MoleValley District Council

Agenda Item 6

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Date	17th March 2016

Ward (s) affected	None specifically

Subject	Treasury Management Strategy Report 2016/17 to 2018/19

RECOMMENDATIONS

The Audit Committee is asked to:

a) in considering the Treasury Management Strategy, (TMS), and in particular the Prudential Indicators, set out in Appendices A and B to the attached Council report, either:

- endorse the decisions made by Council;

  or

- suggest any final amendments, for consideration by the Section 151 Officer in consultation with the Chairman of the Council, and the Chairman of Audit Committee.

b) note the intention of the Administration is to bring forward a policy/policies, for consideration in June, that would control the Council's borrowing under the Prudential Indicators with regards to potential property investments within a formal policy framework. These policies would cover both, property investments which have a community value, and those which could be made for purely financial reasons. In addition a policy for short term borrowing (less than 365 days) would also be proposed. No borrowing is envisaged by the Council until the formal framework/ policies are in place and agreed by the Council.

CORPORATE PRIORITY OUTCOMES

Strong governance arrangements require resources to be directed in accordance with the agreed strategies and according to prudential indicators and limits as set out in the Treasury Management Strategy.

It is important that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for communities and service users.

The Council's investment priorities are security (first), liquidity (second) and finally yield.

The Committee has the authority to determine the Recommendations

1.0 Introduction

1.1 At its meeting of 23 February 2016 The Council resolved:

"that, subject to the S151 Officer, in consultation with the Chairman of the Council and the Chairman of the Audit Committee, being authorised to make any final amendments following consideration of the recommendations by the Audit Committee:

(1) The capital expenditure Prudential Indicators and Limits for 2016/17 to 2018/19 contained within Appendix A of the report be agreed.

(2) The Minimum Revenue Provision (MRP) Statement contained within Appendix A that sets out the Council's policy on MRP be agreed.

(3) The Treasury Management Strategy 2016/17 to 2018/19 and the Treasury Prudential Indicators contained within Appendix B be agreed.

(4) The Investment Strategy 2016/17 contained in the Treasury Management Strategy (Appendix B) and the detailed criteria included in Annex B1 be agreed."

1.2 The Council report is therefore presented on today's agenda for consideration by the Audit Committee. In particular the attached report sets out:

- Appendix A – The Prudential Indicators relating to capital expenditure and any potential borrowing;
- Appendix B – The Investment Strategy and Prudential Indicators relating to treasury management and lending.

1.3 The purpose of this report is twofold:

- To confirm that any potential borrowing that may be undertaken by the Council in the coming year is affordable and sustainable.
- To confirm that all lending activity is undertaken in a way that delivers: safety and security of investment; liquidity, (ease of recovering invested sums), and an acceptable yield, (given the statutory requirement to prioritise security and liquidity).

1.4 The report arises from a statutory duty for the Council's Section 151 Officer to report to Council on these two issues annually, using a standard format, and in particular using the CIPFA, (Chartered Institute of Public Finance and Accountancy), defined Prudential Indicators set out in the attached Appendices. It is a statutory duty of the Council to confirm these indicators prior to the beginning of the financial year to which they apply, and then to monitor performance against them during and after the financial year.

1.5 Capital spending decisions can take place at any point during the financial year. Consequently, although much of the Council's capital spending is identified in the Capital Programme approved by Council in February, the TMS and in particular the Prudential Indicators needs to take account of, and set a framework for a wide variety of spending scenarios that could take place throughout the year. As such, it is important to recognise that the Prudential Indicators should not be seen as a 'plan' or a 'budget'. They are a framework against which affordability can be judged.

1.6 This is particularly relevant in 2016/17. The aggregate Capital Programme endorsed by Council on 23 February 2016 will almost certainly lead to some level of borrowing by the end of 2016/17, unless a significant, currently unidentified capital receipt is achieved. The Section 151 Officer has confirmed that the cost of any such borrowing is affordable and has been budgeted for within the balanced 2016/17 revenue budget.

1.7 However, in line with the 2013 Medium Term Financial Strategy, the Council has, a number of times in recent years, taken advantage of opportunities to invest in property assets within the District. Such purchases have provided

potential benefits for the residents of Mole Valley, and at the same time created income streams in support of the revenue budget.

1.8 Each purchase of this kind, so far, has been judged on its merits at the time, rather than being made within an existing policy framework. However, the Administration intends to bring forward a policy/policies, for consideration in June, that would formalise this process and place such property investments within a formal policy framework. This would cover both, property investments which have a community value, and those which could be made for purely financial reasons.

1.9 The 2013 MTFS identifies such property acquisitions as a major element in addressing future financial challenges, and ensuring that the Council has a sustainable budget going forward. The capital Prudential Indicators set out in this report allow for a possible increase in the level of such acquisitions, following the potential adoption of these property investment policies.

Options

1.10 In considering the TMS, and in particular the Prudential Indicators, set out in Appendices A and B, the Audit Committee is asked to either:

- Endorse the decisions made by the Council;

or

- Suggest any final amendments, for consideration by the Section 151 Officer in consultation with the Chairman of the Council, and the Chairman of Audit Committee.

