REPORT TO:	**General Purposes and Audit Committee 7 December 2016**
AGENDA ITEM:	**12**
SUBJECT:	**Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2016/2017 Mid-Year Review**
LEAD OFFICER:	**Executive Director of Resources (Section 151 Officer)**
CABINET MEMBER:	**Councillor Simon Hall Cabinet Member for Finance & Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:
Sound Financial Management. This report details the Council's Treasury Management activities during the first half of 2016/2017 and the Council's compliance with the 2011 Prudential Code for Capital Finance.

FINANCIAL SUMMARY: This report details the Treasury Management activities in the first half of 2016/2017 and demonstrates the Council's compliance with the 2011 Prudential Code for Capital Finance.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

For general release

1. RECOMMENDATIONS

1.1. The Committee are asked to note the contents of this report and to:

(a) Endorse the continued implementation of the Council's Treasury Strategy Statement, Annual Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2016/2017 by the Executive Director of Resources (Section 151 .Officer)

2. EXECUTIVE SUMMARY

2.1. This report accords with the CIPFA Code of Practice for Treasury Management and best practice. The Code recommends that members are informed of Treasury activities at least twice a year. The report:

- reviews the Council's treasury management activities for the first six months of the financial year 2016/2017;

- details those areas of activity that formed the basis of the Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2016/2017 received by Full Council on **29 February 2016 (Minute A19/16)**; and

- demonstrates the Council’s compliance with the 2011 Prudential Code for Capital Finance (“The 2011 Code”) in the first half of the year and sets out revised Prudential Indicators for 2016/2017.

3. BACKGROUND

3.1. The Council has adopted a Treasury Management Policy Statement, which sets out the basis on which treasury activities are to be conducted. This document is incorporated in the Council's Financial Regulations.

3.1.1. The Treasury Management Policy Statement sets out the arrangement for reporting to Members prior to the commencement of each financial year (a statutory requirement) on the treasury strategy for the year ahead, to receive a mid-year review of treasury activities and to receive a review of the previous year’s activities.

3.1.2. The Council’s treasury management objectives are to manage the cash flows, borrowing and investment requirements of the authority with minimum risk and to achieve this by minimising the Council’s exposure to adverse movements in interest rates whilst maximising investment yield to enhance the Council’s finances.

3.1.3. The Council’s treasury management activities are regulated by statute, the 2011 Code and official guidance.

3.1.4. This report presents a mid-year review of 2016/2017’s activities based on the following:

- The Economy and Interest Rates
- Lending;
- Borrowing;
- Compliance with Prudential Indicators;
- Repayment of Debt and Debt Rescheduling;
- Minimum Revenue Provision; and
- Performance Targets.

3.1.5. A glossary of the terms and abbreviations used in this report is attached at **Appendix E.**

3.2. The Economy and Interest Rates

3.2.1 The two most significant events of the half-year, the result of the referendum on continued membership of the European Union and the outcome of the US presidential election, have combined to create an uncertain macro-economic environment. The impact of a number of risk factors such as those around central bank interest rates, inflation and economic growth, in the US, in Europe and particularly in the UK, are all difficult to forecast. Furthermore sterling continues to weaken against both the Euro and the dollar; at the time of writing it is too early to call a consensus about the US election results’ impact on the dollar exchange rate.

3.2.2 There has been speculation of a possible tapering of Quantitative Easing (QE) purchases by the European Central Bank (ECB). Nevertheless, actual growth in the Euro-Zone remains tepid and longer term risks to it are still prevalent as both France and Germany host elections next year, whilst still being party to Brexit negotiations.

3.2.3 Activity in the US manufacturing sector registered a surprise increase towards the close of the half year with the data showing the strongest upturn in business conditions for 12 months and both output and new order growth hitting one-year peaks. The second half of the year may, of course, present a very different picture.

3.2.4 The Standard & Poor's/Case-Shiller composite-20 city house price index rose unexpectedly in the last quarter. The index rose to an annual 5.1%, exceeding the 5% forecast by the market. Although, rising house prices generally point to a healthier housing market, economists have suggested that the rise may actually be due to lower housing inventories, i.e. a decline in supply. The number of new mortgages approved for home purchase by the British Bankers Association's (BBA) increased for the month of September but this followed on from the number of approvals falling to a 19-month low in August. British Banks approved 38,252 housing mortgages in September, up from 37,241 in August. In addition, data showed that consumer lending grew at its fastest rate in nearly a decade during September. This figure added to the view that the UK economy, post-Brexit, continues to be driven by consumer activity.

3.2.5 The latest quarterly GDP figures have provided the first broad indicator of the extent to which Brexit has impacted the British economy as a result of voting to leave the European Union. There had been a real fear of recession, but official statistics released thus far tend to suggest otherwise. The Bank of England's Monetary Policy Committee was expected to cut interest rates further below their all-time low of 0.25 percent, but again, following recent events, this is now unlikely.

3.2.6 A weakening pound has helped sales figures but this may be a short-term phenomenon and the continuing slide in the value of the pound since Britain voted to leave the EU is likely to push up prices next year, hurting sales and raising the prospect of inflation increasing above the Bank of England's target.

