APPENDIX 1

Denbighshire County Council

Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19

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Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19

1 Background

1.1 The Council is responsible for its Treasury Management decisions and activity which involves looking after the Council's cash. This is a vital part of the Council's work because approximately £0.5bn passes through the Council's bank account every year.

1.2 On 28 February 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy statement (TMSS) before the start of each financial year.

1.3 In addition, the Welsh Government (WG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

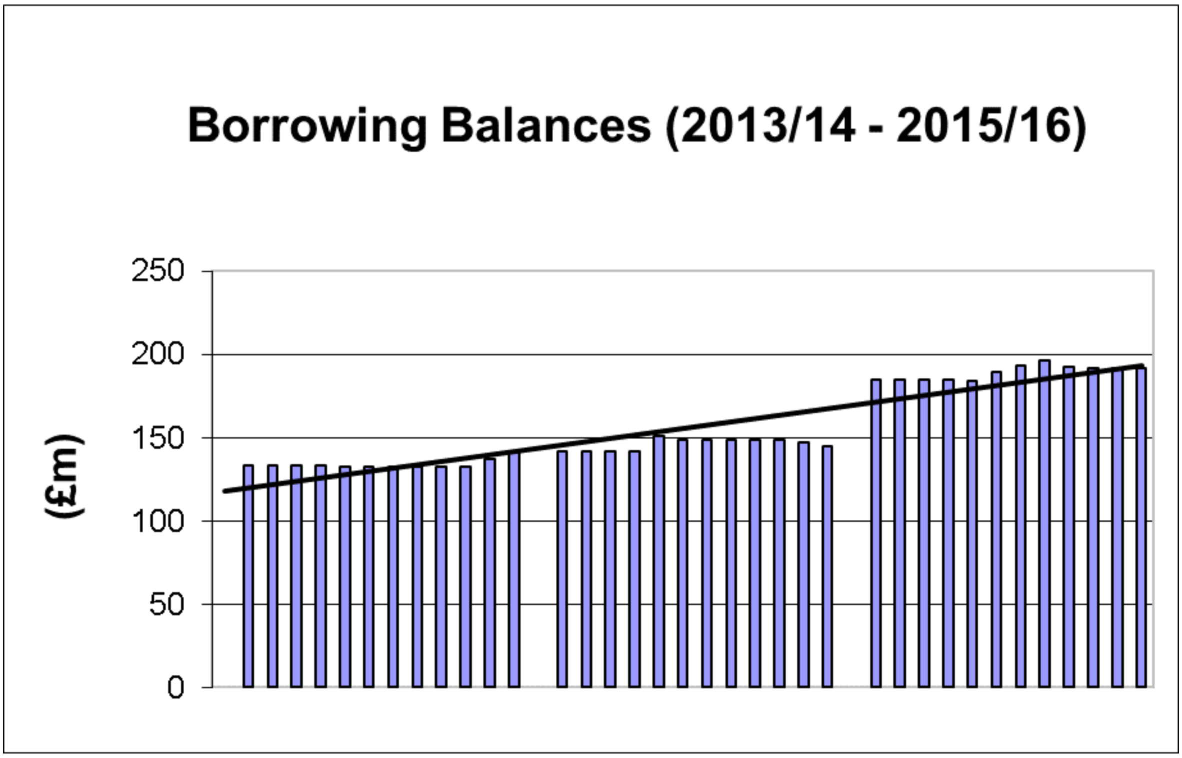
1.4 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

