30 minutes. Any petitions, deputations and questions that have been submitted with prior formal notice will take precedence over questions submitted at short notice. Any questions that are not considered within the time limit shall receive a written response after the meeting and be the subject of a report to the next meeting.

4) QUESTIONS WITH NOTICE FROM MEMBERS

To consider any questions with notice from Members received in accordance with the provisions of Procedure Rules No 219 and 219A.

5) NOTICES OF MOTION FROM MEMBERS

To consider any Notices of Motion from Members submitted in accordance with the provisions of Procedure Rule No 220.

6) CONSIDERATIONS OF ANY MATTER REFERRED TO THE PANEL FOR A DECISION IN RELATION TO CALL IN OF A DECISION

To consider any matter referred to the Panel for a decision in relation to call in of a decision in accordance with Procedure Rule 206.

7) TREASURY MANAGEMENT STRATEGY 2016-17

To receive Report No.7/2016 from the Director for Resources.

- The above report was presented to Cabinet on 12 January 2016, where Cabinet Approved the Recommendations to Council.
- Scrutiny has requested this report so that it can review and comment on proposals before the Council Meeting on 22 February 2016.

(Pages 5 - 50)

8) QUARTER 3 PERFORMANCE MANAGEMENT REPORT

To receive Report No. 37/2016 from the Chief Executive.
(Report to Follow)

9) QUARTER 3 FINANCE MANAGEMENT REPORT

To receive Report No. 27/2016 from the Director for Resources.
(Report to follow)

10) UPDATE ON AGRESSO

To receive Report No. /2016 from the Director for Resources.
(Report to follow)

11) REVIEW OF FORWARD PLAN

To consider Scrutiny issues to review
Copies of the Forward Plan will be available at the meeting

12) ANY URGENT BUSINESS

To receive any items of urgent business which have been previously notified to the person presiding.

13) DATE AND PREVIEW OF NEXT MEETING

21 April 2016

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TO: ELECTED MEMBERS OF THE RESOURCES SCRUTINY PANEL

Mr A Walters (Chairman)

Mr O Bird
Mr K Bool
Mr B Callaghan
Mr W Cross
Mr O Hemsley
Mr J Lammie
Mrs D MacDuff
Mr A Stewart
Miss G Waller

OTHER MEMBERS FOR INFORMATION

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Report No: 07/2016
PUBLIC REPORT

CABINET

12 January 2016

TREASURY MANAGEMENT STRATEGY 2016-17

REPORT OF THE DIRECTOR FOR RESOURCES

Strategic Aim:	*Delivering Council Services within the Medium Term Financial Plan (MTFP)*	
Key Decision: Yes	Forward Plan Reference: FP/021015/04	
If not on Forward Plan	Chief Executive Approved Scrutiny Chair Approved	N/A N/A
Reason for Urgency:	N/A	
Exempt Information	No	
Cabinet Member(s) Responsible:	Mr T C King, Deputy Leader and Portfolio Holder for Places (Development and Economy) and Resources	
Contact Officer(s):	Debbie Mogg, Director for Resources	Tel: 01572 758358 dmogg@rutland.gov.uk
	Saverio Della Rocca, Assistant Director - Finance	Tel: 01572 758159 sdrocca@rutland.gov.uk
Ward Councillors	N/A	

DECISION RECOMMENDATIONS

That Cabinet recommends to Council to approve the Treasury Management Strategy, including:

i) The Investment Strategy 2016/17 including (Appendix A – Section 2)

ii) The Borrowing Strategy (Appendix A – Section 3), with particular reference to:

(1) The Minimum Revenue Provision (MRP) Statement (Appendix A – Paragraph 3.8.1 – 3.8.8)

(2) The Capital Expenditure Prudential Indicators

- Operational Boundary (Appendix A, paragraph 3.9.10)
- Authorised Limit (Appendix A, paragraph 3.9.9)
- The Capital Financing Requirement (Appendix A, paragraph 3.5.3)

- The Ratio of Financing Costs to Net Revenue Stream (Appendix A, paragraph 3.9.14)
- Incremental Impact on Council Tax (appendix 1, paragraph 3.9.17)

1 PURPOSE OF THE REPORT

1.1 This report sets out the expected treasury operations for 2016/17 to 2018/19, linked to the Council's Budget, Medium Term Financial Plan and Capital Plans. It is inextricably linked to delivering the Council's aims and objectives. It contains four key legislative requirements:

- The Treasury Management Strategy Statement which sets out how the Council's treasury service supports capital decisions, day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit required by S3 of the Local Government Act 2003 and is in accordance with the CIPFA (The Chartered Institute of Public Finance & Accountancy) Codes of Practice. Any changes to the strategy during the year will be subject to the approval of members.
- The reporting of the prudential indicators for capital, external debt and the treasury management prudential indicators as required by the CIPFA Treasury Management Code of Practice.
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments updated in 2010.
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year as required by Local Authorities (Capital Finance and Accounting) Regulations 2008.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 The Council's treasury strategy in Appendix A has been updated and revised from the previous year to make it more accessible to readers whilst still fulfilling its core statutory objectives. It includes new or reworked sections including:

- What are our investment objectives? (Paragraph 2.2)
- What types of investments do we make and who with? What rules do we work to? (Paragraph 2.3)
- What type of returns do we achieve on Investments? (Paragraph 2.5)
- Why do we borrow? (Paragraph 3.1)
- What are the Council's borrowing objectives? (Paragraph 3.2)

- What is the Council's borrowing need (the Capital Financing Requirement)? (Paragraph 3.5)
- What is the current level of debt and how might it change? (Paragraph 3.6)
- When is debt due and can/will we repay it early? (Paragraph 3.7)
- What is the cost of borrowing? How is this shown in the Revenue Account? (Paragraph 3.8)
- What are the limits to borrowing activity? (Paragraph 3.9)

2.2 There are a number of changes proposed from last year which are detailed below.

2.3 **Extension of unspecified investments to include Property Funds** - In order to maximise returns on the Council's investment, officers consider new types of investment. The Council is aware of various property funds such as the CCLA Local Authority Property Fund. These funds can achieve returns of 4-6% but are not without risk. Officers would like to consider the use of Property Funds in future. A report will be presented to Cabinet before any investments will be considered. Appendix C includes some background on Property Funds.

2.4 **Changing counterparties list** - Over the last few years the number of counterparties where investments can be made have reduced significantly. In order that returns can be maximised with secure organisations, it is requested that the middle limit category for UK banks is increased to £5 million for a maximum time limit of 364 days per investment (Appendix A Paragraph 2.3.5). This is an increase from £2m in previous years. In addition to increasing the maximum limit the strategy also proposes that the minimum rating for Standard and Poors (credit rating agency) be reduced from A-1 to A-2 (Appendix B para 1.10 describes the ratings system). The additional risk is not considered to be significant. Other agencies ratings have not been amended from the 2015/16 strategy.

2.5 **Making Voluntary Revenue Provision**s - The Council can choose to make an additional Voluntary Revenue Provision (VRP). This is where the Council applies additional resources to reduce the future MRP liability by applying a voluntary contribution now. For example, if the Council received a capital receipt of £1m, it could apply this as a VRP saving the Council c£40k pa. However, it would then not be able to use the capital receipt to fund capital expenditure. The existing strategy is silent on whether the Council will make VRP. It is proposed that the Council makes no VRP in the short term.

3 CONSULTATION

3.1 No formal consultation is required. Advice has been sought from our treasury advisors, Capita Asset Services, in developing this strategy.