3.2.7 Interest rate forecasts as provided by the Council's independent treasury advisers, Capita Asset Services, are detailed below.

Table 1: Economic Forecasts for End of Quarter (Q) – Capita Asset Services 16 November 2016

	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.90%

3.2.8 These projections show that market commentators expect there to be no change to the base rate for the foreseeable future. This means that the Authority should not expect a material upturn in the interest earned on cash balances in the current financial year. This market intelligence will contribute to treasury management decisions to enable effective risk management. It is informative to compare and contrast with the forecast presented in February that at that point in time the consensus was that the then current bank rate of 0.50% was expected to increase to 0.75% by December 2016 and to remain at that level for the rest of the financial year. Public Works Loan Board (PWLB) rates for 25-year loans, at that point at 3.29% were expected to increase to around 3.50% in the first half of 2016/2017 and to be 3.70% at the end of 2016/2017. The 50-year PWLB rate, which was at 3.11%, was expected to increase to 3.30% in the first half of 2016/2017 and to be 3.50% by the end of the financial year. The message to take from this is that is clearly very difficult to derive consistent forecasts and that market volatility has a significant impact.

3.3 **Lending**

3.3.1 The Council's investment policy is governed by Communities and Local Government Office (CLG) guidance which has been implemented in the Annual Investment Strategy approved by Full Council **on 29 February 2016 (Minute A19/16)**. As set out in the strategy, the criteria for the investment of the Council's surplus funds are based on formal credit ratings issued by the FITCH International Rating Agency and supplemented by additional market data such as rating outlooks, the pricing of credit default swaps and bank share prices. The prime aim is to obtain capital security and then to secure the best rate of return. In addition to the FITCH rated institutions, all UK local authorities, and some public bodies comprise the Council's Approved Lending List.

3.3.2 Since the strategy was drafted, the implied sovereign support rating for counterparties has been removed with both the Standard & Poor's and Moody's rating agencies withdrawing all sovereign support ratings. The FITCH rating agency, which the Council and Capita adheres to, still assesses the implied sovereign support rating although the importance of this rating is now diluted. This has resulted in the Council adopting revised minimum credit rating criteria for institutions to be included within the authorised lending list. This revised criteria was approved by **General Purposes and Audit Committee on 29 February 2016 (Minute A19/16)** and is as follows:

Table 2: Lending List Criteria

List	Credit Ratings Criteria
A	**FITCH rating in each of the following categories:-** F1+ on Short Term AA or above Long Term aa- or above Viability Rating 5 for Support Rating AA+ or above Sovereign Rating
B	**FITCH Rating in each of the following categories:-** F1+ on Short Term AA- or above on Long Term a+ or above Viability Rating 5 for Support Rating AA+ or above Sovereign Rating
Approved Organisations All Non-UK Banks that meet the FITCH ratings as set out above All UK Building Societies that meet the FITCH ratings as set out above UK Banks that meet the FITCH ratings as set out above **Approved Organisations not meeting the above credit ratings** Part Nationalised UK Banks All UK Local Authorities AAA rated Money Market Funds Debt Management Office (DMO)	

3.3.3 The Council's authorised list of counterparties as at 30 September 2016 is detailed in **Appendix A.** The list and the counterparty limits applicable have been drawn up to provide maximum security for the Council's funds. Note that although there are three rating agencies, of these Moody's and Standard & Poor's focus on the US markets while FITCH concentrates on Europe and is thus the preferred choice for use here. The CIPFA guidelines require that local authorities factor in the lowest of the three potential ratings, providing an overall check. For Money Market Funds, a minimum of AAA ratings by at least 2 rating agencies one of whom must be FITCH is required for inclusion onto the Council's authorised lending list.

3.3.4 The principle of ensuring capital security and then of securing the best rate of return underpins all treasury investment decisions. When setting the present strategy allowance was made to enable investment in a range of other instruments that offered the potential for slightly better returns at commensurate levels of risks. To this end custodian arrangements were put in place with the Bank of New York Mellon. Market conditions have not favoured investment in such non-term deposits but should conditions become more favourable these options will be explored. A list of the Specified and Non-Specified investments that Officers are permitted to undertake in-house, which was approved by Full Council on **29 February 2016 (Minute A19/16),** is detailed in **Appendix B.**