Financial Implications

Please see Council Report attached at Annex 1

Legal Implications

Please see Council Report attached at Annex 1

2.0 CORPORATE IMPLICATIONS

Please see Council Report attached at Annex 1.

BACKGROUND PAPERS

Please see Council Report attached at Annex 1.

Mole Valley District Council

Annex 1
Council Report Considered on 23rd February 2016

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Date	23rd February 2016

Ward(s) affected	None specifically

Subject	Treasury Management Strategy Report 2016/17 to 2018/19

RECOMMENDATIONS

The Council is asked to consider each of the four key elements of this report and approve:

1. The capital expenditure Prudential Indicators and Limits for 2016/17 to 2018/19 contained within Appendix A of the report.
2. The Minimum Revenue Provision (MRP) Statement contained within Appendix A that sets out the Council's policy on MRP.
3. The Treasury Management Strategy 2016/17 to 2018/19 and the treasury Prudential Indicators contained within Appendix B.
4. The Financial Investment Strategy 2016/17 contained in the Treasury Management Strategy (Appendix B), and the detailed criteria included in Annex B1.

CORPORATE PRIORITY OUTCOMES

Strong governance arrangements require resources to be directed in accordance with the agreed strategies and according to prudential indicators and limits as set out in the Treasury Management Strategy.

It is important that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for communities and service users.

The Council's investment priorities are security (first), liquidity (second) and finally yield.

The Council has the authority to determine the Recommendations.

1. TREASURY MANAGEMENT STRATEGY - BACKGROUND

1.1 The Council's Medium Term Financial Plan, approved in 2013, sets out the need to replace reducing Government Grant by income generated through making the best use of assets. The reduction in grant announced for 2016/17 has accelerated the need to pursue a policy of property investment to generate income in support of services.

1.2 Further development of this policy is planned by formulating and presenting a Property Investment Policy during 2016/17. If this is approved, then the Council will require funds to invest. The Council's reserves are no longer sufficient to support this, so the Treasury Management Strategy sets out the appropriate indicators, authorities and limits, within the Prudential Code, to enable the Council to borrow next year if required. The Code requires that these indicators are set and approved before the start of the financial year.

1.3 To provide the necessary capacity to support property investments if required during 2016/17, the Treasury Management Strategy at Appendix B provides for up to £25m of borrowing in the year.

1.4 The Treasury Management Strategy fulfils four key legislative requirements, comprising the four sections listed below.

(i) 10 Prudential Indicators – to demonstrate overall control of capital expenditure and that the level of expenditure is sustainable and affordable. They are required by legislation to be set and approved before the start of the year, monitored during the year and reported on at year end. They address:-

1. Plans for capital expenditure – the projected capital expenditure for each of the next three years and the source of funding.

2. Capital Financing Requirement – the anticipated need for borrowing where capital cannot be financed by existing resources.

3. Affordability indicator – the ratio of capital financing costs to the net revenue budget.

4. Affordability Indicator - the impact of capital investment decisions on Council Tax.

5. Comparison of borrowing estimate and capital financing requirement, to confirm that borrowing is intended for capital purposes only.

6. Operational Boundary for external debt – is based on the Authority's estimate of most likely, ie prudent, but not worst case scenario for external debt.

7. Authorised Limit for external debt – is the maximum amount of debt that the Authority can legally owe. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements.

8. To preserve liquidity, the maximum value of investments for more than one year.

9. To assess interest rate exposure, the upper limit on variable, as opposed to fixed, interest rate investments.

10. The maturity structure of fixed interest rate borrowing, to regulate the Council's exposure to large repayment requirements.

(ii) Minimum Revenue Provision

This sets out how the Council will calculate an appropriate amount to set aside towards the replacement of capital assets each year.

(iii) Treasury Management Strategy Statement

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice. This statement sets out the parameters of day to day treasury management and the limitations on activity determined by Prudential Indicators 5 to 10 above.

(iv) Financial Investment Strategy

This sets out the Council's criteria for selecting investment counterparties and limiting its exposure to the risk of loss.

1.5 A requirement of the Code of Practice on Treasury Management is that the approach forms part of the Council's financial regulations. This is shown at Annex B4. The policies and parameters provide an approved framework within which the officers undertake the day-to-day capital and treasury activities.

1.6 **Financial Implications** – are covered in the body of this report.

1.7 **Legal Implications** - In addition to the statutory requirements mentioned in the report, the prudential indicators, the treasury management strategy and annual plan must be approved before the start of the new financial year, in this case, 1st April, 2016.

2. CORPORATE IMPLICATIONS

Monitoring Officer commentary – The Monitoring Officer confirms that all relevant legal implications have been taken into account.

S151 Officer commentary – The S151 Officer confirms that all financial implications have been taken into account.

Risk Implications - Risk inherent in the Council's borrowing and investment strategy have been considered throughout this report in line with statutory guidance and the requirement to set indicators that are affordable, sustainable and prudent.

Risk Management is a fundamental aspect of implementing an effective Treasury Management Strategy. The Strategy outlines the way in which the Council's investments will be managed and there is always an element of risk in these activities. This Strategy provides a framework that it considers provides a good return on the Council's investments, but without placing these at undue risk.