4 ALTERNATIVE OPTIONS

4.1 **Option 1.** To approve the 2016/17 Treasury Management Strategy Statement to enable diversification of investments, including use of property funds, and placing higher amounts with highly credit-rated banks and institutions. This is the recommended option.

4.2 **Option 2.** Not to approve the 2016/17 Treasury Management Strategy. This is not recommended as it means that the Council will be in breach of its statutory obligations.

4.3 **Option 3.** To approve the Strategy with revisions to any one of the following elements:

- propose alternative investment criteria, including revisiting the Council's appetite for risk, the kinds of investment vehicles available – this is not recommended as to diversify extensively into other complex other products would require greater financial resource and result in greater risk with no absolute guarantee of greater returns.

- reconsidering its existing investment objectives of security first, liquidity second and then maximisation of returns – in light of the Council's own experience with Heritable bank and the current financial climate, this is not recommended.

- adjust the external borrowing limit (currently set at £28m) – given the potential for the Council to invest in capital to save revenue costs, this is not recommended. Any future decision to borrow would require a Council decision in any event.

- retaining the counterparty list with existing criteria – this would limit the potential for investments so is not recommended at this time.

- making voluntary MRP contributions – this could be undertaken but would restrict the resources available to fund the capital programme and undertake invest to save capital projects.

- repay debt now – this is not advisable based on the cost benefit analysis undertaken, an example of which is given in Appendix A, para 3.7.

5 FINANCIAL IMPLICATIONS

5.1 The Medium Term Financial Plan includes three amounts in relation to this strategy interest payable on loans (this is fixed), interest receivable on investments (changes in the Treasury Management Strategy may result in increased returns) and MRP (which is based on the current capital plans). There have been no changes to amounts in the MTFP from any of the decisions arising from this strategy. PWLB loans will be monitored and if it is advantageous for the Council then repayment or restructuring will be considered.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

6.2 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2012/13);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

6.3 The Council's strategy explains how it complies with this legal framework.

7 EQUALITY IMPACT ASSESSMENT

7.1 An Equality Impact Assessment (EqIA) has not been completed because the report does not represent the introduction of a new policy or service or a change / review to an existing policy or service.

8 COMMUNITY SAFETY IMPLICATIONS

8.1 There are no community safety implications.

9 HEALTH AND WELLBEING IMPLICATIONS

9.1 There are no health and wellbeing implications.

10 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

10.1 The Council is required to approve a Treasury Management Strategy.

10.2 The Investment interest rates remain constantly low in the short term and in order to maximise the returns available, various changes have been recommended.

10.3 The Council's current planning assumes no new borrowing or repayment of existing borrowing.

11 BACKGROUND PAPERS

Capital Programme 2016/17 to 2018/19
Budget Working Papers 2016/17

12 APPENDICES

Appendix A	Treasury Management Strategy
Appendix B	Investment Counterparty Selection Criteria
Appendix C	Property Fund Information
Appendix D	PWLB Debt Analysis
Appendix E	Economic Background Review (Provided by Capita)
Appendix F	Glossary of Treasury Management Terms

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577. (18pt)

Appendix A. Treasury Management Strategy 2016-17

1 OVERVIEW OF STRATEGY

1.1 **What is Treasury Management?**

1.1.1 Treasury management is the term used to describe the way a Council manages the cash it needs to meet both its day-to-day running costs and borrowing for capital expenditure. The treasury management function for a council will make the arrangements to borrow and invest money either over the short or the longer term in order to ensure that it has money available when it needs it.

1.1.2 CIPFA defines treasury management as"…the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.2 **What framework or rules do we need to follow?**

1.2.1 In making arrangements for treasury management, a council is required to follow CIPFA's Treasury Management Code. The Code aims to help ensure that councils manage the significant risks associated with the function while also ensuring the council receives value for money.

1.2.2 It is very important that Councils understand the risks that are associated with treasury management, as highlighted by the collapse of the Icelandic banks a number of years ago, which put at risk substantial funds that had been invested. The key treasury management risks are:

- Credit risk – the risk that a bank or other institution will not be able to pay back the money invested in them.
- Interest rate risk – the risk that a council's budget will be adversely affected by unforeseen changes in interest rates.
- Liquidity risk – the risk that a council will have funds tied up in long-term investments when it needs to use that money.
- Refinancing risk – the risk that when loans and investments reach the end of their term, a council will not be able to re-borrow or reinvest the money on acceptable terms or interest rates.
- Legal and regulatory risk – the risk that unforeseen legal and regulatory changes have an adverse impact on a council.

1.2.3 A council is required to approve a treasury management strategy, which sets out how it will borrow and invest money and manage those risks.

1.2.4 Before 2004, there was a very complicated framework of rules and regulations that controlled how councils were allowed to invest in assets and

the amount that they could spend. April 2004 saw the introduction of CIPFA's The Prudential Code for Capital Finance in Local Authorities. The Prudential Code provides a framework within which councils can judge for themselves whether capital investment is affordable, prudent and sustainable in the year in question and in future years. The Prudential Code is given statutory backing, which means that councils are required to 'have regard' to it, by the Local Government Act 2003 (in England and Wales).

1.2.5 Councils need to prove that they are complying with the Prudential Code and this is done through a series of prudential indicators that are set locally and approved at the same time as the council sets its budget for the following year.

1.3 **What are the reporting requirements?**

1.3.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

1.3.2 **Treasury Management Strategy** - The first, and most important report covers:

- borrowing strategy, including capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time); and
- the treasury management strategy (strategy guidelines for choosing and placing investments, the principles to be used to determine the maximum periods for which funds can be committed, what specified and non specified investments will be considered how the investments and borrowings are to be organised) including treasury indicators.

1.3.3 **Mid Year Treasury Management Report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.3.4 **Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2 INVESTMENT STRATEGY

2.1 Why do we invest?

2.1.1 The Council receives income from council tax, business rates and central government. The majority of council tax and business rates payments are received between April and January, with expenditure being fairly static throughout the year.

2.1.2 At any point of time in the year, the Council can have between £15m - £27m available to invest. The estimated level of investments at year end based on the current cash flow calculations and for the next few years is shown below. The total investments figure at Quarter 2 shows the predicted level of investments held at the mid-point during the financial years shown.

	2015/16 Actual £000	2015/16 Forecast £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Total Investments at Quarter 2	26,165		21.543	20.213	18.808
Total Investments at 31 March		18.288	17.283	15.856	14.373

2.1.3 Like us as individuals, the Council will invest surplus money in various ways to get a return on balances thus generating extra income. As per our overall objectives, we ensure that these surplus balances are managed in a way to maximise the income potential whilst having regard to risk.

2.2 What are our investment objectives?

2.2.1 The Council's investment strategy primary objectives, in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time – losing any funds like in the case of Icelandic banks would be very significant in this financial climate;
- adequate liquidity – the Council does not want to run short of money so it cannot pay its bills or does not have money available to make investments in capital expenditure;
- maximising the investment return – this is clearly important but the Council does not want to maximise returns at the expense of the first two objectives.

2.2.2 These objectives filter through this updated strategy.

2.3 **What types of investments do we make and who with? What rules do we work to?**

2.3.1 In order to safeguard the Council's funds, the Council has various rules in place which determine what type of investment is made and who with. As noted above, the primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

2.3.2 The Council's investment decisions adhere to the following rules:

- **The Council will only invest in agreed specified and non specified investments** (the list is given in Appendix B, paras 1.8 and 1.11) – any investment option not on the list cannot be pursued. For instance local authorities cannot invest directly on the stock exchange;

- In investing in specified and non –specified investments, **the Council will only invest with high quality counterparties** e.g. whilst the Council can place investments with banks (these are specified investments), it will only do so if the bank meets a certain creditworthiness as defined by the three main credit agencies, Fitch, Moody's and Standard and Poors (Appendix B sets out the criteria for credit worthiness). The Council will also make use of other operational market information where relevant before placing investments.