3.3.5 The financial year 2016/17 continues the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

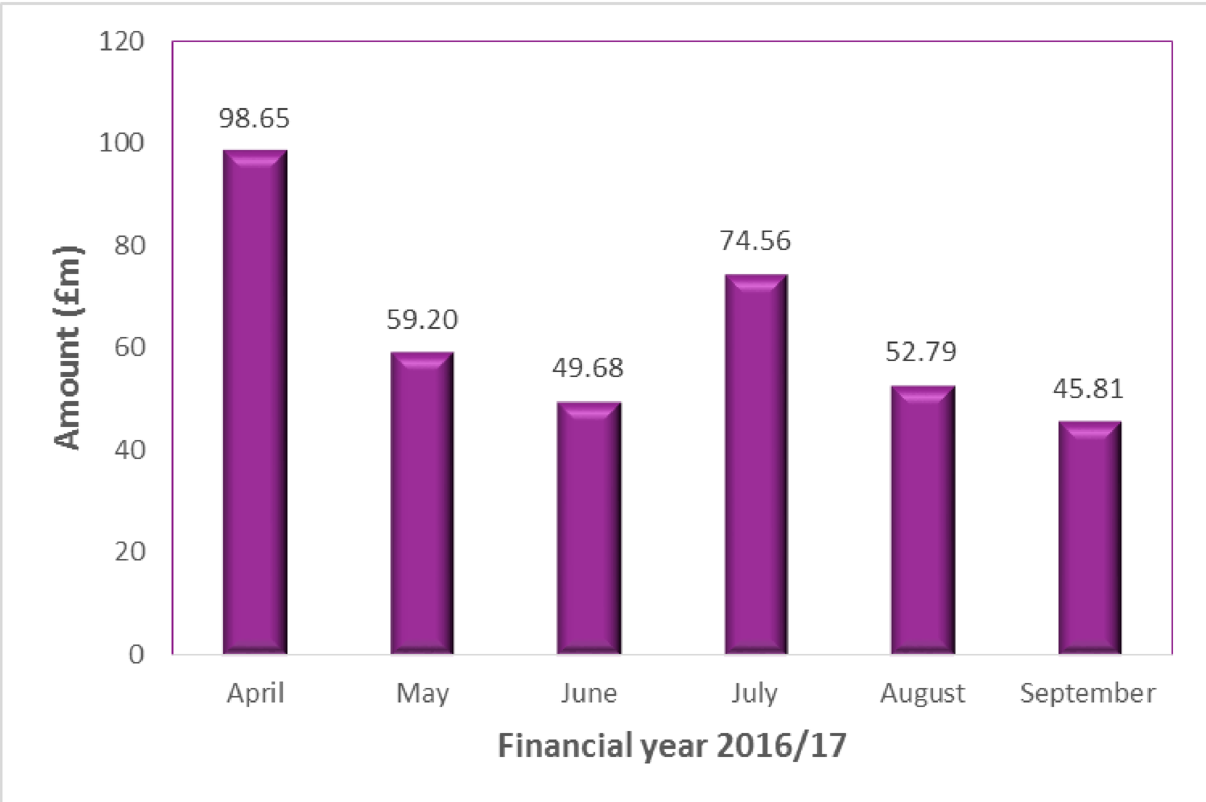
3.3.6 Investment activity in the first half of 2016/2017 conformed to the approved strategy and the Council experienced no liquidity issues in the year with an average monthly balance of £131.5m being maintained in temporary investments during the year. Part of this sum is made up of core balances such as provisions and reserves set aside and cash balances that can if necessary be invested for longer periods to take advantage of favourable interest rates and to limit exposure to the risk of future rate movements.

3.3.7 Available funds were invested for differing periods, to match anticipated movements in the Council's daily cash flows commensurate with achieving best value and based on forecasts of interest rate trends. The primary aim is to ensure the capital security of the Council’s investments and then to secure the best rate of return.

3.3.8 Investment of the Council’s cash balances is governed by the guidance on Local Government Investments which has been issued by the Department for Communities and Local Government (DCLG). This guidance requires certain investment policy parameters to be set within the annual Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement and Annual Investment Strategy approved by Council. Investment activity during the year conformed to this approved strategy and sufficient liquidity was maintained for the Council’s cash flow requirements.

3.3.9 In aggregate for the first half of 2016/2017, deposits totalling £380.676m were invested and the Council maintained an average monthly balance of £131.5m yielding an investment rate of return of 0.76% compared to the LIBID 7 day rate of 0.28% and LIBID 6 month rate of 0.52% for the year. Investments outstanding at 30 September 2016 were £119.6m. These were invested as follows: Non-UK banks £100.0m, other local authorities £5.0m and £14.628m with AAA rated Money Market Funds.

