AGENDA ITEM 8

Policy Committee – 16 February 2016

2016/17 Treasury Management Strategy Statement,
Minimum Revenue Policy Statement, and Annual Investment Strategy

Report of the Strategic Manager - Financial Services (s151 Officer)

Lead Member – Finance: Councillor Mulligan

Ward(s) affected: All

1. Purpose of Report

1.1 This report presents for approval the proposed Treasury Management Strategy together with the Minimum Revenue Provision Policy Statement, Prudential Indicators 2016/17 and Annual Investment Strategy for 2016/17 as required by the Department of Communities and Local Government and CIPFA.

2. Recommendations

It is recommended to Council that:

2.1 The Operational Boundary for 2016/17 is set at £10.5m

2.2 The Authorised Boundary for 2016/17 is set at £12.75m

2.3 Councillors delegate authority to the Strategic Manager, Financial Services to effect movement within the agreed authorised boundary limits for long-term borrowing for 2016/17 onwards.

2.4 Councillors delegate authority to the Strategic Manager, Financial Services to effect movement within the agreed operational boundary limits for long-term borrowing for 2016/17 onwards.

2.5 The treasury management strategy statement 2016/17 is approved.

2.6 The minimum revenue provision policy statement for 2016/17 is approved.

2.7 The treasury management investment strategy for 2016/17 is approved.

2.8 The prudential indicators for 2016/17, which reflect that the capital expenditure plans are affordable, prudent and sustainable, be approved.

3. Background Information

3.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

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

4. The Report

4.1 Treasury Management Strategy

4.1.1 The Council's Treasury Management Strategy including prudential indicators and the MRP policy statement is attached at Appendix A. The strategy sets out the limits to borrowing and investments that officers will apply over the coming year in order to ensure the Council's capital investment plans are affordable, prudent and sustainable.

4.1.2 The 'Operational Boundary' (the maximum amount that is expected to be borrowed) is £10.5m in 2016/17.

4.1.3 Officers will manage the Council's exposure to interest rate variations during the year by working within agreed upper limits for fixed and variable interest rates (variable rate borrowing will be limited to 30% of all borrowings).

4.1.4 Within its Treasury Management Strategy, the Council will contain its exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums, by setting limits for the amounts that can be invested and the duration.

4.1.5 The Council has a range of loans with differing maturity limits in order to smooth out the repayment profile – the value of loans at 31/03/2016 is forecast to be £5.988m at an average rate of 4.27%;

4.1.6 Total investments at 31/03/2016 are forecast to be £12.5m at an average rate of 0.50%.

4.1.7 Minimum Revenue Provision (MRP) Policy for new borrowing will be based on the asset life. Total MRP for 2016/17 is £321k.

4.1.8 Prudential Indicators are calculated based on the Council's plans to spend £1.531m on capital projects in 2016/17 and provide an additional £3m borrowing capacity to enable property asset purchases in accordance with the Council's Acquisition Regeneration and Investment Strategy. Capital receipts, grants and any available revenue resources will be applied before undertaking any borrowing.

4.1.10 Unless the Council makes an asset acquisition in 2016/17 it is likely that there will be a need to borrow only through utilisation of MRP set-aside, and not from an external counterparty.

4.2 Annual Investment Strategy

4.2.1 The priorities for investing the Council's cash reserves are security of capital and liquidity of funds while achieving the maximum possible yield.

4.2.2 Credit ratings and other credit intelligence are used to inform decisions on investments.

4.2.3 Cash balances for investment are expected to range between £4.5m and £11.5m over the coming year dependent upon cashflows.

4.2.4 Interest rates are forecast to increase in the second half of 2016/17 and therefore sums are being invested over a range of periods of time to try and achieve the budgeted return while allowing the Council to take advantage of any rate rises as soon as possible.

4.2.5 An average rate of return of 0.76% has been estimated for 2016/17.

5.1 **Financial and Value for Money Implications**

The revision of the approved counterparty list and lending limits will enable the Council to take full advantage of investment opportunities while maintaining a sufficient level of security of capital.