Clearly the nature of the financial markets is such that the risks can vary throughout the year. These will be managed in line with the usual ongoing risk arrangements, although in addition the Finance Team maintain an overview of these risks and will vary the investments, in consultation with the Deputy Chief Executive (Section 151 Officer), Executive Member for Finance and Performance and Chairman of Audit Committee, as considered appropriate.

Equalities Implications

There are no equalities implications arising as a direct consequence of this report.

Employment Issues

None identified in this report.

Sustainability Issues

None identified in this report

Consultation

Capita Asset Services' (Capita Asset Services is a trading name of Capita Treasury Solutions Limited and are the Council's treasury management advisors) views have been incorporated within this report.

BACKGROUND PAPERS

CIPFA – The Prudential Code for Capital Finance in Local Authorities (2011 Edition).
CIPFA – Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition).
Capita Asset Services Model Treasury Management Strategy Statement 2016/17.
The Council's latest Medium Term Financial Statement (MTFS).
DCLG - Guidance on Local Government Investments (2010).
Treasury Management (Internally Managed Funds) System Document – including Treasury Management Practices (TMPs).

List of Appendices

Appendix A	The Capital Prudential Indicators 2016/17 – 2018/19 and the Minimum Revenue Provision (MRP) Statement
Appendix B	Treasury Management Strategy 2016/17 – 2018/19 (including treasury management indicators)

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Annex B1	Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management
Annex B2	Security, Liquidity and Yield Benchmarking
Annex B3	Approved countries for investments
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Annex B6	Economic background
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Appendix A

The Capital Prudential Indicators 2016/17 – 2018/19

Introduction

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems. The Council is asked to approve the prudential indicators set out below for the period up to 2018/19. The prudential indicators are revised and updated annually so the figures for the second and third years are indicative at this stage.
2. Within this overall prudential framework there is an impact on the Council's treasury management activity, as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy for 2016/17 to 2018/19 is included in Appendix B to complement these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

The Capital Expenditure Plans

3. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.
4. The Council's capital expenditure plans are summarised overleaf and this forms the first of the prudential indicators. The figures represent forecasts of capital spend in the year and therefore differ from the Capital Programme that is set out as part of the budget report (for Council on 23rd February). This shows individual capital schemes and the year in which they are scheduled to start. A certain level of capital expenditure is grant supported by the Government (ie for Mole Valley, grants towards disability adaptations). Any decisions by the Council to spend above this level will be considered unsupported capital expenditure. 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 rents);
    - Practicality (e.g. the achievability of the Corporate Plan).
5. The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.
6. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

7. The key risks to the plans are that the level of Government support has been estimated and therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance, slow down or a lack of developer contributions, implementation of the Community Infrastructure Levy (CIL) arrangements or due to Government legislation amendments eg a change in policy in November 2014 which reduced the developer contributions towards affordable housing on small-scale developments.

8. The Council is asked to approve the summary capital expenditure projections below. The levels of expenditure for 2016/17 and 2017/18 are higher than usual due to the inclusion of two major schemes in excess of £4m, the refurbishment of Pippbrook Offices and the regeneration of the Meadowbank, Dorking football ground as well as potential further capital investment opportunities. This forms the first prudential indicator:

Prudential Indicator 1 – Capital Expenditure Plans

Capital Expenditure	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Expenditure	2.914	9.594	30.837	2.206	2.306
Financed by:					
Capital receipts	1.600	4.290	1.200	1.136	1.236
Government grants	0.329	0.329	0.270	0.270	0.270
Other grants and contributions	0.985	1.699	2.298	0.600	0.600
Revenue	0	3.276	2.069	0.200	0.200
Net financing need for the year	0	0	25.000	0	0

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

9. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is that element of historic capital expenditure which has not yet been paid for through capital or revenue resources. It therefore reflects the underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. In Mole Valley's case, the Council is currently debt-free but may undertake borrowing of up to £25m in 2016/17 to finance investment. The investment would be in line with the principle within the Council's Medium Term Financial Strategy of making best use of assets to generate income.

10. The investments will be separately monitored during the year as well as any resulting proceeds, either revenue or capital, in a 'revolving' Investment Fund. Income to the Fund may be reinvested in further investment opportunities. At this stage, it is difficult to forecast what further borrowing might be required beyond 2016/17. The Treasury Management Strategy for 2017/18, which will be produced in a year's time, will include an estimate based on the first year's experience of the fund.

11. In addition to the proposed borrowing, some of our contract arrangements are deemed to constitute 'finance leases' and are therefore long-term liabilities for the purpose of these regulations.

12. The Council is asked to approve the CFR projections below:

Prudential Indicator 2 – CFR Projections

Capital Financing Requirement (CFR)	2014/15 Actual (31/03/15) £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Total CFR	2.791	2.491	26.191	24.891	23.591

Movement in CFR represented by					
Net financing need for the year (above)	0	0	25.000	0	0
Less MRP/VRP and other financing movements	(0.295)	(0.300)	(1.300)	(1.300)	(1.300)
Movement in CFR	(0.295)	(0.300)	23.700	(1.300)	(1.300)

13. The Council is required to pay off an element of the accumulated capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary revenue payments (VRP).

14. DCLG regulations have been issued which require the full Council to approve an **MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is prudent provision.

The Council is recommended to approve the following MRP Statement:

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets.