- **The Council sets time periods and limits** on various types of investment (Appendix B gives detail). If the Council did not do this then officers could theoretically make a sizeable investment for a long period of time leaving the Council short of working capital.

- **The Council sets a maximum level of risk based on the historic risk of default.** The risk rating is represented by a % likelihood of investments being defaulted on over a 12 month period. The ratings are produced by Capita. The guideline amount is set at 0.100% across the whole portfolio. This benchmark is a simple target (not a limit) to maximum risk, so may be exceeded from time to time, depending on movements in interest rates and counterparty criteria. Any time the Council exceeds the benchmarks, this will be reported, with supporting reasons in the Mid-Year or Annual Report.

2.3.3 There are two changes Officers wish to propose to the existing strategy:

2.3.4 **Making other types of investment** - In order to maximise returns, Officers wish to consider new types of investment. The Council is aware of various property funds such as the CCLA Property Fund where returns of up to 4% can be achieved. The existing strategy prohibits the use of Property Funds and it is requested that this is changed to allow Officers to consider it subject to formal Cabinet approval. More details in respect of Property Funds have been included within Appendix C.

2.3.5 **Changing counterparties list** - Over the last few years the number of counterparties where investments can be made have reduced significantly. In

order that returns can be maximised with secure organisations, it is proposed that the middle limit category for UK banks be increased to £5 million for a maximum time limit of 364 days per investment. In addition to increasing the limit, this strategy is proposing to allow investments in counterparties rated as A-2 by Standard and Poors rating agency. A-2 rating is classified as being more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. All other agencies ratings have stayed the same as previous years.

2.4 **How long do we invest for?**

2.4.1 The Council needs to manage its liquidity risk – it does not want to hold too much money but equally it does not want to run short of money. The CIPFA Treasury Management Code of Practice defines liquidity as "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives".

2.4.2 Notwithstanding the investment rules above which mean there are agreed time periods for certain investments, the Council seeks to maintain:

- Bank overdraft - £0m
- Liquid short term deposits of at least £1m available with a week's notice.

2.4.3 All investments will be made ensuring that at least £1m is available within a weeks' notice.

2.5 **What type of returns do we achieve?**

2.5.1 This will depend on economic conditions and type of investments we make. In 2015/16 the Council forecasts to make interest of £185k on investments of c£25m giving an overall return of c0.7%. The in-year performance is included within the Quarterly Finance report. The latest report is the 2015/16 Q2 report (206/2015).

2.5.2 Over the medium term, the Council expects to make returns as shown in the table below. The investment interest income forecast is:

2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
225*	213	299	338

* This figure includes a dividend of £40k from the administrators of the Heritable Bank, which went into liquidation in 2008.

2.5.3 These returns assume interest rates follow the trends as set out by Capita. Capita have provided their view of future interest rate and other market movements upon which our assumptions are based (see Appendix E). Bank Base Interest Rate Forecasts 2016-19 (provided by Capita) are shown below.

Dec-15	Jun-16	Dec-16	Jun-17	Sep-17	Mar-18	Sep-18
0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%

2.6 **How is performance measured?**

2.6.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. An example of a performance indicator often used for the investment treasury function is internal returns above the 3 month LIBOR rate (the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another). The Council will again monitor performance against the LIBOR rate in 2016/17.

	2014/15	2015/16 (Q2)
RCC Returns	0.54	0.71
LIBOR	0.57	0.58

2.7 **Who makes investment decisions?**

2.7.1 The Assistant Director Finance (S151 Officer) is responsible for the overall management of the authority's investment, borrowing and other capital financing arrangements, but delegates day to day treasury management activity to other officers. The Assistant Director Finance (S151 Officer) and the delegated officers maintain records of all borrowings and lending of money by the Council.

2.7.2 Officers prepare and monitor cash flows and borrowing during the year and will invest or recall funds in order to maximise returns with secure counterparties and to ensure the Council’s bank accounts are not overdrawn.

2.7.3 Officers attend regular regional awareness seminars, provided by Capita and attend appropriate technical training courses that are provided by CIPFA.

2.7.4 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2.7.5 The Council currently uses Capita Asset Services as its external treasury management advisors, which provides a range of services which includes generic investment advice on interest rates, timing and investment instruments; and credit ratings/market information service comprising the three main credit rating agencies.

3 BORROWING STRATEGY

3.1 Why do we borrow?

3.1.1 Council's borrow to fund capital expenditure or refinance/reschedule existing borrowing e.g. replace one loan with one at a lower rate. There are 7 types of borrowing that may be considered under this strategy.

a) Borrowing to fund a scheme that will reduce the Council's ongoing revenue costs in future years, or avoid increased costs in future years.

b) Borrowing to fund the purchase of essential vehicles plant and equipment in order to maintain Council functions.

c) Borrowing in advance of anticipated receipts to enable the Council to invest in capital expenditure before it has the income to fund the investment.

d) Borrowing to enable the Council to fund a larger capital programme than it is able to do using Government grant and self-financed borrowing.

e) Borrowing to fund an overspend on a large-scale capital scheme that would otherwise have to be funded from a revenue contribution to capital outlay, with major impact on the council's revenue budget.

f) Borrowing to fund a capital development which the Council believes is so essential to the transformation of Rutland, but one that can clearly be seen to cover the cost of debt financing for the project over its expected life.

3.1.2 Effectively, the Council works out its capital expenditure plans and then calculates how much it needs to borrow having considered whether it should fund capital expenditure using other options.

3.2 What are the Council's borrowing objectives?

3.2.1 The Council's objectives are to:

- fund the capital programme in line with 3.1;
- avoid external borrowing as far as possible i.e. use other sources of funding first where possible;
- repay borrowing early if this is financially prudent and viable;
- reduce its borrowing charge if this represents value for money;
- ensure any new borrowing is affordable.
- work within prudential indicator limits.

3.2.2 Capital expenditure can actually be funded in different ways, borrowing is just one option. Each way is different and can have a different impact. The table

below explains the options including borrowing.

Source	Description	Advantages	Disadvantages
1. Revenue	Councils are free to make a contribution from their revenue budget to fund capital schemes - this is known as direct revenue financing. There are no limits on this. Funding from revenue means the Council gets a one-off revenue "hit" to the value of the contribution/asset.	• By funding capital in one go or from revenue – you don't need to externally borrow so avoid paying high interest costs or a borrowing charge in the Revenue account	• You cannot do this if you don't have revenue balances – a lot of Council's do not do it these days for this reason • Once the revenue balances are gone they cannot be used again and it can be hard to build them up • Council's investment income goes down because by reducing balances a Council has less invested and so earns less interest
2. Capital receipts	This is the money received from the disposal of capital assets – the rules say that Councils can only use capital receipts for repayment of debt or to finance new capital expenditure	• By funding capital via receipts – you do not need to externally borrow so avoid paying high interest costs or a borrowing charge in the Revenue account	• Once the capital receipts are gone they cannot be used again • Council's investment income goes down because by spending receipts a Council has less invested and so earns less interest
3. Grants and contributions	These can come from central government or other organisations – the Council gets a few capital grants. They cannot be used for anything else but funding capital.	• By funding capital via grants – you do not need to externally borrow so avoid paying high interest costs or a borrowing charge in the Revenue account	• Once the grants are gone they cannot be used again • Council's investment income goes down because by spending grant income a Council has less invested and so earns less interest