5.2 **Legal implications**

There are no legal implications as a consequence of this report.

5.3 **Contribution to Council Priorities**

An effective treasury strategy supports financial resilience of the Council.

5.4 **Risk Management**

Approval of the Treasury Management Strategy enables the Council to comply with Government guidelines. It also contributes to its business and service objectives, and to the effective management of the risks associated with Treasury Management activities.

5.5 **Equality Impact Assessment**

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

6. Consultations with Others

Treasury strategy is reviewed by the Corporate Leadership Team.

7. Access to Information : Background Documents

Working papers held in Financial Services**.**

8. Authors of the Report

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9. Appendices

Appendix A – Annual Treasury Management Strategy including MRP Policy Statement and Prudential Indicators 2016/17
Appendix B – Annual Investment Strategy 2016/17
Appendix C – Treasury Management Practice 1 – credit and counterparty risk
Appendix D – Approved Countries for Investment
Appendix E – Treasury Management Scheme of Delegation

Appendix 1 – Interest Rate Forecast
Appendix 2 – UK Economic Background and Capita Asset Services Forward View

APPENDIX A

TREASURY MANAGEMENT STRATEGY STATEMENT 2016/17

1. Introduction

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

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

1.2.1 **Prudential and treasury indicators and treasury strategy** (this report) **-** This first, and most important, report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

1.2.2 **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.2.3 **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy

1.2.4 **Scrutiny** – The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Policy Committee

1.3 The treasury management strategy for 2016/17 covers two main areas

1.3.1 **Capital issues**

* the capital plans and the prudential indicators;
* the minimum revenue provision (MRP) poicy

1.3.2 **Treasury management issues**

* the current treasury position;
* treasury indicators which limit the treasury risk and activities of the Council;
* prospects for interest rates;
* the borrowing strategy;
* policy on borrowing in advance of need;
* debt rescheduling;
* the investment strategy;
* creditworthiness policy; and
* policy on use of external service providers.

1.4 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.5 **The treasury management role of 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

1.6 **Training**
The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. Training is in the process of being arranged for officers and members. The training needs of treasury management officers are periodically reviewed.

1.7 **Treasury Management Consultants**
The Council uses Capita Asset Services, Treasury Solutions as its external treasury management advisors.

1.7.1 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.

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

2. The Capital Prudential Indicators 2016/17-2018/19

2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.2 **Capital expenditure**
This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts as shown in Table 1:

Table 1 Capital Expenditure Forecasts

Capital expenditure	2014/15 Actual £'000	2015/16 Forecast £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Council Land & Buildings	540	290	699	1,930	150
Plant & Equipment	63	0	131	40	1,040
Vehicle replacements	710	534	280	350	300
IT facilities	79	144	109	100	110
Private Sector Housing	337	360	312	312	312
Total	**1,729**	**1,328**	**1,531**	**2,732**	**1,912**

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

Table 2: Summary of Financing of Capital Expenditure

Capital expenditure	2014/15 Actual £'000	2015/16 Forecast £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Total	1,729	1,328	1,531	2,732	1,912
Financed by:					
Capital receipts	395	380	73	396	423
Capital grants	207	239	309	1,876	239
Capital & Revenue reserves	827	409	667	360	250
Borrowing	300	300	482	100	1,000
Net financing need for the year	**634**	**1,328**	**1,531**	**2,732**	**1,912**

2.4 **The Council's borrowing need (the Capital Financing Requirement)**
The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which is to be financed by borrowing, will increase the CFR.

2.5 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

2.6 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR

2.7 The Council is asked to approve the CFR projections shown in table 3 below

Table 3 Capital Financing Requirement Projections

	2014/15 Actual £'000	2015/16 Forecast £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital Financing Requirement					
Total CFR	5,533	5,514	5,676	5,450	6,200
Movement in CFR	(15)	(19)	162	(226)	750
Movement in CFR represented by					
Borrowing	300	300	482	100	1,000
Less MRP and other financing movements	(315)	(319)	(321)	(326)	(250)
Movement in CFR	**(15)**	**(19)**	**162**	**(226)**	**750**

2.8 **Core funds and expected investment balances**
The application of resources (capital receipts, 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. Table 4 shows estimates of the year end balances for each resource.