<u>Chart 1: Investments made in 2016/2017</u>



3.4 Borrowing

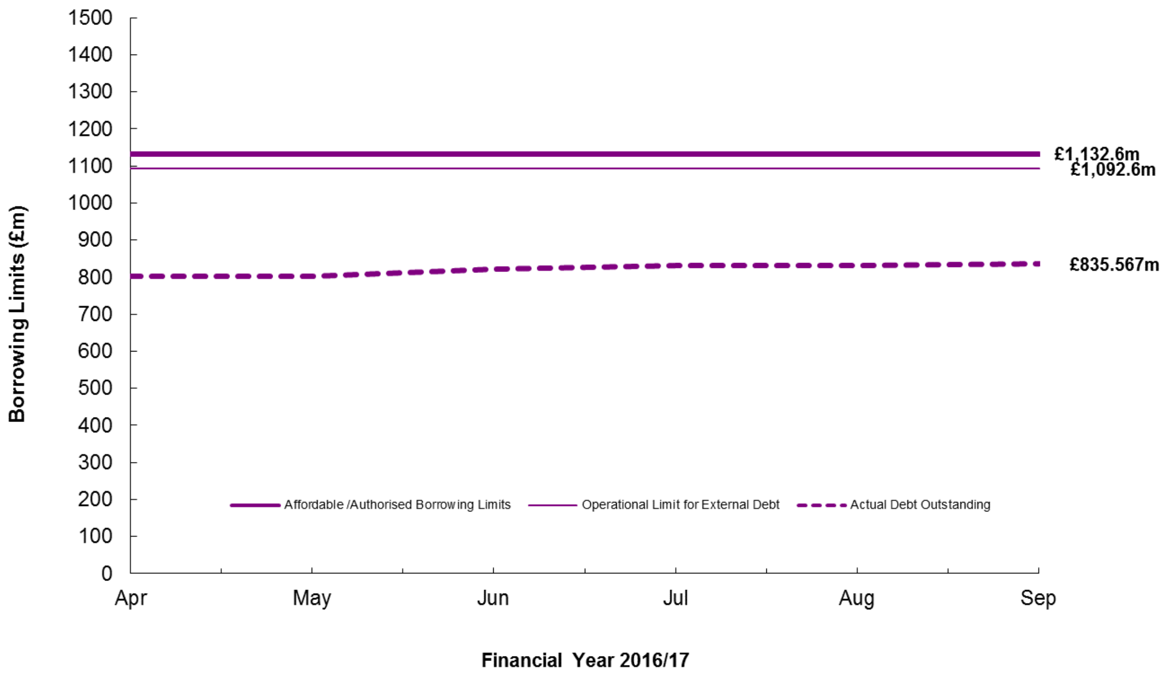
3.4.1 The Council set borrowing limits that were approved by **Full Council on 29 February 2016 (Minute A19/16 refers)** for the year 2016/2017 as part of the legislative constraints specified in Section 3 of the Local Government Act 2003 which require the Council to determine and keep under review how much it can afford to borrow.

The limits were:

Operational Limit for External Debt	£1,092.6m
Affordable Borrowing Limit	£1,132.6m
Authorised Borrowing Limit	£1,132.6m

The chart below shows the actual debt in the first half of 2016/2017 in relation to the borrowing limits applicable at the time.

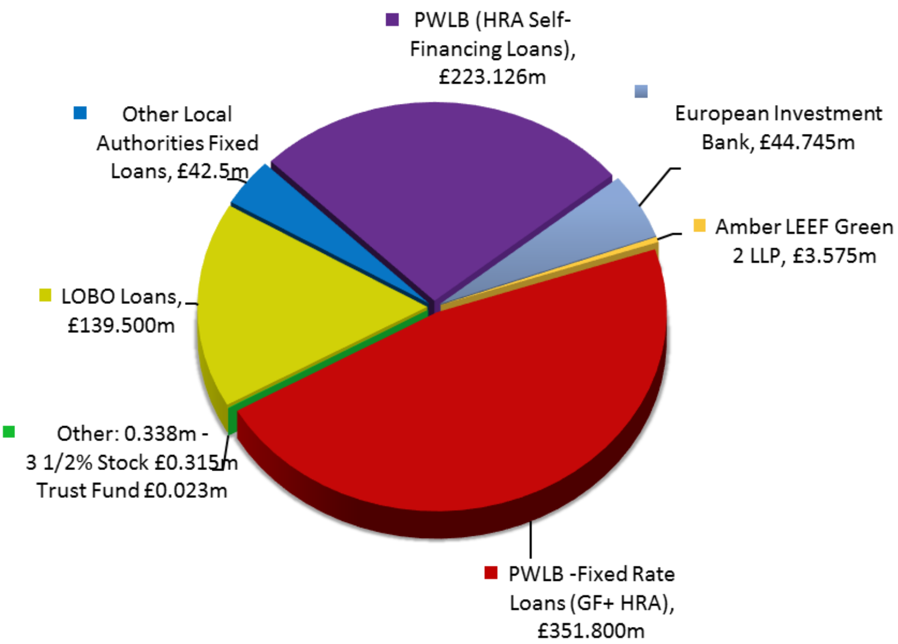
Chart 2: Actual Debt in 2016/2017 in comparison to the Operational, Affordable and Authorised Borrowing Limits for the year



3.4.2 The Authorised Borrowing Limit which sets the maximum amount that the Council can borrow for capital and revenue purposes was not exceeded. The Council's overall borrowing as at 30 September 2016 stood at £835.567m. There was therefore considerable headroom to spare between this level of debt and the Authorised Borrowing Limit.

3.4.3 The Council's long term debt as at 30 September 2016 is detailed graphically as follows:

Chart 3: Long Term and Short Term Debt as at 30 September 2016



3.4.4 The borrowing requirement for the financial year 2016/2017 has been estimated to be £291.02m. Of this, £93.416m relates to 2015/2016's borrowing requirement which had not been taken up in that year because there were sufficient cash holdings at the year end. The treasury strategy is, through systemic slippage in the delivery of the capital programme and through the use of existing cash balances, to limit the need for further borrowing, and thus to reduce the cost of debt to the Council. During the first half of the year the Council has increased its borrowing by £34m, this being made up of £20m from the Public Works Loan Bond (PWLB) and £19m from the European Investment bank with £5m being repaid to a local authority. The majority of the borrowing has been used to finance the Council's Education Capital Strategy.