Source	Description	Advantages	Disadvantages
4. External borrowing	Councils can borrow money to pay for capital assets – most Councils borrow through the Public Works Loan Board (PWLB), a bank or other lender	• Councils can progress schemes rather than wait until funding is available • Council's do not deplete any of their existing balances by borrowing	• It is not always an option – Council's set a borrowing limit • Generally more expensive than using grants etc as the loan interest rate is usually higher than what the Council can earn on investments • There is a borrowing cost charged to the Revenue account as well as interest costs
5. Section 106	Use of S106 funds from planning developments can be used for capital or revenue. As the purpose of S106 is to invest in infrastructure to support development then it tends to be capital	• By funding capital via S106 – you do not need to externally borrow so avoid paying high interest costs or a borrowing charge in the accounts	• Once S106 is gone it cannot be used again • Council's investment income goes down because by spending S106 income a Council has less invested • There can be conditions attached to S106 funding restricting its use
6. Using cash balances (self-financing)	Councils can use their internal resources, cash balances, to meet capital expenditure Funding from cash balances means the Council does not get a one-off revenue "hit" but the cost is spread over time.	• By funding capital via internal resources – you do not need to externally borrow so avoid paying high interest costs • Even though a Council might spend £1m today, the Revenue 'hit' is spread over time e.g. £20k a year over 50 years	• Generally more expensive than using grants/revenue or capital receipts because there is a borrowing cost charged to the Revenue account (but no interest costs) • Council's investment income goes down because by using cash balances a Council has less invested and so earns less interest

3.2.3 Typically, the most expensive option is externally borrowing so Councils will do what they can to avoid that. This is a key objective for this Council. As noted above, a Council cannot use capital grants or capital receipts for anything else so it makes no sense to externally borrow if you have these resources available and do not have future plans to use them.

3.3 **Can we borrow in advance of need?**

3.3.1 The Council has some flexibility to borrow funds in advance of need for use in future years. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 50% of any expected increase in borrowing need (CFR – see para 3.5) over the three year planning period;
- The Section 151 officer would not look to borrow more than 18 months in advance of need; and
- Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

3.3.2 To date the Council has never externally borrowed in advance of need and there are no plans to do so.

3.4 **What are our Capital Expenditure plans and how do we plan to fund them?**

3.4.1 The Council's capital expenditure plans are summarised below.

	2015/16 Original £000	2015/16 Forecast Q2 £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Capital Expenditure	**9,610**	**8,248**	**11,337**	**3,719**	**2,198**
Financed by:					
Capital Receipts	0	0	0	0	0
Capital Grants	8,192	6,635	6,525	3,661	2,140
Section 106 / Oakham North	251	838	3,428	58	58
Revenue	880	520	180	0	0
Net financing need	**287**	**255**	**1,204**	**0**	**0**

3.4.2 This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc or revenue resources). As the table demonstrates the capital programme in future years is largely grant funded expenditure including Highways (c£2m), Education grants (c£1.5m – reducing to £0m) and Disabled Facility Grants (£0.1m).

3.4.3 If these resources are insufficient to fund the capital programme, then any residual capital expenditure will add to the Council's borrowing need. This is the case for two projects in 2016/17. The projects requiring financing in 2016/17 are:

- Digital Rutland (£1.104m); and
- Oakham Enterprise Park – Solar (subject to cabinet approval) (£100k).

3.4.4 Looking beyond 2016/17, most planned capital expenditure is grant supported by the Government or other resources e.g. S106. The key risks to the plans are that the level of Government support has been estimated and may therefore be subject to change. Similarly some estimates for other sources of funding, such as S106 may also be subject to change over this timescale.

3.4.5 Where the Council adds to its borrowing need, capital expenditure is described as **unsupported**. This unsupported capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax); and
- Practicality (e.g. the achievability of the forward plan).

3.4.6 This is because unsupported capital expenditure will need to be paid for from the Council's own resources. In the case of Digital Rutland a decision was made previously to support this project when the above factors were considered. In terms of the investment in solar at OEP, the business case is set out in Cabinet Report 19/2016.

3.5 What is the Council's borrowing need (the Capital Financing Requirement)?

3.5.1 Any unsupported borrowing in a given year is added to the Council's Capital Financing Requirement. For 2016/17 this would be the £1.2m for Digital Rutland and OEP.

3.5.2 The Council's Capital Financing Requirement (CFR) is simply the total capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Note 20 in the Statement of Accounts shows the closing CFR of £23,936 for 2014/15. The CFR is reduced every year as the Council incurs a 'borrowing charge' in the Revenue Account which reduces it (this is called MRP which is explained in 3.8).

3.5.3 Approval is sought for the CFR projections below.

	2015/16 Forecast Q2 £000	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**
CFR – 1 April	**23,936**	**22,730**	**23,037**	**22,164**
Movement in Year - CFR	(1,206)	307	(873)	(849)
CFR – 31 March	**22,730**	**23,037**	**22,164**	**21,315**
Movement in CFR Represented by				
Net financing need for the year (from table at para 3.4.1)	255	1,204	0	0
MRP (3.6.2 – 3.6.6)	(864)	(897)	(873)	(849)
VRP	(597)	-	-	-
Movement in CFR	**(1,206)**	**307**	**(873)**	**(849)**

3.5.4 The Council made an additional VRP (this is explained in 3.8.7) during 2015/16 to 'repay' the initial funding of the Adult Soccer scheme which was temporarily funded from internal borrowing in lieu of the S106 receipt for the Oakham North Development.

3.6 What is the current level of debt and how might it change?

3.6.1 The Council currently has loans outstanding of £22,016,000 of which £21,386,000 are long term loans with the Public Works Loans Board (PWLB). Details of the outstanding loans can be found at Appendix D. PWLB is managed as part of the UK Debt Management Office, which is a HM Treasury Executive Agency. The remaining £630,000 is a Local Enterprise Partnership interest free loan which matures in 2023, and was used to part finance the development of OEP.

3.6.2 Included within the £21.386m is £8.232m of debt that was inherited from Leicestershire in the Local Government Re-organisation in 1997. The last time the Council actually borrowed from the PWLB was in 2008 to contribute towards funding the Oakham bypass, the value of this loan was £4m.

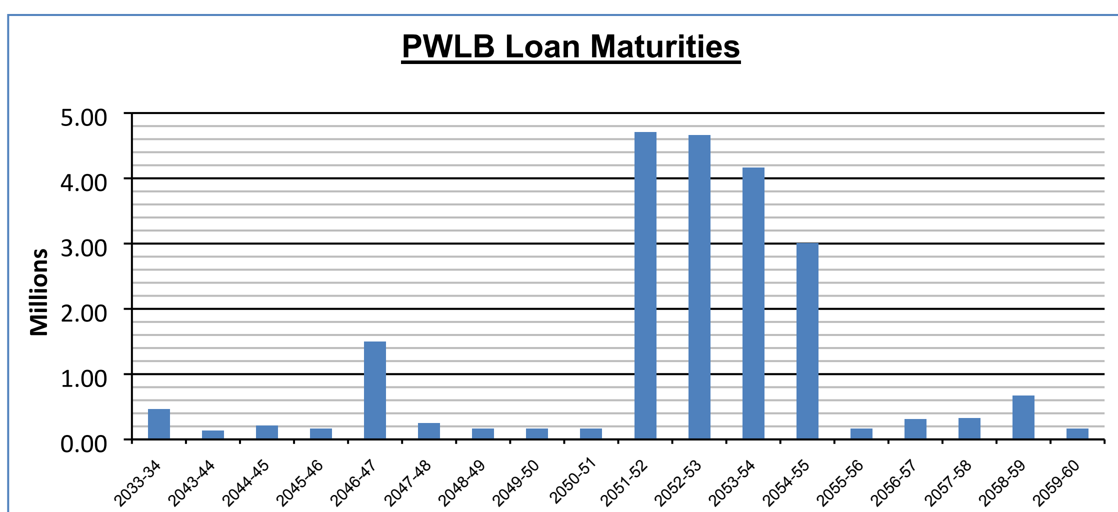
3.6.3 All PWLB loans have been borrowed on a maturity basis. Interest payments will be made every six months on equal instalments throughout the term of the loan, with the principal being re-paid on the maturity date.