The Use of the Council's Resources and the Investment Position

15. The application of resources (capital reserves (receipts), other reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Fund balances					
Fund balances/reserves	4.384	3.526	3.385	3.526	3.663
Capital reserves	7.863	4.360	4.210	4.124	3.938

Earmarked reserves	8.540	5.189	4.791	1.583	1.116
Total Core Funds	**20.787**	**16.893**	**12.632**	**7.716**	**7.236**
Working Capital *	2.000	2.000	2.000	2.000	2.000
Expected Investments	**22.787**	**18.893**	**14.632**	**9.716**	**9.236**
Investments change		**(3.189)**	**(4.261)**	**(4.916)**	**(0.480)**

* Working capital balances shown are estimated year end, these may be higher mid-year.

Affordability Prudential Indicators

16. The previous sections cover 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:

17. **Ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Prudential Indicator 3 – Ratio of financing costs to net revenue stream

Ratio of Finance Costs to Net Revenue Stream	2014/15 Actual £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Net Finance Cost (Borrowing)	0	0	1.00	1.00	1.00
Net Finance Cost (Investment)	(0.48)	(0.50)	(0.45)	(0.42)	(0.39)
Revenue Budget	10.06	10.06	10.06	9.85	9.50
Ratio %	**(4.8)**	**(5.0)**	**5.5**	**5.9**	**6.4**

18. The estimates of financing costs include current commitments and the proposals in the 2016/17 budget report.

19. **Incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with changes to the three year capital programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three-year period.

Prudential Indicator 4 - Incremental impact of capital investment decisions on the Band D Council Tax

	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
2015/16 MTFS	5.4	7.4	7.2	2.9	2.9
2016/17 MTFS	3.8	9.6	30.6	2.2	2.3
Increase / (Decrease) in Capital Programme	(1.6)	2.2	23.4	(0.7)	(0.6)

Interest rate assumption	0.50%	0.50%	0.75%	1.25%	1.75%
(Loss) / Increase of interest due to use / (investment) of capital reserves	0.008	(0.011)	(0.176)	0.009	0.011
Council Tax Base	38,631	39,632	39,884	40,134	40,384
Increase / (Decrease) in Band D Council Tax	(£0.21)	£0.28	£4.41	(£0.22)	(£0.27)

Treasury Management Strategy 2016/17 – 2018/19

1. This Authority adopts the following form of words to define the policies and objectives of its treasury management activities:

   This Authority defines its treasury management activities as:

   - The management of the Authority's investments and cash flows, its banking, money market and capital market transactions. The effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
   - This Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.
   - This Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Appendix A consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the processes that ensure the Council meets its balanced budget requirement under the Local Government Act 2003.
3. The Council's treasury activities are strictly regulated by statutory requirements (the Local Government Finance Act 2003, the CIPFA Prudential Code, CLG MRP and investment guidance) and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised 2011). This Council has adopted the revised Code.
4. As a result of adopting the Code the Council also adopted a Treasury Management Policy Statement. This adoption is a requirement of one of the prudential indicators. The Treasury Management Policy Statement is appended at Annex B4.
5. The Council's Constitution requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks and the management of the risks associated with the treasury service. A further treasury report is produced monitoring the mid-year position as well as a report after the year-end detailing the actual activity for the year. The above reports are required to be adequately scrutinised before being recommended to Council. The scrutiny role is undertaken by the Audit Committee.
6. This Strategy covers:
   - Debt and investment projections (including the Operational Boundary);
   - Limits to borrowing activity (including the Authorised Limit for external debt);
   - Expected movement in interest rates;
   - Borrowing strategy;

- Investment strategy;
- Economic investment considerations;
- Sensitivity to interest rate movements;
- Treasury management limits on activity;
- Additional treasury issues.

Debt and Investment Projections 2016/17 – 2018/19

Prudential Indicator 5 - Gross Borrowing and Long-term Liabilities and the Capital Financing Requirement (CFR).

7. In order to ensure that borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not, except in the short-term, exceed the total CFR (ie the underlying capital borrowing need).

External debt	2014/15 Actual £m	2015/16 Est. £m	2016/17 Est. £m	2017/18 Est. £m	2018/19 Est. £m
Debt at 1st April	0	0	0	24.0	23.0
Expected change in debt	0	0	24.0	(1.0)	(1.0)
Other long-term liabilities (OLTL)	2.9	2.7	2.4	2.1	1.8
Expected change in OLTL	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Debt at 31st March	2.7	2.4	26.1	24.8	23.5
CFR	2.8	2.5	26.2	24.9	23.6
Under/(over) borrowing	0.1	0.1	0.1	0.1	0.1

Treasury Indicators: Limits to Borrowing Activity

8. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.
9. One of these is that the Council needs to ensure that its total borrowing 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 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.
10. The Deputy Chief Executive (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the 2016/17 budget report.
11. The borrowing requirement comprises the expected movement in the CFR and any maturing debt that will need to be re-financed. The table below shows this effect on the treasury position over the next three years. The **Operational Boundary** (Prudential Indicator 6) is an indicator based on the expected maximum external debt during the course of the year and focuses on day-to-day treasury management activity. It is not a limit in the strictest sense in that it may be breached. The Operational Boundary represents a level of short-term indebtedness that the Deputy Chief Executive (Section 151 Officer) considers would be prudent to cover any unforeseen circumstance that may arise in the management of the Council's day-to-day cash flow activities. The Council has a policy of never going into overdraft. It is advisable that this limit is set at £30,000,000 from 2016/17 – 2018/19. This limit is lower than the Authorised Limit (Prudential Indicator 7) which allows cash flow activities to lead to occasional, but not sustained, breaches of the Operational Boundary.
12. 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.