3.4.5 When taking up the remainder of this year's borrowing requirement the Council's Treasury Section will examine all the options available and will compare these against both the certainty rates offered by the PWLB and European Investment Bank (EIB) rates to ensure that the most advantageous rates possible are secured on long-term funding. Consideration will also be given to the use of internal balances to fund at least a part of the requirement if this proves economically more beneficial. Borrowing undertaken will be taken to fit into the Council's existing debt maturity profile to ensure an even distribution of maturities in future years. **Appendix C** displays the movements in the PWLB interest rates for the 5-year, 10-year, 25-year and 50-year loan periods during the first half of 2016/2017.

3.4.6 The Council's effective interest payable on long term debt currently stands at 3.85%.

3.5 Compliance with Prudential Indicators

3.5.1 The Prudential Code for Capital Finance in Local Authorities was updated in 2011. It serves as a professional code of practice to support local authorities in complying with Part 1 of the Local Government Act 2003. The Code required the continual monitoring of the Prudential Indicators set by the Council.

3.5.2 The purpose of the Prudential regime is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position.

3.5.3 The Prudential Indicators set by this Authority for 2016/2017 and revised indicators for the year are detailed in **Appendix D.**

3.6 **Repayment of Debt and Debt Rescheduling**

3.6.1 With PWLB rates low in the first half of 2016/2017 and with high premiums being attached to the premature repayment of existing PWLB debt, opportunities for debt restructuring were minimal and therefore none was undertaken.

3.6.2 Debt repayment / restructuring will only be done following external advice and only if it was proved beneficial for the Council. The Council's debt profile is structured so that loans mature over a spread of future dates. This takes advantage of the best rates offered at the time and ensures that refinancing risks are controlled. There is the risk however that when the Authority needs to take out a replacement loan, the market rates could have moved against the Council's position.

3.7 **Minimum Revenue Provision**

3.7.1 As part of the mid-year review of the 2015/2016 Minimum Revenue Provision Statement, the Council's General Purposes and Audit Committee approved a revised Annual Minimum Revenue Provision Statement on 9 December 2015 (Minute A62/15). The Council's MRP Policy Statement for 2016/2017 also adopts these revisions.

3.8 **Performance Targets**

3.8.1 The gross investment income earned by the Council for the financial year 2016/2017 is forecast to be £0.75m.

3.8.2 The Council's actual investment return for the first half of 2016/2017 was 0.76% compared to the benchmark average 7-day LIBID rate of 0.28% and 6-month LIBID rate of 0.51%. Liquidity was maintained by investing in AAA rated Money Market funds at rates around 0.35% with some investments pitched over the 3, 6 and 12 month period at rates over 0.50% to produce returns in excess to the benchmark rates.

4 CONSULTATION

4.1 Full consultation in respect of the contents of this report has taken place with the Council's Treasury Management Advisers, Capita Asset Services in the preparation of this report.

5 FINANCIAL CONSIDERATIONS

5.1 Revenue and Capital consequences of this report are dealt within this report.

There are no additional financial considerations other than those identified in this report.

5.2 **The effect of the decision**

Approval of this report will endorse the continued implementation of the Council's Treasury Management Strategy by the Executive Director of Resources (Section 151 Officer).

5.3 **Risks**

There are no further risks issues other than those already detailed in this report**.**

5.4 **Options**

These are fully dealt with in this report

5.5 **Savings/ future efficiencies**

This report sets out the treasury activities in the first half of 2016/2017 and demonstrates the Council's compliance with the Prudential Code and the limits set in both the Code and the Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement and the Annual Investment Strategy 2016/2017 report presented to Members on **29 February 2016 (Minute A19/16)**.

Approved by: Lisa Taylor, Assistant Director of Finance and Deputy Section 151 Officer.

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Acting Council Solicitor comments that there are no additional legal considerations beyond those detailed in the body of the report.

Approved for and on behalf of Jacqueline Harris-Baker, Acting Council Solicitor and Acting Monitoring Officer.

7. HUMAN RESOURCES IMPACT

7.1 There are no immediate HR considerations that arise from the recommendation of this report for LBC staff.

Approved by: on behalf of Heather Daley, Director of Human Resources.

8. CUSTOMER IMPACT

8.1 There are no Customer impacts arising from this report.

9. EQUALITIES IMPACT ASSESSMENT (EIA)

9.1 Consistent with the requirements of equal opportunities legislation including the Public Sector Equality Duty, the Council carries out an equality impact assessment on new policies, or existing policies which are the subject of major change.

9.2 The Council's Capital and Revenue Budget 2016/2017 is not subject to an equality impact assessment. However, in those areas where the setting of the capital and revenue budget result in new policies or policy change, then it is the responsibility of the relevant service department to carry out an equality impact assessment which evaluates how the new or changed policy will impact on disadvantaged sections of the community, including disabled people. The impact assessment includes consultation with disabled people and user-led disabled people organisations.