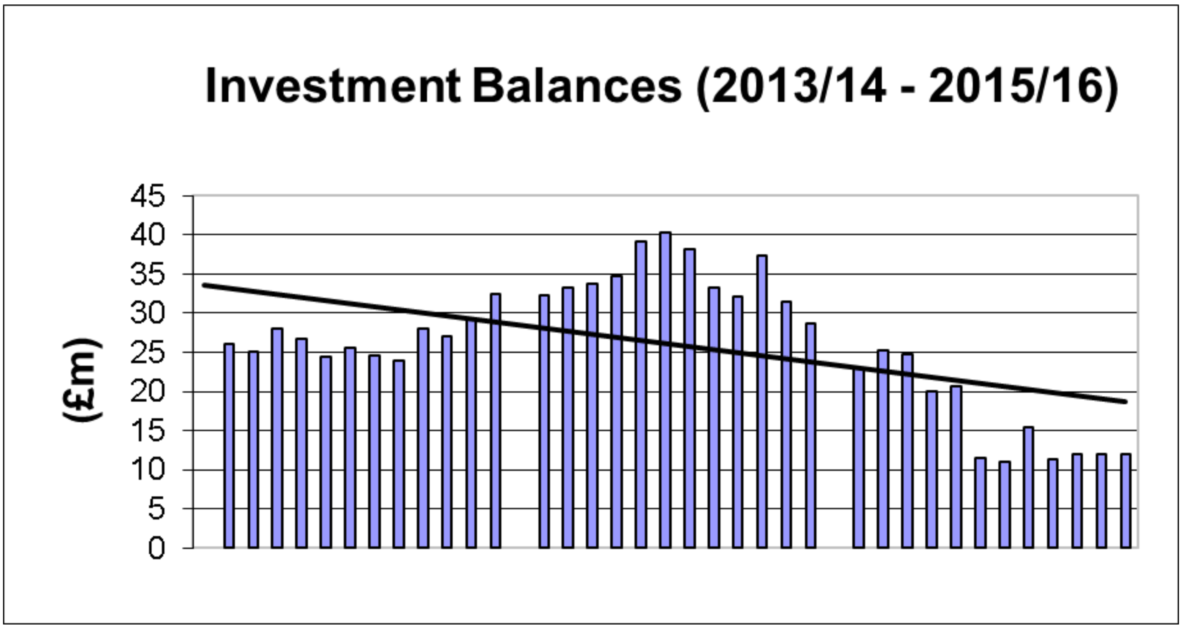
1.5 The purpose of the TMSS is to set the:

- Treasury Management Strategy for 2016/17
- Annual Investment Strategy for 2016/17
- Prudential Indicators for 2016/17, 2017/18 and 2018/19 (**Annex A**)
- Minimum Revenue Provision (MRP) Statement

2 Treasury Position

2.1 The levels of the Council's borrowing and investment balances over the last three years are shown in the graphs below. The first chart shows the Council's borrowing has increased over the course of the last twelve months because we borrowed £40m from the Public Works Loan Board (PWLB) on 02/04/15 to buy ourselves out of the subsidy scheme to become self-financing. The second chart shows a decrease in the amount of money we have to invest because we terminated the PFI contract on the Council offices in Ruthin on 04/09/15 and as planned, we used a significant proportion of our investment balances to achieve this.





3 Investment Strategy

3.1 Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.2 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority will consider more secure investments such as reverse repurchase agreements (REPOs) and covered bonds as detailed in paragraph 3.3 below.

3.3 The Authority may invest its surplus funds with any of the counterparty types in table 1 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 1: Approved Investment Counterparties and Limits

Credit Rating	Banks / Building Societies Unsecured	Banks / Building Societies Secured	Government / Local Authorities	Corporates	Registered Providers
UK Govt	n/a	n/a	£Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£10m 20 years	£8m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£10m 10 years	£8m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£10m 5 years	£8m 15 years	£5m 5 years	£5m 10 years
AA-	£5m 3 years	£10m 4 years	£8m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£10m 3 years	£8m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£10m 2 years	£8m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£10m 13 months	£8m 5 years	£5m 13 months	£5m 5 years
BBB+	£5m 100 days	£10m 6 months	£8m 2 years	£5m 6 months	£5m 2 years
BBB or BBB-	£5m next day only	£10m 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	£8m 25 years	£5m 5 years	£5m 5 years
Pooled funds	£8m per fund				

Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank [Natwest Bank Plc].

Banks Secured: Covered bonds, reverse repurchase agreements (REPOs) and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Welsh Government and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts.

3.4 Natwest is the Council's banker and will continue to be used for operational and liquidity purposes by transferring cash in and out of the instant access account as required even if its credit rating falls below those shown in the table above.