Table 4: Estimated Core Funds and Invested Balances (Year End)

Year End Resources	2014/15 Actual £'000	2015/16 Forecast £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Fund balances / reserves	6,645	4,947	3,736	3,741	3,355
Capital receipts	2,223	1,500	1,427	1,031	608
Provisions	0	0	0	0	0
Other	370	376	376	376	376
Total core funds	**9,238**	**6,823**	**5,539**	**5,148**	**4,339**
Working capital	8,688	6,420	5,210	4,840	4,080
Expected investments	**8,961**	**6,600**	**5,400**	**5,000**	**4,200**

2.9 **Affordability prudential indicators**
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:

2.10 **Ratio of financing costs to net revenue stream**
The indicator shown in Table 5 identifies the trend in the cost of capital (borrowing

and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this report.

Table 5: Ratio of Financing Costs

	2014/15 Actual £'000	2015/16 Forecast £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Ratio	6.37	9.07	7.69	8.40	7.31

2.11 **Incremental impact of capital investment decisions on council tax**
This indicator shown in Table 6 identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report 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.

Table 6:Incremental impact of capital investment decisions on council tax

	2014/15 Actual £'000	2015/16 Forecast £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Council tax - Band D	(0.47)	(0.60)	5.72	(7.14)	26.48

3. Minimum revenue provision (MRP) policy statement

3.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

3.2 CLG 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 a prudent provision. The Council is recommended to approve the following MRP statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations

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

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction

This option provides for a reduction in the borrowing need over approximately the asset's useful life.

4. Borrowing

4.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.2 Current portfolio position

The Council's treasury portfolio position at 31 March 2016 with forward projections are summarised below in Table 7. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table7: Current portfolio position

	2014/15 Actual £'000	2015/16 Forecast £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
External Debt					
Debt at 1 April	5,988	5,988	5,988	5,988	5,988
Expected change in Debt	0	0	0	0	0
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	**5,988**	**5,988**	**5,988**	**5,988**	**5,988**
The Capital Financing Requirement	5,533	5,514	5,676	5,450	6,200
Under / (over) borrowing	**(455)**	**(474)**	**(312)**	**(538)**	**212**

4.3 The table shows that the Council will have a small over borrowing position in 2016/17 which will persist until 2018/19.

4.4 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 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.

4.5 The Strategic Manager, Financial Services 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 this budget report.

Treasury Indicators: limits to borrowing activity

4.6 **The operational boundary** – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. This is shown in Table 8

Table 8: The Operational Boundary for Borrowing

Operational boundary	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Debt	6,700	10,500	10,500	10,500
Other long term liabilities	0	0	0	0
Total	6,700	10,500	10,500	10,500

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

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit as set out in Table 9.

Table 9: The Authorised Limit for Borrowing

Authorised limit	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Debt	8,700	12,750	12,750	12,750
Other long term liabilities	0	0	0	0
Total	8,700	12,750	12,750	12,750

4.8 **Prospects for interest rates**

The Council's treasury management adviser Capita Asset Services assists the Council to formulate a view on interest rates . Table 10 gives Capita's central view. Full details of the forecast for interest rates is included at Appendix 1.

Table 10: Forecast for Interest Rates

	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	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%

4.9 **Borrowing strategy**

The Council currently has a marginal over-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded with loan debt rather than cash supporting the Council's reserves, balances and cash flow being used as a temporary measure. This strategy is prudent as interest rates are low. The forecast in Table 7 shows that this position will reverse in the next couple of years This overborring position has arisen as a result of changes to the capital programme..

4.10 This strategy will continue, with mrp set aside from revenue being used to fund expenditure within the capital programme identified as suitable for funding from borrowing. The Council's external borrowing is structured to enable choices to be made at the appropriate time to either repay debt or refinance.