3.6.4 The external debt projections (2016/17 to 2018/19) are shown below. The Council is not expecting external debt to increase in line with its overall strategy but would consider increasing debt for projects that could generate substantial revenue savings.

	2015/16 Forecast £000	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**
External Debt				
Debt at 1 April	22,016	22,016	22,016	22,016

3.7 When is debt due and can/will we repay it early?

3.7.1 The table below shows that debt is not due to be repaid for some time. Appendix D also shows the position of the PWLB loans as at 30 November 2015. The premium column reflects the additional payment which would be have to be made if any of the loans were repaid prematurely or the loans restructured.



3.7.2 It is possible to prematurely repay the loans but dependent on the interest rates at the time it may not be beneficial. If the PWLB agrees to accept a premature repayment, it will calculate a repayment sum, which is the total amount the authority must pay to discharge its liabilities to the PWLB in respect of that loan. This sum may include a discount or premium on the outstanding principal according to whether the discount rate is higher or lower than the loan rate.

3.7.3 The repayment sum will be higher than the principal amount borrowed if interest rates are presently lower than the loan rate. It will be lower than the principal amount if the current interest rates are higher than the loan rate. In

effect, the amount of principal is being adjusted to reflect the detriment or benefit to the PWLB of foregoing the remaining instalments of interest, and receiving funds which have to be re-invested at current interest rates. Forecast PWLB Interest Rates (Provided by Capita) are shown below.

	5 Year %	10 Year %	25 Year %	50 Year %
Dec-15	2.30	2.90	3.60	3.50
Mar-16	2.40	3.00	3.70	3.60
Jun-16	2.60	3.10	3.80	3.70
Sep-16	2.70	3.20	3.90	3.80
Dec-16	2.80	3.30	4.00	3.90
Mar-17	2.80	3.40	4.10	4.00
Jun-17	2.90	3.50	4.10	4.00
Sep-17	3.00	3.60	4.20	4.10
Dec-17	3.20	3.70	4.30	4.20
Mar-18	3.30	3.80	4.30	4.20
Jun-18	3.40	3.90	4.40	4.30
Sep-18	3.50	4.00	4.40	4.30
Dec-18	3.50	4.10	4.40	4.30
Mar-19	3.60	4.10	4.50	4.40

3.7.4 The Council takes advice from its treasury advisors as to whether it would be financially beneficial to pay off debt. Here is an example calculation that is undertaken:

- Loan value to repay £2m
- Interest rate 4.4%
- Years left 36
- Early redemption premium £1.014m
- Average interest rates over 36 years 2.5% (estimated)

3.7.5 If the Council pays off the loan, it incurs a premium charge of £1.014m and "loses" 2.5% pa interest on £2m (Interest on investments will also decrease as the funds will reduce following the repayment) of £50k pa so over 36 years would lose in total £1.8m. Conversely, by paying off the loan the Council saves interest of £88k pa (£2m x 4.4% pa) over 36 years = £3.17m.

3.7.6 In this example, the decision is marginal as the total cost would be £2.9m with the interest savings being £3.17m. If the Council thought average

interest rates were going to be above 2.5% it therefore might NOT pay off the loan as if interest rates were 3.5% this would result in the total cost being £3.5m (£2.5m lost interest plus £1m premium). If the Council thought interest rates would be on average < 2.5% over 36 years it might PAY off the loan.

3.7.7 Faced with decisions like this, Officers, taking advice from Capita, have not recommended that loans are repaid. Whilst interest rates are currently low, the Council does not have enough certainty to predict what the rates might be over the long term. For example in the 2000s the average interest rate was c4.3%. As most loans are not due until over 20 years' time, the Council would take a risk in paying off loans now. In addition, the value for money calculation is only one consideration. If the Council can afford debt repayments then it could choose not to use balances to repay debt, instead keeping balances available to invest in new projects.

3.7.8 On this basis, the Council does not envisage repaying any loans in the near future. The situation may change by 2018/19 as interest rates are expected to rise and the position will be reviewed on a regular basis.

3.8 What is the cost of borrowing? How is this shown in the Revenue Account?

3.8.1 When the Council borrows there are two types of costs:

- Interest (Incurred annually on the amount borrowed at a set rate) as covered by 3.6.3. Interest payable in 16/17 is just over £1m; and
- Minimum Revenue Provision.

3.8.2 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

3.8.3 When the Council meets capital expenditure through prudential borrowing (options 4 and 6 in table 3.2.2), it incurs a 'borrowing charge' in its Revenue Account. The 'borrowing charge' spreads the cost over the time period of the useful life of the asset. The manner of spreading these costs is through an annual Minimum Revenue Provision. For example, if the Council self-finances borrowing of £5m for a new School (with an asset life of 50 years), it would incur a charge of £100k in its Revenue Account for a 50 year period.

3.8.4 There are four different ways of calculating MRP, however options 1 and 2 can only be used for expenditure incurred before 2008.

- Option 1 Regulatory Method - This relates to debt supported by Government through RSG system. Authorities are able to calculate MRP as though the regulations 28 and 29 of the 2003 regulations had not been revoked.

- Option 2 Capital Financing Method - This option is used in relation to supported debt and the MRP is equal to 4% of the General Fund Capital Financing requirement.

- Option 3 Asset Life (i) (Equal Instalment) Method and Asset Life (ii) (Annuity) Method - These options relate to new unsupported borrowing. It allows the use of a simple formula to calculate a series of equal amounts chargeable over the estimated life of the asset.

- Option 4 Depreciation Method - This option allows MRP to equal the provision required in accordance with the standard rules for depreciation accounting in respect of the asset.

3.8.5 The Council uses:

- Option 2 – for expenditure incurred Pre 01/04/2008.

- Option 3 – Equal instalment method on the Capital Finance Requirement for any investments post 01/04/2008

3.8.6 The combination of the two options results in an annual charge to the general fund of £864k during 2015/16.

3.8.7 In addition to the statutory amounts the Council can choose to make an additional Voluntary Revenue Provision (VRP). This is where the Council applies additional resources to reduce the future MRP liability by applying a voluntary contribution now. For example, if the Council received a capital receipt of £1m, it could apply this as a VRP against Option 2 saving the Council £40k pa. However, it would then not be able to use the capital receipt to fund capital expenditure.

3.8.8 It is recommended that the existing method of calculating MRP is continued and that no VRP is made for now.

3.9 What are the limits to borrowing activity?

3.9.1 The Council cannot simply borrow indefinitely. There are a number of prudential indicators to ensure the Council operates its activities within well-defined limits. The indicators focus on two key aspects:

- Setting limits to control borrowing; and

- Assessing the affordability of the capital investment plans.