13. The Deputy Chief Executive (Section 151 Officer) has the authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on consideration of the risk the Council may be exposed to in the course of pursuing its responsibilities and it is considered the current spread of the Council's investment portfolio provides sufficient capacity to counteract any adverse economic news regarding security of financial institutions. Any movement between these separate limits would be reported to the next meeting of the Audit Committee.

Prudential Indicator 6 – Operational Boundary

Operational Boundary	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Debt	1.3	27.6	27.9	28.2
Other long-term liabilities	2.7	2.4	2.1	1.8
Total	**4.0**	**30.0**	**30.0**	**30.0**

14. The related impact of the above movements on the revenue budget is:

Revenue Budgets	2015/16 Estimate £m	2015/16 Updated £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Interest on Borrowing	**0**	**0**	**(1.000)**	**(1.000)**	**(1.000)**
Investment income	**0.498**	**0.498**	**0.448**	**0.419**	**0.390**

15. **The Authorised Limit for External Debt** – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt that, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

16. 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.

17. The Council is asked to approve the following Authorised Limit:

Prudential Indicator 7 – Authorised Limit

Authorised Limit	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Debt	2.8	32.6	32.9	33.2

Other long term liabilities	2.7	2.4	2.1	1.8
Total	**5.5**	**35.0**	**35.0**	**35.0**

18. Borrowing in advance of need – The Council has some flexibility to borrow funds in year for use in future years. The Deputy Chief Executive (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. Whilst the Deputy Chief Executive (Section 151 Officer) will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme. Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 18 months in advance of need.

19. 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.

Borrowing Strategy 2016/17 – 2018/19

20. It is anticipated that it may become necessary to start borrowing to fund the capital programme during 2016/17 and beyond. This is reflected in the revised Operational Boundary and Affordable Limits set out above.

Financial Investment Strategy 2016/17 – 2018/19

Changes to Credit Rating Methodology

21. The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings 'uplift' due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these 'uplifts' with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have 'netted' each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

22. In keeping with the agencies' new methodologies, the rating element of Capita's own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to Capita's process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

23. The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is

attempting to break the link between sovereign support and domestic financial institutions. While this Authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AAA. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

24. It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the 'support' phase of the financial crisis.

25. The Council's investment strategy has regard to the Department for Communities and Local Government's (DCLG) Guidance on Local Government Investments ('the Guidance') and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ('the CIPFA Treasury Management (TM) Code').

26. In accordance with the above guidance from the DCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

27. Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the short-term and long-term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

28. As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.

29. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

30. Investment instruments identified for use in the financial year are listed in Annex B1 under the ‘specified’ and ‘non-specified’ investment categories.

31. **Key Objectives -** The Council’s primary objectives for its investment strategy are safeguarding the repayment of the principal and interest of its investments on time first and ensuring adequate liquidity second. The investment return being a third objective. Following the economic background (Annex B6), the current investment climate has one over-riding risk consideration that of counterparty security risk. As a result of these underlying concerns, officers’ are implementing an operational investment strategy that tightens the controls already in place in the approved investment strategy.

32. **Risk Benchmarking** – A development in the revised Codes and the Department for Communities and Local Government (DCLG) consultation paper is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are fairly new requirements to the Member reporting, although the application of these is more subjective in nature. Additional background in the approach taken is attached at Annex B2.

33. These benchmarks are broad limits and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers’ will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

34. **Security** - The Council’s maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

    - 0.06% historic risk of default when compared to the whole portfolio.

    Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

35. **Liquidity** – In respect of this area the Council seeks to maintain:

    - Bank overdraft - £100,000
    - Liquid short-term deposits of at least £2m available with a week’s notice.

36. **Yield** - Local measures of yield benchmarks are:
    - Investments – Internal returns above the 7-day LIBID (London Interbank BID) rate.

37. **Creditworthiness policy -** 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.

38. The Deputy Chief Executive (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. The 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.

39. Credit rating information is supplied by our treasury consultants 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 a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

40. The criteria for providing a pool of high quality investment counterparties both Specified and Non-specified investments are; (refer to Annex B1 for a definition of each)

- Banks 1 - Good Credit Quality – the Council will only use banks which:

  (a) are UK banks (it should be noted that 'Banks 1' criteria <u>does not</u> rely upon the UK sovereign rating remaining at AA+); and/or

  (b) are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA (see Annex B3).