4.11 Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Strategic Manager – Financial Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

4.12 The Council has a number of projects which could require longer term borrowing andif it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years

4.13 Any decisions will be reported to Policy Committee at the next available opportunity.

4.14 **Treasury management limits on activity**

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. The advice is that they should not be set to be too restrictive otherwise they will impair the opportunities to reduce costs / improve performance.

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments shown in table11.
- Upper limits on fixed interest rate exposure. This is similar to the previous

indicator and covers a maximum limit on fixed interest rates shown in table 12.
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits shown in table 12.

Table 11: Limit on interest rate exposure

	2016/17 %	2017/18 %	2018/19 %
	Upper	**Upper**	**Upper**
Limits on fixed* interest rates based on debt	100	100	100
Limits on fixed* interest rates based on investments	100	100	100
Limits on variable interest rates based on net debt	30	30	30

*Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate

4.15 Currently all of the Council's investments are deemed to be variable rate as they mature within the next financial year (to be reinvested at, probably, different rates). However should opportunity arise for investments beyond 364 days then these will be assessed. The upper limits on fixed rate exposures therefore match the Council's operational limit for borrowings, and potential investment levels. The value for variable rate exposures enables variable rate borrowing only up to the value of variable rate loans maturing.

Table 12: Maturity Structure of Borrowing

	Fixed Upper	Fixed Lower	Variable Upper	Variable Lower
Under 12 months	10%	100%	10%	100%
12 months and within 24 months	15%	0%	15%	0%
24 months and within five years	15%	0%	15%	0%
Five years and within 10 years	20%	0%	20%	0%
10 years and within 25 years	40%	0%	0%	0%
Over 25 years	90%	20%	0%	0%

4.16 **Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

4.17 **Debt rescheduling**
As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

4.18 The reasons for any rescheduling to take place will include:

* the generation of cash savings and / or discounted cash flow savings;
* helping to fulfil the treasury strategy;
* enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

4.20 All rescheduling will be reported to the Council, at the earliest meeting following its action.

4.21 **Municipal Bond Agency**
The Municipal Bond Agency, which was set up by the LGA offers loans to local authorities. Its purpose is to facilitate the issuance of loan bonds for Council's that either wish to raise capital on their own or as part of a group of authorities. The intention is that borrowing rates could be lower than those offered by the Public Works Loan Board (PWLB). The opportunities of this new source of borrowing will be kept under review and appropriateness of uses assessed as and when appropriate.

APPENDIX B

ANNUAL INVESTMENT STRATEGY 2016/17

Introduction: changes to credit rating methodology

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.

It is important to note 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 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.

1. Investment Policy

1.1 The Council’s investment policy has regard to the CLG’s 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 TM Code”). The Council’s investment priorities will be security first, liquidity second, then return.

1.2 In accordance with the above guidance from the CLG 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.

1.4 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

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

1.6 Investment instruments identified for use in the financial year are listed in Appendix 3 under the ‘specified’ and ‘non-specified’ investments categories.

2. Creditworthiness policy

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

- 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; and
- 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

2.2 The Treasury 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. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered of suitable quality which the Council may use, rather than defining what types of investment instruments are to be used.

2.3 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is

- Banks 1 - good credit quality – the Council will only use banks which:
  - i are UK banks; and/or
  - ii are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAA

  and have, as a minimum, the following Fitch, Moody’s and Standard and Poors credit ratings (where rated):
  - i Long Term A-

- Banks 2 – Part-nationalised UK bank – Royal Bank of Scotland. This bank can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

- Banks 3 – The Council’s own banker 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

- Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building societies and challenger banks - The Council will use all institutions which
    - i Meet the ratings for banks outlined above; OR
    - ii Have assets in excess of £2.5bn;

- Money market funds – AAA

- UK Government (including gilts and the DMADF)

- Local authorities, parish councils, etc

- Supranational institutions

- Other pooled funds - AAA

A limit of 30% will be applied to the use of non-specified investments.

2.4 **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 30% 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.