3.9.2 In addition, we also set limits on interest rate exposure.

3.9.3 **Controlling borrowing prudential indicators**

3.9.4 The Council needs to ensure that its **gross debt does not, except in the short term, exceed the total of the CFR** in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This indicator is important as it effectively measures whether your actual external debt exceeds your need to borrow. If it does, then it could

suggest that Councils have been borrowing when they do not need to do so or for inappropriate purposes. If could also mean that the Council has made a reduction to its CFR by undertaking VRP. This is the case for the Council, with additional VRP's being made in 2013/14 for £1.414m and 2015/16 £0.597m (to repay the cost of the adult soccer scheme initially borrowed in lieu of the Hawkesmead S106 receipt.)

3.9.5 This indicator allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

	2015/16 Forecast Q2 £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Gross Debt	22,016	22,016	22,016	22,016
Capital Financing Requirement (CFR)	22,730	23,037	22,164	21,315
Under / (Over) borrowing	714	1,021	148	(701)

3.9.6 The Section 151 Officer reports that the Council complied with this prudential indicator in the current year, but the estimate for 2018/19 shows that an over borrowing may occur because of previous decisions to make a VRP as noted above.

3.9.7 A further key prudential indicator represents a control on the maximum level of borrowing. The Council is asked to approve the following **Authorised Limit**. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term

3.9.8 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 no control has yet been exercised.

3.9.9 The table below shows that Council are being asked to approve an authorised limit of £28m the same limit as 2015/16.

	2015/16 Forecast Q2 £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Borrowing	28,000	28,000	28,000	28,000
Other Long Term Liabilities	0	0	0	0
Total	28,000	28,000	28,000	28,000

3.9.10 An additional Indicator is the **Operational Boundary** – this is the maximum amount of money a council expects to borrow during the year. This is lower than the authorised limit and acts as a useful warning sign if it is breached during the year, which could mean that underlying spending may be higher or income lower than budgeted.

	2015/16 Forecast £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
External Debt				
Debt at 1 April	22,016	22,016	22,016	22,016
Expected change in debt	0	0	0	0
Debt at 31 March (1)	22,016	22,016	22,016	22,016
Operational boundary	23,000	26,000	26,000	26,000
The debt estimated at 31 March represents the Council's Operational Boundary				

3.9.11 The table above shows that Council are being asked to approve an operational boundary of £26m, an increase of £3m from 2015/16. This has been calculated by taking the existing debt level (£22m) and allowing head room for additional borrowing for invest to save projects although current plans do not include any additional borrowing over the life of the Medium Financial Plan.

3.9.12 **Affordability Prudential Indicators**

3.9.13 The previous section covered the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

3.9.14 One of the key affordability indicators is the **ratio of financing costs to net revenue stream**. This indicator helps a council identify if borrowing costs become too high as a proportion of its budget. This is important as borrowing costs always have to be paid and are very hard to cut if resources fall.

	£000	
Capital Financing Costs	1.931	
Interest Receivable	(0.213)	
	1.718	A
Revenue Stream		
Government Grants	6.017	
Retained Business Rates	4.251	
Council Tax	22.075	
	32.343	B
Ratio (A divided by B as a percentage)	5.31%	

	2015/16 Original Estimate £000	2015/16 Forecast Q2 £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Ratio	5.82%	5.08%	5.31%	5.01%	4.77%

3.9.15 The estimates of financing costs include current commitments and the proposals in this report. The table below shows how the Council's figures compare relative to neighbouring authorities.

	2015/16 Original Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Rutland	5.82%	5.24%	4.86%	4.64%
Peterborough City Council	7.60%	8.30%	8.50%	8.50%
Northamptonshire County Council	9.20%	9.70%	10.10%	10.00%
Leicestershire County Council	7.58%	8.39%	7.25%	7.20%
Nottingham City Council	13.92%	14.71%	14.92%	-

3.9.16 Another indicator of affordability is the ratio of **estimates of the incremental impact of capital investment decisions on Council Tax**. Because all councils' borrowing is secured against future income including the council tax, ultimately all borrowing would have to be collected from council tax payers if no other income was available. It is therefore important to

understand the impact of decisions on future council tax.

3.9.17 This ratio is calculated by adding the estimated additional MRP and interest costs for the forecast Capital Programme. This is divided by the Council Tax Base resulting in a Band D Council Tax charge for these additional costs. The figures below show the proportion of this against the total Band D Council Tax.

	Projection 2016/17	**Projection 2017/18**	**Projection 2018/19**
Council Tax - Band D	0.30%	0.22%	0.00%

3.9.18 **Limiting Interest Rate Exposure**

3.9.19 There are three further 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 an adverse movement in interest rates. However if these are set to be too restrictive they will reduce the opportunities officers have to reduce costs / improve performance. The indicators are:

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

The Council is asked to approve the limits:

	2016/17	**2017/18**	**2018/19**
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates	£25.000m	£25.000m	£25.000m
Limits on variable interest rates	£7.500m	£7.500m	£7.500m
Maturity structure of fixed interest rate borrowing 2016/17			
		Upper	**Lower**
Under 12 months		25%	0%

12 months to 2 years	25%	0%
2 years to 5 years	20%	0%
5 years to 10 years	20%	0%
10 years and above	100%	0%
Maximum principal sums invested > 364 days	25%	

3.10 **Who makes borrowing decisions?**

3.10.1 As with investments, the Assistant Director Finance (S151 Officer) is responsible for the overall management of the authority's investment, borrowing and other capital financing arrangements.

3.10.2 Any proposal to amend the capital programme (which includes the resources allocated to schemes and resources available but not allocated at the time the budget is approved) requires the formal approval of Cabinet unless the Scheme is above £1m and/or is to be funded from new resources e.g. new borrowing or s106 funds in which case Council will make the decision. Whilst Council or Cabinet will decide whether borrowing is required, it is for the Section 151 Officer to determine how this requirement is met either through self-financing or external borrowing.

3.10.3 As highlighted in 3.3, the Section 151 Officer may also borrow where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints.

Appendix B. Investment Counterparty Selection Criteria

1 INVESTMENT COUNTERPARTY SELECTION CRITERIA

1.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

1.2 The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered high quality the Council may use rather than defining what its investments are.

1.3 The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009.

1.4 Credit rating information is supplied by our treasury consultants daily on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to counterparty will be suspended from use, with all others being reviewed in light of market.

1.5 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is shown in the table overleaf.

Investment Counterparty	Description	Criteria
Banks	Financial institution licensed as a receiver of deposits. There are two types of banks: 1. Commercial/retail banks; and 2. Investment banks.	i. Are UK banks; and/or ii. Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA+. And have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated): i. Short Term - Fitch (or equivalent) rating of F1 ii. Long Term - Fitch (or equivalent) rating of A-
Part Nationalised Banks	A nationalised bank is owned by the state, usually because the state bought a private bank, or at least bought a controlling share in it. Any profits a nationalised bank makes go to the state. Losses are borne by the taxpayer.	These banks can be included if they continue to be part nationalised or they meet the criteria in Banks above.
Council Banker	As for banks above, but is the principal banker for the authority.	Criteria for banks above, however, if the bank falls below the criteria it will be able to hold funds to meet its statutory obligations.
Building Society	A financial organisation which pays interest on investments by its members and lends capital for the purchase or improvement of houses.	i. have the minimum credit ratings as detailed in paragraph Banks 1 above; ii. has assets in excess of £1bn.
Money Market Fund	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.	Deal with funds with Counterparties on the approved list. The Council limits the total investment to the amount on the approved counterparty list if below limits in 1.9
UK Government	Investing in the UK Government will normally take the form of 1. Gilts - fixed-interest loan securities issued by the UK government. 2. Debt Management Account Deposit Facility (DMADF) - designed to support local authorities' cash management. The key objective of the DMADF is to provide users with a flexible and secure facility to supplement their existing range of investment options while saving interest costs for central government.	There is no criteria, other than the limits set out in 1.9, due to the security of the investment.