3.5 For a group of banks under the same ownership, the banking group limit is equal to the individual bank limit.

3.6 Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

3.7 The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices (the cost of banks insuring themselves against default), financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

3.8 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

The reduction in investment income which the Council has suffered over the last seven years due to the historically low level of the official bank rate at 0.5% is illustrated in Table 2 below:

Table 2: Investment Income

2008/09 Interest £000	2009/10 Interest £000	2010/11 Interest £000	2011/12 Interest £000	2012/13 Interest £000	2013/14 Interest £000	2014/15 Interest £000
2,219	635	398	408	239	265	230

3.9 **Specified Investments**: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,

- a UK local authority, parish council or community council, or
- a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

3.10 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure by legislation, such as shares in money market funds and other pooled funds; and investments with bodies and schemes not meeting the definition of high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£10m
Total shares in money market funds	£10m
Total shares in other pooled funds	£10m
Total investments without credit ratings or rated below A-	£60m
Total investments in foreign countries rated below AA+	£10m
Total non-specified investments	£100m

4 Borrowing Strategy

4.1 Borrowing strategies continue to be influenced by the relationship between investment and borrowing rates. The interest rate forecast provided in **Annex B** indicates that an acute difference between investment and borrowing rates is expected to continue. This difference creates a “cost of carry” for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment.

4.2 In view of this, the strategy which has been in place for some time now has been to reduce our investment balances and rely on internal borrowing as much as possible instead of external borrowing from the Public Works Loan Board (PWLB).

4.3 However, the Welsh Government concluded negotiations last year with HM Treasury regarding the reform of the HRA subsidy system in Wales so we borrowed £40m from the Public Works Loan Board (PWLB) on 02/04/15 to buy ourselves out of the subsidy scheme to become self-financing.

4.4 We also terminated the PFI contract on the Council offices in Ruthin on 04/09/15 and as planned, we used a significant proportion of our investment balances to achieve this by buying ourselves out of the PFI agreement. We have been accessing temporary borrowing from other local authorities at very low rates to cover short-term cash flow requirements. We will also be borrowing at discounted rates from the PWLB to fund our 21st century schools capital programme.

4.5 We will continue to undertake temporary borrowing from other local authorities as this is a good source of readily available cash at historically low rates varying between 0.3% and 0.5%. At the same time, we will also continue to monitor our cash position and interest rate levels to ensure that we undertake long term borrowing from the PWLB at the optimal time to fund our on-going Capital commitments.

4.6 While the Council can borrow from a number of banks, it normally only borrows from the Public Works Loan Board (PWLB) which is a Government body that lends to public sector organisations.

The approved sources of borrowing are listed below:

- PWLB and any successor body
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Clwyd Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

5 Debt Rescheduling

5.1 The Council is able to pay off loans earlier than we have to and to replace them with cheaper loans in order to save money or to reduce the risk to the Council. Sometimes, we will replace these loans and sometimes not, depending on market conditions and interest rates.

5.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt rescheduling although occasional opportunities arise.

6 Minimum Revenue Provision (MRP) Statement

6.1 The Council sets aside money each year to repay debt and this is known as the Minimum Revenue Provision (MRP).

6.2 There are four different methods of calculating MRP and the Council needs to say each year which methods it will use. This is known as the MRP Statement.

6.3 The MRP Statement will be submitted to Council before the start of the 2015/16 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

6.4 **MRP Statement**

The Council will apply the Regulatory Method for supported capital expenditure which means that MRP is charged at 4% of the Council's Capital Financing Requirement (CFR).

The Council will apply the Asset Life Method for unsupported capital expenditure which means that MRP is determined by the life of the asset for which the borrowing is undertaken.

The different methods of calculation will affect how much money the Council sets aside for debt repayment. The above statement means that where the Welsh Government gives us the money to repay debt we will repay it at 4% of whatever is outstanding. Where we borrow through Prudential Borrowing we will charge an amount that lets us repay the debt over the expected life of the asset.

6.5 Adopting International Financial Reporting Standards (IFRS) has resulted in leases and Private Finance Initiative (PFI) schemes coming on the balance sheet. This affects how much it appears the Council has borrowed but this is effectively covered by grant payments. MRP in respect of leases and PFI schemes brought on the balance sheet under IFRS will match the annual principal repayment for the associated deferred liability. This is a technical accounting adjustment which is cost neutral for the Council.

6.6 MRP on housing assets funded through Prudential Borrowing is charged at 5% of the HRA's CFR. MRP on all other items such as the buy-out (see Section 8) and new builds is charged at 2% of the HRA's CFR.