  And have, as a minimum, the following credit ratings (where rated):

  (a) Short Term – F1/P-2/A-1 (Fitch/Moody's/Standard and Poor's)

  (b) Long Term – A/A3/A (Fitch/Moody's/Standard and Poor's)

- Banks 2 – Guaranteed Banks with suitable Sovereign Support – In addition, the Council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:

  (a) wholesale deposits in the bank are covered by a government guarantee;

  (b) the government providing the guarantee is rated 'AAA' by all three major rating agencies (Fitch, Moody's and Standard & Poor's); and

  (c) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

- Banks 3 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

- Banks 4 – The Council's own banker, National Westminster Bank, for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

- Building Societies – the Council may use all UK Societies which:

  - have assets in excess of £1 billion

- Money Market Funds – any AAA rated fund

- UK Government (including gilts and the DMADF (Debt Management Account Deposit Facility)).

- Supranational bonds

- Local Authorities, Parish Councils etc – the maximum permitted investment with any one bank/building society/fund is £7.5million (as agreed by Council – 22nd February 2011).
- Pooled property funds – up to £7.5m

A limit of 60% will be applied to the use of Non-Specified investments.

41. **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 20% will be placed with any non-UK country at any time;
    - limits in place above will apply to a group of companies;
    - sector limits will be monitored regularly for appropriateness.

42. **Use of additional information other than credit ratings** – Additional requirements under the Code of Practice now requires 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 (CDS), negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

43. **Time and monetary limits applying to investments** - The time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch (or equivalent)	**Money Limit**	**Time Limit**
Upper Limit Category – UK Banks and Building Societies	A (Minimum long-term credit rating)	60% of fund	5 years
Middle Limit Category – UK Banks and Building Societies	F1 (Minimum short-term credit rating)	£7.5m	364 days
Lower Limit Category – UK Banks and Building Societies	F1 (Minimum short-term credit rating)	£7.5m	364 days
Group Limit (Parent Companies and all	F1	£7.5m	364 days

subsidiaries)	(Minimum short-term credit rating)		
Other Institution Limits (see note below)	-	£7.5m	364 days
Guaranteed Organisations*	-	£7.5m	*

* Guaranteed institutions will be restricted to the terms of the guarantee.

Note: The Upper and Middle Limit categories - If these are for greater than 1 year, they will include relatively high rated institutions (A). The Lower Limit Category will normally just be used for unrated subsidiaries and building societies. In all cases building societies will have a minimum asset base of £1bn. The Other Institution Limit will be for other local authorities, the Debt Management Account Deposit Facility (DMADF), Money Market Funds and Gilt and Supranational investments. These are all considered high quality names – although not always rated – and therefore will likely have the same limit as the Upper Category.

44. The proposed criteria for Specified and Non-Specified investments are shown in Annex B1 for approval.

45. In the normal course of the Council's cash flow operations it is expected that both Specified and Non-Specified investments will be utilised for the control of liquidity as both categories allow for short-term investments.

46. The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-Specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the longer-term investment limits.

47. **Country Limits** - The Council currently limits its investment criteria to entities domiciled in the UK, although the Strategy does allow use of foreign banks as long as they meet the minimum long-term credit rating of A and sovereign rating of AAA. When combined with the prudent credit criteria, this means that potential financial institutions will be limited. Given the expected total investments this means that the current £7.5m limit will force the Council to either invest with other local authority bodies or direct with the UK government via the Debt Management Office (DMO) deposit facility. Both of these options will likely act as a drag on overall investment performance.

Economic Investment Considerations

48. **In-house funds** – investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (ie rates of investments up to 12 months).

49. **Investment returns expectations** - the Bank Rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 4 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

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

- 2016/17 0.60%
- 2017/18 1.25%
- 2018/19 1.75%
- 2019/20 2.25%
- 2020/21 2.50%
- 2021/22 2.75%
- 2022/23 2.75%
- 2023/24 3.00%
- Later years 3.00%

50. **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Prudential Indicator 8 – Principal Sums Invested > 364 days

Maximum principal sums invested > 364 days			
	2016/17	**2017/18**	**2018/19**
Principal sums invested > 364 days	£12m	£12m	£12m

Sensitivity to Interest Rate Movements

51. Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios, which are of a longer term, fixed interest rate nature, will not be affected by interest rate changes.

Revenue Budgets	**2016/17 Estimated + 1%**	**2016/17 Estimated - 1%**
Investment income	£331,000	£331,000

Interest on balances for 2016/17 is estimated at £448,000 based on 0.5% for investments up to 3 months in duration, with higher rates for the Council's property fund investment and other potential longer term investments.

Treasury Management Limits on Activity

52. There are three further treasury activity limits. The purpose of these are to contain 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 impair the opportunities 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 – This is 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.

53. The Audit Committee is asked to approve the limits:

Prudential Indicator 9 – Interest Rate Exposures

Interest rate exposures	2016/17	2017/18	2018/19
	Upper	Upper	Upper
Limits on variable interest rates: (investments only)	20%	20%	20%
Limits on fixed interest rates: (investments only)	100%	100%	100%

Prudential Indicator 10 – Fixed Interest Rate Borrowing

Maturity Structure of fixed interest rate borrowing 2016/17		
	Lower	**Upper**
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	25%
5 years to 10 years	0%	50%
10 years and above	0%	100%

Additional treasury issues

Performance Indicators

54. 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. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. These are:

    - Investments – Internal returns above the 7 day LIBID rate

    The results of these indicators will be reported in the Treasury Management Annual Report.