Investment Counterparty	Description	Criteria
Local Authorities, Parish Councils etc	Other administrative bodies in local government	There is no criteria, other than the limits set out in 1.9, due to the security of the investment.
Property Funds (See Appendix C for further detail)	A type of security that invests in property (See Appendix C for further detail)	There are no criteria currently set, other than the limits set out in 1.9. Full criteria will be presented to Cabinet before any dealing is undertaken.

A limit of 80% will be applied to the use of Non-Specified investments (*this will partially be driven by the long term investment limits*).

1.6 **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition:

- no more than 10% (of the total investment portfolio) will be placed with any non-UK country at any time;
- limits in place above will apply to Group companies;
- Capita Asset Services limits will be monitored regularly for appropriateness.

1.7 **Use of additional information other than credit ratings** – Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

1.8 **Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- A local authority, parish council or community council.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 3 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

- A body that is considered of a high credit quality (such as a bank or building society). For category 4 this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

1.9 Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is:

	Fitch Rating	Moody's Rating	Standard & Poor's Rating	Money Limit	Time Limit
Upper limit category	F1+/ AA-	P-1/Aa3	A-1+/AA-	£5m	3 years
Middle Limit Category	F1/A-	P-1/A3	A-2/A-	£5m	364 days
Other Institution Limits (other Local Authorities, Money Market Funds, DMADF)				£5m	364 days
Guaranteed Organisations				Within the terms of the guarantee to a maximum of £1m up to 6 months	

1.10 **Definition of Ratings**

- **A-1** - A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

- **A-2** - A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

- **A-3** - A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

1.11 **Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

		Limit £
A	Building Societies not meeting the requirements under specified investments – the operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £1bn but will restrict these investments to a maximum of £1m for up to 6 months.	£1m for up to 6 months
B	Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity	£5m for up to 3 years
C	A body which has been provided with a government issues guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.	Within the terms of the guarantee to a maximum of £1m up to 6 months.
D	The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	N/A
E	Property Funds - The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	£2m

1.12 **The Monitoring of Investment Counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita daily, when ratings change, and counterparties are checked. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

1.13 **Economic Investment Considerations** - Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in quarter 2 of 2016. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

1.14 The criteria for choosing counterparties set out above provide a sound approach to

investment in “normal” market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Section 151 Officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to “normal” conditions. Similarly the time periods for investments will be restricted.

Appendix C. Property Funds

1 OVERVIEW

1.1 Local authorities with little property (i.e. Investment properties) exposure may also consider increasing diversification of their portfolio of investments into the wider property sector. Though the property market took a huge hit during the 'credit crunch of 2008', it has shown material signs of recovery since 2011. Local authorities are starting to consider investing for a longer-term time horizon may achieve positive total return over the long term, consisting of capital and rental income.

1.2 There are examples of authorities investing in property by directly purchasing / developing properties with the intention of securing a revenue income from that investment. Investment in property leaves the Council open to all of the risks that would go with such a policy, as well as the potential benefits. It is felt that a simpler and more efficient route to receive income from property would be to invest in an appropriate property unit trust. However, such investment would not preclude the Council also directly investing in property if there was a business case that showed all the risks associated with the investment could be managed.

1.3 The pages below are extracts from the CCLA property fund further illustrate the performance of the funds.

THE LOCAL AUTHORITIES' PROPERTY FUND

FEATURES OF THE FUND

Fund Objective

The objective for the Fund is to generate long-term growth in capital and an attractive income over time.

Income Distribution

Income is paid on a quarterly basis, at the end of January, April, July and October.

Minimum Investment

The minimum initial investment is £25,000.

Fees

There is an Annual Management Charge of 0.65% plus VAT.

Bid/Offer Spread

The spread reflects the cost of dealing in the underlying assets. By having a price spread the Fund protects investors from having the value of their holding diluted by incoming or outgoing investors. Units are purchased at an 'offer' price 5.75% above the net asset value and sold at a 'bid' price 1.55% below it.

FUND PERFORMANCE

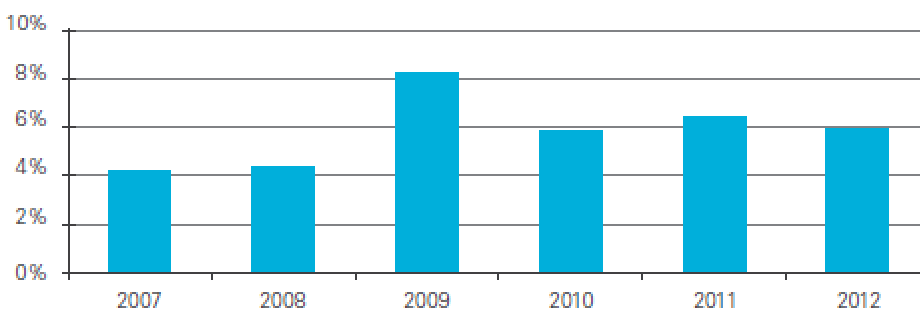
The Fund has been a consistent performer in its sector and has outperformed its benchmark* both over the recent past and the longer term.

An important contribution to the Fund's strong record has come from the active management of the property assets. This proactive approach has ensured that the exposure to empty properties has remained low, despite the downturn on the high street and some other commercial property sectors. This has been primarily due to good tenant management and the quality of the portfolio.

The income distribution has been relatively smooth despite the potentially disruptive effects of lease negotiations and portfolio changes. All income earned by the Fund is distributed to investors net of fees and tax. The yield is quoted gross because the tax paid can be reclaimed by unitholders.

Yields are quoted net of fees.

Distribution Yield



Risk warning – past yield is no guarantee of similar yield patterns in future.

Distribution yield net of fees but gross of reclaimable income tax.

*The benchmark is the IPD other Balanced Property Funds Index. (Source: CCLA)

BENEFITS AND RISKS

BENEFITS OF INVESTING IN THE FUND

Local authorities have been long-term investors in property through directly purchasing properties, but a simpler and more efficient route is to invest in an appropriate property fund. The Fund presents a unique opportunity for local authority treasury functions and pension funds.

The Fund gives local authorities an exposure to a diversified portfolio of commercial property throughout the UK. For investors it eliminates the issues of maintenance, management and repairs, reduces property specific risk and improves liquidity.

The Manager aims to add value by active management including upgrading the asset, improving the quality of the tenant or lengthening the income stream. The size of the Fund allows it to adjust swiftly to changes in investor sentiment and market conditions in the various sectors of the industry.

When considering property investment, investors should be aware of the benefits of using pooled funds over direct investment in property, these include:

- the unitised approach can work regardless of scale of the investor;
- it allows for the efficient management of the underlying property;
- funds are able to offer geographical and industry diversification;
- the Fund offers unique accounting advantages. These are explained on page 9.

RISKS OF INVESTING IN THE FUND

Risks arise in three main areas: the risk of declines in the value of the investment, the risk of illiquidity and the risk from gearing.

RISES AND FALLS IN VALUE

The value of units will rise and fall in value over time, reflecting sector and underlying property conditions. These price trends can persist over medium term periods. The Fund has an investment strategy which seeks to provide a relatively high income and to take an active approach to asset management. These policies could exacerbate market trends.

LIQUIDITY AND COSTS

Property is an illiquid asset class and it is not always possible to sell units immediately. The costs of dealing are also relatively high. These two facts suggest that the investment horizon for investors in the Fund should be measured in years.

GEARING

The Fund has a modest loan facility which is used to provide liquidity and support returns. The existence of borrowings can amplify any change in unit values.