7 Reporting Treasury Management Activity

7.1 The Section 151 Officer (Chief Finance Officer) will report to the Corporate Governance Committee on treasury management activity / performance as follows:

(a) The Treasury Management Strategy Statement and Prudential Indicators will be submitted to the committee in January each year prior to approval by Council.
(b) Two treasury management updates will be submitted to the committee in January and September each year.
(c) An annual report on treasury activity will be submitted to the committee in September each year for the preceding year prior to approval by Cabinet.
A treasury update showing the latest investment and borrowing position will be included in the monthly Revenue Monitoring report and borrowing will also be reported on in the Capital Plan to Council.

8 Other items

8.1 Investment Training

8.1.1 Member Training

The CIPFA Code of Practice on Treasury Management requires the Section 151 Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

The Council has nominated the Corporate Governance Committee as the committee which has responsibility for scrutiny of the treasury management function. Annual training requirements will be agreed with the Corporate Governance Committee.

8.1.2 Staff Training

Staff attend training courses, seminars and conferences provided by Arlingclose and CIPFA. There is a team of three members of staff who cover TM duties on a rota basis to ensure that their knowledge is kept up to date. These members of staff are also members of professional accountancy bodies including the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Accounting Technicians (AAT).

8.2 Treasury Management Advisers

The Council uses Arlingclose Ltd as Treasury Management Advisers and receives the following services:

- Credit advice
- Investment advice
- Borrowing advice
- Technical accounting advice
- Economic & interest rate forecasts
- Workshops and training events

The Council maintains the quality of the service with its advisers by holding quarterly strategy meetings and tendering every 5 years. Following a tendering exercise, the contract was renewed with Arlingclose from 01 January 2014 for three years with an option to extend for a further two year period.

8.3 Investment of Money Borrowed in Advance of Need

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £250 million. The maximum period between borrowing and expenditure is expected to be three years, although the Authority is not required to link particular loans with particular items of expenditure.

8.4 Policy on Use of Financial Derivatives

In the absence of any legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.5 Abolition of the PWLB

The Department of Communities and Local Government (CLG) has confirmed that HM Treasury (HMT) will be taking the necessary legislative steps to abolish the PWLB. The CLG has stated that it will have no impact on existing loans held by local authorities or the government's policy on local authority borrowing. Despite its abolition, HMT has confirmed that its lending functions will continue unaffected albeit under a different body so that local authorities will continue to access borrowing at rates which offer good value for money. There is a consultation due but HMT hasn't released further details on this matter.

Treasury Management Strategy Statement
and Investment Strategy 2016/17 to 2018/19

ANNEX A

PRUDENTIAL INDICATORS 2016/17 TO 2018/19

1 Background

1.1 The indicators are calculated to demonstrate that the Council's borrowing is affordable and are underpinned by the following regulations. There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2 Gross Debt and the Capital Financing Requirement

2.1 This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

2.2 The Section 151 Officer reports that the Council had no difficulty meeting this requirement in 2014/15 to date nor are there any difficulties envisaged in future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3 Estimates of Capital Expenditure

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2015/16 Approved £000	2015/16 Revised £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Council Fund	16,254	23,027	9,860	5,039	5,039
Corporate Plan – Approved	18,656	26,227	11,388	5,008	454
Corporate Plan – Proposed	12,226	210	21,853	28,767	15,772
HRA	47,059	45,472	11,460	9,563	10,431
Total	**94,195**	**94,936**	**54,561**	**48,377**	**31,696**

The Corporate Plan has been divided in the table above between those elements which have been approved and those which are proposed at this stage. The indicators below incorporate both elements of the Corporate Plan.