Treasury Management Advisors

55. The Council uses Capita Asset Services as its external treasury management advisor. The company provides a range of services that include:

    - Technical support on treasury matters and capital finance issues;

- Economic and interest rate analysis;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;
- Attendance at Member/Officer treasury management meetings.

56. Whilst the advisors provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Council.
57. This service is subject to regular review.

Member and Officer Training

58. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for members and officers. This Council has addressed this important issue by:

- Members' attendance at meetings with our treasury advisors.
- The training needs of treasury management officers' are periodically reviewed.

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

The Council's investment policy has regard to the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments ('the Guidance') issued in 2010 and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ('the CIPFA TM Code'). The Council's investment priorities will be **security** first, **liquidity** second and finally **yield**.

The Guidance forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for Councils' to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 23rd February, 2010 and will apply its principles to all investment activity. In accordance with the Code, the Deputy Chief Executive (Section 151 Officer) has produced treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual Financial Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than one year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

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 that would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account Deposit Facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been AAA rated by Standard and Poor's, Moody's or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society). Although non-rated building societies are classified as non-specified investments. For category 5 this covers bodies with a minimum short term rating of F1/P-2/A-1 as rated by Fitch, Moody's or Standard and Poor's rating agencies.

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 criterion is detailed in paragraph 45 of Appendix B.

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:

	Non Specified Investment Category	**Limit**
a.	**Supranational Bonds greater than 1 year but less than 5 years to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company (GEFCO)). The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt-edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£7.5m
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. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£7.5m
c.	The **Council's own banker** (National Westminster Bank) if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£7.5m
d.	**Building societies not meeting the basic security requirements under the 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 with ratings. The Council may use such building societies which have a minimum asset size of £1 billion, but will restrict these type of investments to £7.5 million	£7.5m
e.	Any **bank or building society** that has a minimum long-term credit rating of A for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£7.5m
f.	Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to guarantee from the parent company.	£5m
g.	**Pooled property funds** – the use of these instruments will normally be	£7.5m

	deemed to be capital expenditure. The key exception to this is an investment in the CCLA Property Fund.	

Within categories c and d, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies that will be invested in these bodies. This criterion is detailed in Appendix B.

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 Asset Services as and when ratings change, and counterparties are checked promptly. 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 Deputy Chief Executive (Section 151 Officer), and if required new counterparties which meet the criteria will be added to the list. Any urgent and immediate changes that are required to the Treasury Management (TM) Strategy will be directed to the Portfolio Holder for Finance and Corporate Services, Chairman of Audit Committee as well as the Deputy Chief Executive (Section 151 Officer). If all are in agreement the TM Strategy and Treasury Management Practices (TMP's) will be modified to reflect this change. Ultimately any change will be ratified at the next available Council meeting after having been considered at the first available meeting of the Audit Committee.

Use of External Fund Managers – It is the Council's policy to use external fund managers for part of its investment portfolio. On 30th June 2013 the Council invested £5m in the Charities, Churches and Local Authorities (CCLA) Property Fund. This is a high quality, well diversified managed property fund. To realise the full potential of this investment it should be considered as a medium to long term placement. Income is received quarterly and in the current economic climate good yields are anticipated.

The Fund Manager will use non-specified investment categories and are committed to keep to the Council's investment strategy. The performance of the Fund Manager is reviewed monthly by the Deputy Chief Executive (Section 151 Officer).

All other investments are managed by the in-house team.

Policy on the use of external service providers

The Council uses Capita Asset Services, Treasury Solutions as its external treasury management advisor.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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.

Security, Liquidity and Yield Benchmarking

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service - A proposed development for Member reporting are the consideration and approval of security and liquidity benchmarks. These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – internal returns above the 7-day LIBID rate

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. Proposed benchmarks for the cash type investments are below and these will form the basis of future reporting in this area. In the other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined 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' (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - £100,000
- Liquid short-term deposits of at least £2m available with a week's notice.

The Authority, with the help of its treasury advisor, has developed further benchmarking analysis by the monitoring of the Weighted Average Life (WAL) of the portfolio. This is done by analysing the availability of liquidity and term risk in the portfolio. A shorter WAL would embody less risk. The investment policy that is proposed for internally managed funds is shown in Annex B1.

Security of the investments – In the context of benchmarking security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poor's). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each of the three main credit rating agencies long term rating categories over the period 1990 to 2014.

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.04%	0.09%	0.17%	0.25%	0.34%
AA	0.01%	0.03%	0.13%	0.28%	0.43%
A	0.06%	0.20%	0.37%	0.58%	0.81%

BBB	0.15%	0.50%	0.91%	1.43%	1.91%
BB	0.71%	2.21%	3.94%	5.68%	7.20%
B	3.15%	7.44%	11.46%	15.20%	18.40%
CCC	22.21%	31.48%	37.72%	41.81%	45.20%

The Council’s minimum long term rating criteria is currently A, meaning the average expectation of default for a one year investment in a counterparty with a long term rating would be 0.06% of the total investment (eg for a £1m investment the average loss would be £600). This is only an average, any specific counterparty loss is likely to be higher, but these figures do act as a proxy benchmark for risk across the portfolio.