RISK WARNING

The value of the Fund units and the income from them can fall as well as rise and a local authority may not get back the amount originally invested. Past performance is no guarantee of future returns. The unit value will reflect fluctuations in property values. The units are intended only for long-term investment and are not suitable for money to be spent in the near future. They are realisable only on each monthly Valuation Date and a period of notice, may be imposed for the redemption of units.

The properties within the Fund are valued by an external property valuer; any such valuations are a matter of opinion rather than fact. Yields may vary and are not guaranteed and are quoted on a pre-tax basis after deduction of management charges.

CCLA Investment Management Limited (Registered in England No. 2183088 at the Senator House, 85 Queen Victoria Street, London, EC4V 4ET) is regulated by the FCA and is the manager of the Local Authorities' Property Fund. The Trustee is the Local Authorities' Mutual Investment Trust (Registered in England and a company limited by guarantee No. 700132 at the above office).

Appendix D. - PWLB Debt Analysis

1 PUBLIC WORKS LOAN BOARD (PWLB) DEBT ANALYSIS

1.1 The table below shows the number of outstanding loans with the PWLB, the maturity date, Principal outstanding, interest rate and the premium payable if the council was to settle the outstanding loan.

PWLB 2015-16 Loan Repayment Premiums as at 30-Nov-15					
Loan Reference	Start Date	Maturity Date	Principal Balance	Interest Rate %	Premium
461697	27-Mar-1987	31-Dec-2043	132,529.13	9.000	£175,467
461698	27-Mar-1987	31-Dec-2044	212,550.13	9.000	£289,128
461699	27-Mar-1987	31-Dec-2045	163,500.10	9.000	£228,261
461700	27-Mar-1987	31-Dec-2046	196,200.12	9.000	£280,846
476645	30-Nov-1995	28-Jul-2053	163,500.10	8.000	£231,551
476646	30-Nov-1995	28-Jul-2054	163,500.10	8.000	£236,166
476647	30-Nov-1995	28-Jul-2055	163,500.10	8.000	£239,908
476842	21-Dec-1995	13-Dec-2052	163,500.10	7.875	£223,322
476843	21-Dec-1995	13-Dec-2051	163,500.10	7.875	£218,738
476844	21-Dec-1995	13-Dec-2050	163,500.10	7.875	£214,107
477672	05-Aug-1996	08-May-2048	163,500.10	8.375	£219,290
477673	05-Aug-1996	08-May-2049	163,500.10	8.375	£224,418
478210	26-Sep-1996	25-Sep-2047	217,138.76	8.125	£274,615
478211	26-Sep-1996	25-Sep-2056	163,500.10	8.125	£250,384
478214	26-Sep-1996	25-Sep-2047	28,111.39	8.125	£35,552
479404	21-May-1997	08-May-2057	327,000.20	7.125	£420,036
479405	21-May-1997	08-May-2056	147,150.09	7.125	£185,543
481709	13-Oct-1998	25-Sep-2058	163,500.10	4.625	£103,190
482002	14-Jan-1999	25-Sep-2058	320,460.20	4.375	£180,505
482386	30-Mar-1999	25-Mar-2059	23,271.98	4.625	£14,788
482875	08-Nov-1999	25-Mar-2059	163,500.10	4.500	£98,310
483562	18-Nov-1999	25-Sep-2059	163,500.10	4.250	£88,336
491043	19-Jan-2006	19-Jan-2034	465,521.00	4.000	£116,766
491501	05-Mar-2006	03-Nov-2051	2,689,694.00	4.400	£1,324,027
491580	19-May-2006	19-Nov-2046	1,303,000.00	4.250	£517,481
492151	20-Sep-2006	20-Mar-2052	1,856,434.00	4.200	£835,591
492927	19-Feb-2007	19-Aug-2052	2,000,000.00	4.400	£1,011,194
492928	19-Feb-2007	19-Aug-2053	2,000,000.00	4.400	£1,035,097
492929	19-Feb-2007	19-Aug-2054	1,427,410.00	4.400	£755,755
493087	03-Aug-2007	19-Aug-2052	2,500,000.00	4.250	£1,171,955
493088	03-Aug-2007	19-Aug-2053	2,000,000.00	4.250	£960,090
493089	03-Aug-2007	19-Aug-2054	1,414,351.00	4.250	£694,837
			21,386,323.30		**12,855,254**

Appendix E. - Economic Review (Provided by Capita)

1 ECONOMIC BACKGROUND REVIEW

1.1 UK

1.1.1 UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4%, although there was a short lived rebound in quarter 2 to +0.7% before it subsided again to +0.5% (+2.3% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.3%.

1.1.2 The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1% in the second half of 2016. Indeed, the increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. Nevertheless, despite average weekly earnings ticking up to 3.0% y/y in the three months ending in September, this is unlikely to provide ammunition for the MPC to take action to raise Bank Rate in the near future as labour productivity growth has meant that net labour unit costs appear to be rising by about only 1% y/y. Having said that, at the start of October, data came out that indicated annual labour cost growth had jumped sharply in quarter 2 from +0.3% to +2.2%: time will tell if this is just a blip or the start of a trend.

1.1.3 There is, therefore, considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, therefore, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

1.1.4 The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016 and increases after that will be at a much slower pace, and to much lower levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

1.1.5 The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20.

1.2 **USA**

1.2.1 GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded very strongly in Q2 to 3.9% (annualised) before dipping again in Q3 to 1.5%.

1.2.2 Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. may start to increase rates in September. However, the Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided since August, has now firmly opened up the possibility of a first rate rise in December.

1.3 **Eurozone.**

1.3.1 The ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in Q1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in Q2 and looks as if it may maintain this pace in Q3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

1.4 **Greece**

1.4.1 During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in

power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

1.5 China and Japan

1.5.1 Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.3% after a short burst of strong growth of 1.0% during Q1. Japan has been hit hard by the downturn in China during 2015. This does not bode well for Japan as the Abe government has already fired its first two arrows to try to stimulate recovery and a rise in inflation from near zero, but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

1.5.2 As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.

1.6 Emerging countries

1.6.1 There are also considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries) there is now a strong flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields.

1.6.2 This change in investors' strategy, and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US, has helped to cause the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

1.6.3 Corporates (worldwide) heavily involved in mineral extraction and / or the

commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

1.7 CAPITA Asset Services Forward View

1.7.1 Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

1.7.2 The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

1.7.3 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

1.7.4 However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

1.7.5 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to

safe havens

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

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve 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.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Appendix F. Treasury Management Glossary of Terms

Authorised Limit (Also known as the Affordable Limit): A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).
Balances and Reserves: Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate: The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Basis Point: A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%.
Bond: A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR): The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital Receipts: Money obtained on the sale of a capital asset.
Credit Rating: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Counterparty List: List of approved financial institutions with which the Council can place investments with.
Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the DMADF. All deposits are guaranteed by HM Government and therefore have the

equivalent of a sovereign triple-A credit rating.
Gilts: Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. Being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
LIBID: The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).
LIBOR: The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.
Maturity: The date when an investment or borrowing is repaid.
Money Market Funds (MMF): Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision (MRP): An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Non Specified Investment: Investments which fall outside the CLG Guidance for Specified investments (below).
Operational Boundary: This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.
Prudential Code: Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators: Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that councils' capital investment plans are affordable,

prudent and sustainable. They are outlined in the CIPFA Prudential Code of Practice. They are indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A council may also choose to use additional voluntary indicators.
Public Works Loans Board (PWLB): The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Specified Investments: Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing: Borrowing for which the costs are supported by the government or third party.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Yield: The measure of the return on an investment.