3.2 Capital expenditure will be financed as follows:

Capital Financing	**2015/16 Approved £000**	**2015/16 Revised £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**
Council Fund					
Capital Receipts	296	1,516	888		
Grants & Contributions	3,720	7,793	2,485	1,842	1,842
Revenue Contributions & Reserves	807	1,524	1,595		
Supported Borrowing	4,701	5,379	3,452	3,026	3,026
Prudential Borrowing	6,730	6,815	1,440	171	171
	16,254	**23,027**	**9,860**	**5,039**	**5’039**
Corporate Plan					
Capital Receipts				250	
Grants & Contributions	10,464	2,998	10,270	19,945	9,586
Revenue Contributions & Reserves	11,740	12,086	7,673	2,440	400
Supported Borrowing		24	0	0	0
Prudential Borrowing	8,678	11,329	15,298	11,140	6,240
	30,882	**26,437**	**33,241**	**33,775**	**16,226**
Total	**47,136**	**49,464**	**43,101**	**38,814**	**21,265**
HRA					
Capital Receipts	22	22	23	24	24
Grants & Contributions	2,400	2,410	2,410	2,410	2,410
Revenue Contributions & Reserves	2,673	1,523	2,140	2,346	2,428
Supported Borrowing	39,176	0	0	0	0
Prudential Borrowing	2,788	41,517	6,887	4,783	5,569
Total	**47,059**	**45,472**	**11,460**	**9,563**	**10,431**

4 Ratio of Financing Costs to Net Revenue Stream

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. It shows how much of its budget the Council uses to repay debt and interest.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2015/16 Approved £000**	**2015/16 Revised £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**
Financing Costs	13,268	12,945	12,445	11,945	11,945
Net Revenue Stream	184,756	180,764	185,056	182,104	179,312
Council Fund Ratio	**7.18%**	**7.16%**	**6.73%**	**6.56%**	**6.66%**
Financing Costs	4,916	5,930	6,126	6,536	6,943
Net Revenue Stream	13,609	13,609	14,423	15,082	15,082
HRA Ratio	**36.12%**	**43.57%**	**42.47%**	**43.34%**	**46.04%**

Note that the HRA ratio has increased because of the increased borrowing costs which have been incurred to buy ourselves out of the subsidy system but as a result of this buy-out, subsidy payments will no longer be due so the Council will benefit overall. The estimated subsidy payment in 2014/15 was £3.3m so the increase in financing costs should be considered alongside the removal of the requirement to pay the subsidy.

5 Capital Financing Requirement

5.1 The Capital Plan relies on various sources of finance i.e. grants, contributions and capital receipts. Once these are used up, we need to rely on borrowing and the Capital Financing Requirement (CFR) is the amount we need to borrow. Our borrowing shouldn’t therefore go above the CFR. The Council’s CFR and borrowing levels are compared in the table below for the current and future years.

Capital Financing Requirement	**31/03/16 Approved £000**	**31/03/16 Revised £000**	**31/03/17 Estimate £000**	**31/03/18 Estimate £000**	**31/03/19 Estimate £000**
Council Fund	165,601	167,267	181,377	189,680	193,270
HRA	69,054	67,036	71,330	73,236	75,661
PFI	10,058	10,058	10,058	10,058	10,058
Total CFR	**244,713**	**244,361**	**262,765**	**272,974**	**278,989**
Total Debt	**213,194**	**191,165**	**201,725**	**213,192**	**219,802**

6 Incremental Impact of Capital Investment Decisions

6.1 This indicator shows how much of the Council Tax income is spent on paying debt interest.

Incremental Impact of Capital Investment Decisions	2015/16 Approved £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Increase in Band D Council Tax due to:				
Prudential Borrowing	5.49	5.89	2.63	2.63
Capital Receipts	0.11	0.00	0.00	0.00
Reserves	3.17	2.37	0.00	0.00
Total	**8.77**	**8.26**	**2.63**	**2.63**
Average Weekly Housing Rents	0.95	1.00	1.00	1.00

6.2 This indicator shows the equivalent impact on Council Tax of the decision to undertake Prudential Borrowing as well as the investment interest lost by using capital receipts and reserves to part fund the Capital Plan. The impact of supported borrowing has not been included because it is assumed that the Council would always spend its supported borrowing to fund its Capital Plan.

6.3 The increases in council house rents reflect the additional costs of financing the borrowing to be undertaken each year as part of the Housing Stock Business Plan with the aim to maintain the Welsh Housing Quality Standard. The indicator illustrates the impact of each year’s capital expenditure and new borrowing on weekly rents.

7 Authorised Limit & Operational Boundary for External Debt

7.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

7.2 The **Authorised Limit** sets the maximum level of external borrowing. 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. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council’s existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices. This is reported as a part of the Capital Monitoring Report.