10. ENVIRONMENT AND DESIGN IMPACT

10.1 There are no Environment and Design impacts arising from this report.

11. CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no Crime and Disorder reduction impacts arising from this report.

12. HUMAN RIGHTS IMPACT

12.1 There are no Human Rights impacts arising from this report.

13. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

13.1 There are no specific Data Protection or Freedom of Information considerations arising from this report.

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BACKGROUND DOCUMENTS: CIPFA's Prudential Code for Capital Finance in Local Authorities Fully Revised Second Edition 2009 and updated 2011 edition.
CIPFA's Code of Practice for Treasury Management in the Public Services and Cross Sectoral Guidance Notes – Fully Revised Second Edition 2009 and updated 2011 edition.
CLG's Guidance on Local Government Investments March 2004.

APPENDICES: Appendix A – Authorised lending list as at 30/09/16
Appendix B – Specified and Non-Specified Investments
Appendix C – PWLB Movement since 1 April 2016
Appendix D – Prudential Indicators for 2016/17
Appendix E – Glossary of terms used in the Treasury Mid-Year Review 2016/17 report

LONDON BOROUGH OF CROYDON
Authorised Lending List as at 30/09/16 (Criteria as per FITCH)

LIST A

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Royal Bank Of Canada **(Canada)**	20,000,000	AA	F1+	aa	2	AAA
Morgan Stanley Money Market Fund	15,000,000	AAA				
Aberdeen Money Market Fund	15,000,000	AAA				
Goldman Sachs Money Market Fund	15,000,000	AAA				
JP Morgan Money Market Fund	15,000,000	AAA				
Deutsche Money Market Fund	15,000,000	AAA				
Insight Money Market Fund	15,000,000	AAA				
Royal Bank of Scotland Group Plc **(Part Nationalised) (UK)**	25,000,000	BBB+	F2	bbb+	5	AA+
Debt Management Account **(UK Government Body)**	No Limits					

LIST B

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Australia & New Zealand Banking Group **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Bank Of Montreal **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Bank Of Nova Scotia **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Canadian Imperial Bank Of Commerce **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Commonwealth Bank Of Australia **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
DBS Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
National Australia Bank **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Overseas Chinese Banking Corporation Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Svenska Handelsbanken AB **(Sweden)**	10,000,000	AA-	F1+	aa-	2	AAA
Toronto-Dominion Bank **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
United Overseas Bank Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Westpac Banking Corporation **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
All UK Local Authorities	10,000000					

LOCAL GOVERNMENT INVESTMENTS (ENGLAND)
SPECIFIED AND NON-SPECIFIED INVESTMENTS

a. **Specified Investments** - Where there is a change in the current investment policy this is specifically noted. All investments shall consist of investments under one year as follows:

- Debt Management Agency Deposits Facility (DMADF) which is currently available for investments up to six months.

- Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to one year.

- Term deposits with credit - rated deposit takers (banks and building societies) including callable deposits, with maturities up to one year.

- Certificate of Deposits issued by credit - rated deposit takers (banks and building societies) up to one year.

- AAA rated Money Market Funds (i.e. a collective investment scheme as defined in SI. 2004 No 534).

- Bonds issued by multinational development banks (as defined in SI 2004 No 534) with maturities under 12 months.

- Enhanced AAA rated Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds.

- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market.

- UK Government Treasury Bills which are debt instruments issued by the Government's Debt Management Office through weekly auctions. The bills are issued with maturities of one, three and six months.

b. **Non-Specified investments** - Local authorities now have specific powers to invest for periods in excess of one year. Previously such investments were not permissible, except in respect of the Council's Pension Fund (where specific legislation exists). It is recommended that these shall consist of:

- Term deposits with credit - rated deposit takers (banks and building societies) with maturities greater than one year. As a general rule they cannot be traded or repaid prior to maturity. The risk with these is that interest rates could rise after making the investment and there is also the potential that there could be a deterioration of the credit risk over a longer period. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Term Deposits with UK local authorities. This investment represents intra-authority loans i.e. from one local authority to another for the purpose of cash-flow management. The risk with these is that interest rates could rise after making the investment and it is therefore recommended that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. This risk is common to all term deposits whether with local authorities or other counterparties.

- Certificate of Deposits (C.D.) issued by credit - rated deposit takers (banks and building societies) with maturities greater than one year. With these investments there is a market or interest risk. Yield is subject to movement during the life of the CD, which could negatively impact on the price of the CD if traded early. It is recommended, therefore, that the use of this investment is limited to a maximum of five years and sold on maturity following advice from the Council's treasury management advisers.

- Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than one year. These have the potential of higher return than using a term deposit with a similar maturity. The risk is that only the borrower has the right to pay back the deposit, the lender does not have a similar call, as although the term is fixed only the borrower has the option to repay early. There is, therefore, no guarantee that the loan will continue to its maturity. The interest rate risk is that the borrower is unlikely to pay back the deposit earlier than the maturity date if interest rates rise after the deposit is made.