The Council’s maximum security risk benchmark for the whole portfolio, when compared to these historic default tables is:

- **0.06% historic risk of default when compared to the whole portfolio.**

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Treasury Management Investment Annual Report. As this data is collated, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

Annex B3

Approved countries for investments

Based on lowest available sovereign rating of;

AAA

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

Annex B4

Treasury Management Clauses to form part of Standing Orders/Financial Regulations/Constitution

1. The Council adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services; Code of Practice.

2. The Section 151 Officer will ensure that treasury management activities are administered within the parameters defined and agreed by Council and those defined by statutory requirements and professional best practice.

3. The Section 151 Officer will define and propose for agreement by Council, a treasury management policy statement, stating the policies, objectives and approach to risk management in keeping with the above Code's recommendations and will monitor these throughout the year.

4. The Audit Committee is responsible for ensuring effective scrutiny of the treasury management strategy and activity. The Section 151 Officer will submit reports on its treasury management policies, practices and activities including an annual Treasury Management Strategy, a mid-year review and an annual report after the end of the financial year, in the form prescribed in its Treasury Management Practices (TMPs).

The Treasury Management Role of the Section 151 Officer

The Section 151 (Responsible) Officer

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

Economic Background

UK. UK GDP growth rates 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 although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 2015 was weak at +0.4% (+2.9% y/y), although there was a slight increase in quarter 2 to +0.5% before weakening again to +0.4% (+2.1% 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 5.1%.

Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. Bank of England Governor Mark Carney has set three criteria that need to be met before he would consider making a start on increasing Bank Rate. These criteria are patently not being met at the current time, (as he confirmed in a speech on 19 January):

- *Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.*
- *Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC's 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 at 1.2%. December 2015 saw a slight increase to 1.4%.*
- *Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.*

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. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. 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. 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. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, subsequent round of falls in fuel and commodity prices which will delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase.

However, with the price of oil having fallen further in January 2016, and with sanctions having been lifted on Iran, enabling it to sell oil freely into international markets, there could well be some further falls still to come in 2016. The price of other commodities exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments could well lead the Bank of England to lower the pace of increases in inflation in its February 2016 Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation. However, it could also result in a decrease in employment so the overall inflationary impact may be muted.

Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy, a silver lining! Another silver lining is that the UK will not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.

There is, therefore, considerable uncertainty around how quickly pay and CPI 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 the 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 quantitative easing (QE) is already in place. There are, accordingly, arguments that rates ought to rise sooner and quicker, 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 aggressively raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively over the last year from Q4 2015 to Q4 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. There has also been an increase in momentum towards holding a referendum on membership of the EU in 2016, rather than in 2017, with Q3 2016 being the current front runner in terms of timing. This could impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.

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 and this timetable was maintained in the November Budget.

USA. 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 remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.0% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Federal Reserve would start to increase rates in September. 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 while November was also reasonably strong (and December was outstanding); this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB isued, in January 2015, 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. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it 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%.

Greece. 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.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. A left wing / communist anti-austerity coalition has won a majority of seats in Portugal. The general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

China and Japan. 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 -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession. This would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its 'arrows' of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 and the start of 2016, in implementing several stimulus measures to try to ensure the economy hits the growth target of about 7% for 2015. It has also sought to bring some stability after the major fall in the onshore Chinese stock market during the summer and then a second bout in January 2016. 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 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, there are growing concerns about whether the Chinese economy could be heading for a hard landing and weak progress in rebalancing the economy from an over dependency on manufacturing and investment to consumer demand led services. There are also concerns over the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September and again in January 2016, which could lead to a flight to quality to bond markets. In addition, the international value of the Chinese currency has been on a steady trend of weakening and this will put further downward pressure on the currencies of emerging countries dependent for earnings on exports of their commodities.

Emerging countries. 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 a path of rising interest rates and bond yields.

The currencies of emerging countries have therefore been depressed by both this change in investors' strategy, and the consequent massive reverse cash flow, and also by the expectations of a series of central interest rate increases in the US which has caused 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 by a simultaneous downturn in demand for their exports and a deterioration in the value of their currencies. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

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.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Capita Asset Services undertook its last review of interest rate forecasts on 19th January 2016. Their Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. 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 4 of 2016.

The overall trend in the longer term will be for gilt yields and Public Works Loans Board (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. At some future point in time, an increase in 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.

The overall balance of risks to economic recovery in the UK is currently to the downside, given the number of potential headwinds that could be growing on both the international and UK scene. 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.

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 January 2016, (based on short sterling), for the first Bank Rate increase are currently around quarter 1 2017.

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

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Federal Reserve rate increases, causing a flight to safe havens.
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than they currently anticipate.
- Weak growth or recession in the UK’s main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

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 pace and timing of increases in the Federal Reserve 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.

Interest Rate Forecasts 2016 - 2019 **Annex B7**

Capita Asset Services Interest Rate View														
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
3 Month LIBID	0.60%	0.70%	0.80%	0.90%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%
6 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.10%	2.20%	2.20%	2.30%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.40%	2.50%	2.50%	2.70%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB Rate	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB Rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Bank Rate														
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	-	-	-	-	-
5yr PWLB Rate														
Capita Asset Services	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
Capital Economics	2.40%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate														
Capita Asset Services	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
Capital Economics	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate														
Capita Asset Services	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
Capital Economics	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate														
Capita Asset Services	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Capital Economics	3.40%	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

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