7.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

7.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the

Affordable Limit) and if it is breached, it would be reported to the next Council meeting.

Authorised Limit for External Debt	2015/16 Approved £000	2015/16 Revised £000	2016/17 Proposed £000	2017/18 Proposed £000	2018/19 Proposed £000
Borrowing	260,000	250,000	250,000	260,000	260,000

The Welsh Government concluded negotiations last year with HM Treasury regarding the reform of the HRA subsidy system in Wales. We borrowed £40m on 02/04/15 to buy ourselves out of the subsidy scheme to become self-financing so the borrowing limits shown above include an additional £40m from 2015/16 to cover this borrowing.

7.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other 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.

Operational Boundary for External Debt	2015/16 Approved £000	2015/16 Revised £000	2016/17 Proposed £000	2017/18 Proposed £000	2018/19 Proposed £000
Borrowing	255,000	245,000	245,000	255,000	255,000

8 Adoption of the CIPFA Treasury Management Code

8.1 This indicator demonstrates that the Council has adopted the principles of best practice. The Council adopted the original Code in March 2002. A revised Code was issued in November 2009 and another in November 2011. One of the recommendations is that the Code is adopted by Council.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the revised CIPFA Treasury Management Code (Nov 2011) at its meeting on 28 February 2012.

9 Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

9.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on a net interest paid basis (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments).

9.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	2015/16 Approved %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100
Upper Limit for Variable Rate Exposure	40	40	40	40

9.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

10 Maturity Structure of Fixed Rate borrowing

10.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

10.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Actual %	Lower Limit %	Upper Limit %
under 12 months	2.21	0	30
12 months and within 24 months	4.24	0	30
24 months and within 5 years	7.13	0	30
5 years and within 10 years	9.19	0	30
10 years and above	77.23	50	100

11 Credit Risk

11.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

11.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

11.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP;
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

11.4 The only indicators with prescriptive values are credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

12 Upper Limit for total principal sums invested over 364 days

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

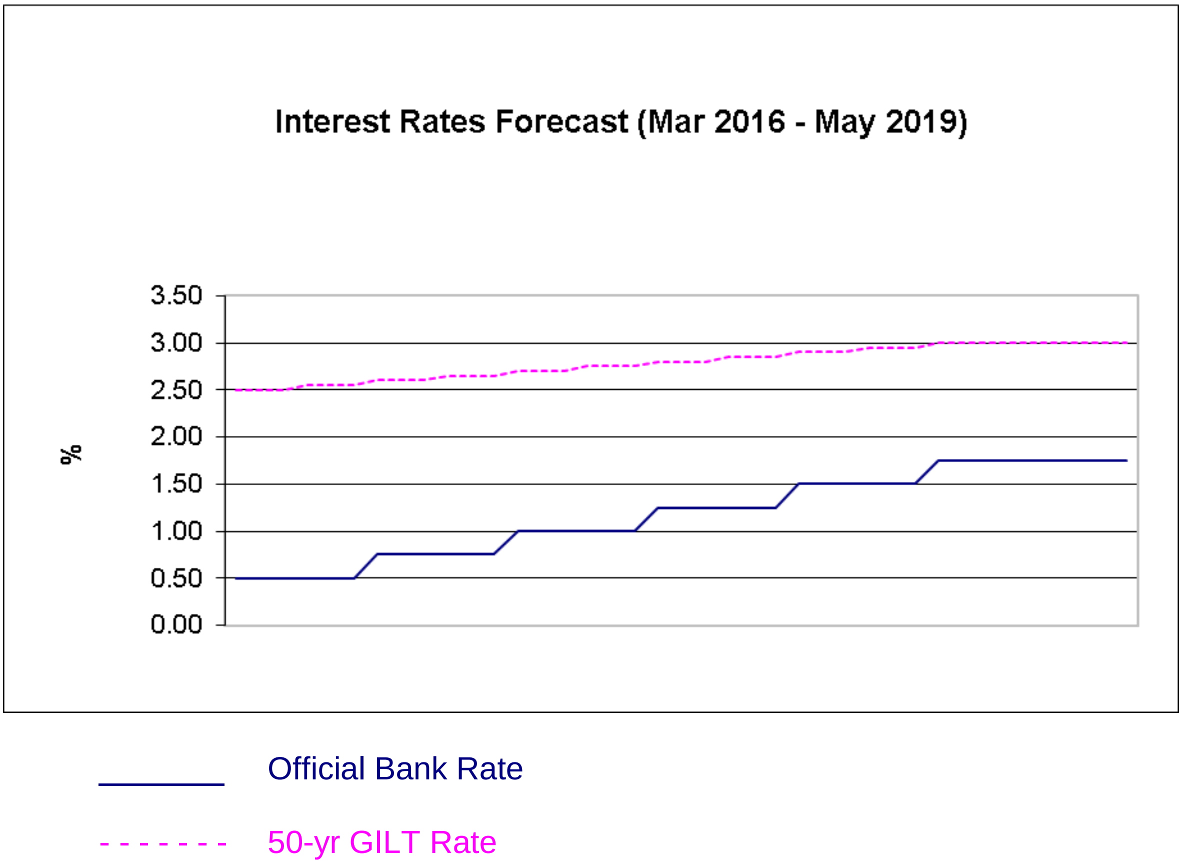
Upper Limit for total principal sums invested over 364 days	**2015/16 Approved £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
	10.00	10.00	10.00	10.00