- Forward deposits with credit rated banks and building societies for periods greater than one year (i.e. negotiated deal period plus period of deposit). The advantage of the investment is that there is a known rate of return over the period the monies are invested which aids forward planning. The credit risk is that if the credit rating falls or interest rate rise in the interim period the deposit period cannot be changed. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Bonds issued by multilateral development banks (as defined by SI. 2004 No 534). These have an excellent credit quality and are relatively liquid. If they are held to maturity there is a known yield, which would be higher than that on comparable gilts. If traded, there could be a potential for capital gain or loss through appreciation or depreciation in value. The market or interest risk is that the yield is subject to movement during the life of the bond, which could impact on the price of the bond, i.e. if sold prior to redemption date. Given the potential for loss any investment would need to be based on the principle that they would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Enhanced Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds.

- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market. If held to maturity there is a known yield but if traded there could be a potential for capital gain or loss through appreciation or depreciation in value. Given the potential for loss, any investment would need to be based on the principle that UK government gilts would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. If held to maturity, these bonds represent the nearest to a risk-free investment.

- Property Funds. Property funds can provide stable returns in terms of fixed period rents, whether commercial or industrial rentals. Property funds can be regulated or unregulated. An investment in share or loan capital issued by a regulated property fund is not treated as capital expenditure but an investment in an unregulated fund would count as capital expenditure. Given the nature of the property sector, a longer-term time horizon will need to be considered for this type of investment.

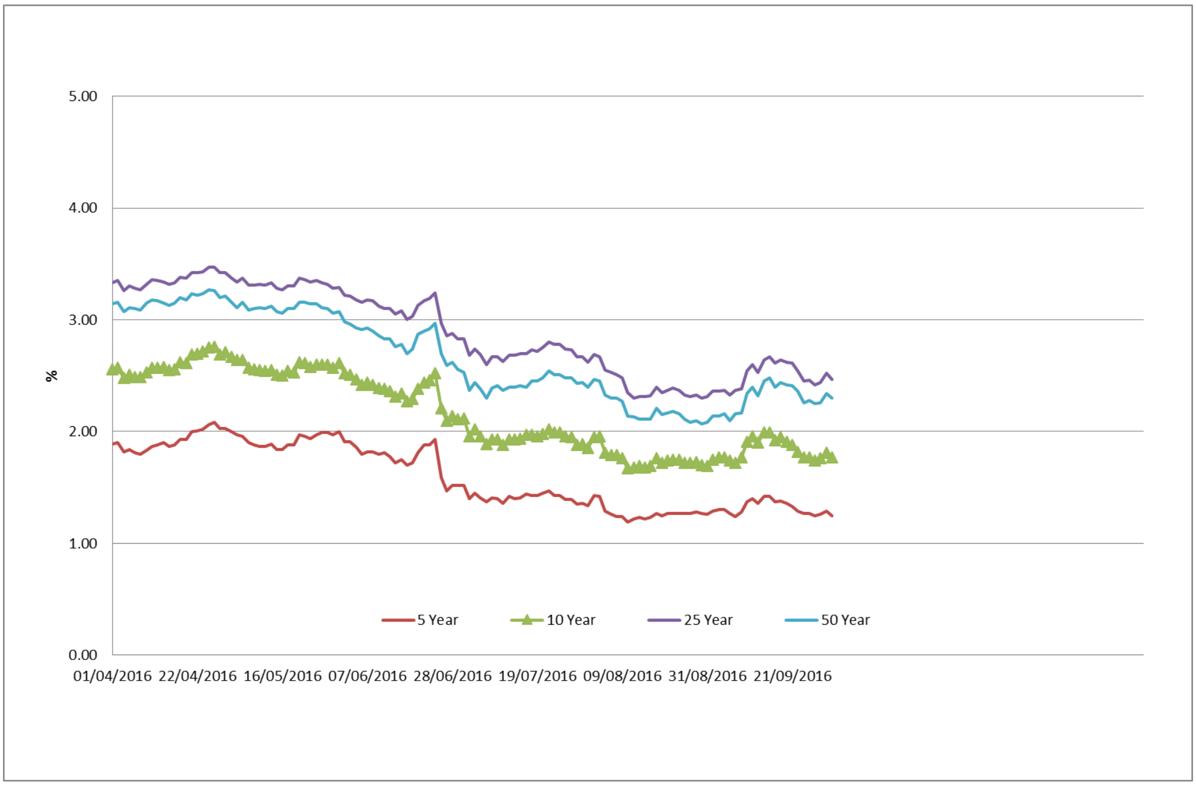
- Floating Rate Notes (FRNs). These are typically longer term bonds issued by banks and other financial institutions which pay interest at fixed intervals. The floating rate nature of these instruments reduces the exposure to interest rate risk as the interest rate is re-fixed at the beginning of every interest rate period. The option to redeem before maturity is available through the secondary market. It is recommended that investments in FRNs be restricted to those issued by institutions on the Council's authorised lending list, after consulting and taking advice from the treasury management consultants.

- Corporate Bonds are issued by corporate institutions for example General Electric, Vodafone, Volkswagen etc. They offer local authorities an alternative to the usual financial institutions. For Corporate Bonds, the minimum credit rating criteria of AA- should apply to fit within the Council's investment parameters.

- Covered Bonds. These are a type of secured bond that is usually backed by mortgages or public sector loans. An important feature of covered bonds is that investors have dual recourse, both to the issuer and to the underlying pool of assets.

Appendix C

PWLB Movement since 1 April 2016



Appendix D

PRUDENTIAL INDICATORS FOR 2016/2017

		2016/2017
	PRUDENTIAL INDICATORS	**Indicators** **£'000**
1 1.1	**Prudential Indicators for Capital Expenditure** Capital Expenditure General Fund HRA	 142.564 33.621
	Total	176.185
1.2	In year Capital Financing Requirement General Fund (gross of MRP costs). HRA	 82.676 6,191
	Total	88.867
1.3	Capital Financing Requirement as at 31 March 2016 – **balance sheet figures** General Fund (net of MRP costs). HRA (includes the £223.126m borrowed for the HRA Self Financing settlement sum paid to CLG on 28 March 2012).	 650.000 333,905
	Total	983.905
2 2.1 2.2 2.3	**Prudential Indicators for Affordability** Ratio of financing costs to net revenue stream General Fund HRA General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum). - In year increase HRA impact of Prudential (unsupported) borrowing on housing rents (per annum).	 13.0% 16.0% £14.00 0

Appendix D

		2016/2017
	PRUDENTIAL INDICATORS	**Indicators** **£'000**
3 3.1	**<u>Prudential Indicators for External Debt</u>** External Debt and Borrowing Requirement Long Term Debt brought forward 1 April Estimated Long Term Debt carried forward 31 March (includes the £223.126m in loans taken up to repay CLG for the HRA Self Financing settlement sum)	 895.071 1,092.666
	Additional Borrowing	197.595
3.2	Operational boundary for external debt (excludes revenue borrowing) - Borrowing - Other long term liabilities	 1,092.666 0
3.3	Total Operational limit (excludes revenue borrowing) Add margin for cashflow contingency Affordable Borrowing Limit (includes revenue borrowing) Authorised limit for external debt (includes revenue borrowing) - Borrowing - Other long term liabilities	1092.666 40,000 1,132.666 1,132.666 0
3.4	Authorised Borrowing Limit	1,132.666
4 4.1 4.2 4.3	**<u>Prudential Indicators for Treasury Management</u>** Borrowing limits - upper limit for fixed interest rate exposure expressed as:- Net principal re fixed rate borrowing / investments Borrowing limits - upper limit for variable rate exposure expressed as:- Net principal re variable rate borrowing / investments Lending limits - upper limit for total principal sums invested for over 364 days expressed as a % of total investments	 1,132.666 20% 30%

Appendix E

GLOSSARY OF TERMS USED IN THE TREASURY MID-YEAR REVIEW 2016/2017 REPORT

Affordable Borrowing Limit and Authorised limit for external debit	The maximum amount the Council can borrow for capital and revenue purposes, allowing for unexpected events. It reflects a level of borrowing which, while not desirable, is affordable in the short term. This limit reflects the temporary nature of the borrowing.
Borrowing for Capital Purposes - Supported - Unsupported	 The amount of borrowing to finance capital projects for which the Government will give revenue support and specific grants. Additional borrowing the Council may wish to undertake, but for which there will be no financial contribution through the grant system.
CIPFA Treasury Management Code of Practice	The professional code governing treasury management, which the Council has formally adopted.
Capital Financing Requirement (CFR)	The authority's underlying need to borrow to finance capital expenditure.
Consumer Price Index (CPI)	This is a measure of the general level of price changes for consumer goods and services but excludes most owner occupier housing costs such as mortgage interest payments, council tax, dwellings insurance, rents depreciation and the like.
FITCH	An internationally recognised rating agency which is used and approved by the Council's Treasury Advisers, Capita Asset Services.
Gross Domestic Product (GDP)	Gross Domestic Product (GDP) is a measure of a country's economic activity, including all the services and goods produced in a year within that country.

G7	The Group of Seven (G7) is an informal bloc of seven industrialised democracies – the USA, Canada, France, Germany, Italy, Japan and the UK that meets annually to discuss issues such as global economic governance, international security and energy policy.
Lenders Option / Borrowers Option Loans (LOBO's)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period of time, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercise the option to change the interest rate the borrower can then decide whether to accept the new terms or repay the loan with no penalty.
London Interbank Bid Rate (LIBID)	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Minimum Revenue Provision (MRP)	The amount which must be set aside from revenue each year to cover future repayment of loans. There is no MRP requirement for HRA borrowing.
Net Revenue Stream (NRS)	The NRS for the General Fund is the "Amount to be met from Government Grant and Council Tax contributions", as shown in the consolidated revenue account. This represents the budget requirement for the Council. The NRS for the Housing Revenue Account is the amount to be met from net rent income as shown in the HRA accounts.
Operational boundary for external debt	The maximum amount of external debt according to probable events and consistent with the level of external debt projected in the estimates.
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.