ANNEX B

INTEREST RATES FORECAST

The graph below shows the interest rate forecast for the Official UK Bank Rate and the 50 year GILT rate from March 2016 to May 2019. The Official Bank Rate influences the rate at which the Council can invest. The GILT rate is the rate at which the Government borrows money and therefore this affects the rate at which we can borrow from the PWLB which is approximately 1% above GILT rates.

As the graph shows, it’s much more expensive to borrow than to invest at the moment with the Official UK Bank Rate expected to increase gradually over the period. The graph illustrates that the difference between investment and borrowing rates is approximately 3%. This means that the cost of carry referred to in paragraph 4.1 in **Appendix 1** is approximately £30,000 for every £1m borrowed because the Council could borrow for 50 years at a rate of approximately 3.5% but could only invest at a rate of approximately 0.5%.



ANNEX C

GLOSSARY - Useful guide to Treasury Management Terms and Acronyms

BANK OF ENGLAND	UK's Central Bank
BANK RATE	Bank of England Interest Rate (also known as Base Rate)
CPI	Consumer Price Index – a measure of the increase in prices
RPI	Retail Price Index – a measure of the increase in prices
DMO	Debt Management Office – issuer of gilts on behalf of HM Treasury
FSA	Financial Services Authority - the UK financial watchdog
GDP	Gross Domestic Product – a measure of financial output of the UK
LIBID	London Interbank Bid Rate - International rate that banks lend to other banks
LIBOR	London Interbank Offer Rate – International rate that banks borrow from other banks (the most widely used benchmark or reference for short term interest rates)
PWLB	Public Works Loan Board – a Government department that lends money to Public Sector Organisations
MPC	Monetary Policy Committee - the committee of the Bank of England that sets the Bank Rate
LONG TERM RATES	More than 12 months duration
SHORT TERM RATES	Less than 12 months duration
BOND (GENERAL)	An investment in which an investor loans money to a public or private company that borrows the funds for a defined period of time at a fixed interest rate
GOVERNMENT BOND	A type of bond issued by a national government generally with a promise to pay periodic interest payments and to repay the face value on the maturity date

CORPORATE BOND	A type of bond issued by a corporation to raise money in order to expand its business
COVERED BOND	A corporate bond issued by a financial institution but with an extra layer of protection for investors whereby the investor has recourse to a pool of assets that secures or "covers" the bond if the financial institution becomes insolvent
GILT	A bond that is issued by the British government which is classed as a low risk investment as the capital investment is guaranteed by the government
REPO	A repurchase agreement involving the selling of a security (usually bonds or gilts) with the agreement to buy it back at a higher price at a specific future date For the party selling the security (and agreeing to repurchase it in the future) it is a REPO For the party on the other end of the transaction e.g. the local authority (buying the security and agreeing to sell in the future) it is a reverse REPO
FTSE 100	Financial Times Stock Exchange 100 - An index composed of the 100 largest companies listed on the London Stock Exchange which provides a good indication of the performance of major UK companies