2.5 **Use of additional information other than credit ratings.**

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks, stress testing results, balance sheet data and capital cover) will be applied to compare the relative security of differing investment counterparties. To assist with assessing institutions Capita provides a colour coded matrix which officers will also use to assess suitable durations for investments.

2.6 **Time and monetary limits applying to investments**

The time and monetary limits for institutions on the Council's counterparty list are shown in Table 13 (these will cover both specified and non-specified investments:

Table 13: Investment Limits

	Fitch Long term Rating (or equivalent)	Money and/or % Limit	Time Limit
Banks 1	AAA to A-	£2m / 20%	5 yrs
Banks 2 – part nationalised	N/A	£2m / 20%	2 yrs
Banks 3 – Council's banker (not meeting Banks 1)	N/A	£3m	3 yrs
Other institutions limit	-	£1m / 10%	1 yr
DMADF	AAA	unlimited	6 months
UK government, local authorities & other public bodies	N/A	£2m	5 yrs
UK Registered Social Landlords	A-	£1m	5 yrs
	Fund rating	Money and/or % Limit	Time Limit
Money market funds and other pooled funds	AAA	£2m / 20%	liquid

2.7 **Country limits**
The Council has determined that it will only use approved counterparties from the UK, and other countries with a minimum sovereign credit rating of AAA from Fitch. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

2.8 **Sector limits**
The Council has determined that it will not use sector limits (e.g. bank v building society) so as not to overly constrain investment opportunities since the application of counterparty and country (if applicable) limits will provide sufficient security of its portfolio

3. Investment strategy for 2016/17

3.1 The cash flow forecast will be used to divide surplus funds into three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

3.2 Investments will be made with reference to the core balance and cash flow requirements and the outlook for interest rates both short and long-term.

3.3 **Investment returns expectations**
Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2016. The forecasts for financial year ends (March) are:

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

3.4 The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and/or forecasts for increases in inflation rise, there could be an upside risk.

3.5 Suggested investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next five years are shown in Table 14:

Table 14 Interest Rate Forecasts

2016/17	0.60%
2017/18	1.00%
2018/19	1.50%
2019/20	1.80%
2020/21	2.00%

3.6 **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. The Council is asked to approve the treasury indicator and limit as shown in Table 15.

Table 15: Limit of Principal Sums Greater than 364 Days

Maximum principal sums invested > 364 days			
£m	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 364 days	£7.5m	£7.5m	£7.5m

3.7 For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits (overnight to100 days) in order to benefit from the compounding of interest.

3.8 **Investment risk benchmarking**
The Council will use the 3 month LIBID uncompounded as its investment benchmark to assess the investment performance of its portfolio.

3.9 **End of year investment report**
At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

3.10 **Investment training**

The needs of the Council's staff for training in treasury management are assessed every six months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Treasury Management adviser organisations and CIPFA.

3.11 **Investment of money borrowed in advance of need**

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

3.12 The total amount borrowed will not exceed the authorised borrowing limit. The maximum periods between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

Appendix C

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

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 27/03/2012 and will apply its principles to all investment activity. In accordance with the Code, the Strategic Manager, Financial Services has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual 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 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 that 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 a 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 which 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 awarded a high credit rating by a credit rating agency. For category 4 this covers pooled

investment vehicles, such as money market funds, rated AAA+ by Standard and Poor's, Moody's and / or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society).

For category 5 this covers bodies with a minimum Short Term rating of F2 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch 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. These criteria are detailed in Appendix B.

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 investments with:

	Non Specified Investment Category	Limit (£ or %)
a.	**Supranational bonds greater than 1 year 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 Reconstruction and Development Bank etc.).	£1m or 10%
	(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail, the Guaranteed Export Finance Company {GEFCO})	£2m or 20%
	The security of interest and principal on maturity is on a par with the Government and so very secure. 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.	
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.	£2m or 20%
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£3m or 30%
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 £2.5bn.	£1m / 10%

e.	Any **bank or building society** that has a minimum long term credit rating of BBB+ for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£1m / 10%
f.	**Bond funds.** See note 1 below.	£2m
g.	**Pooled property funds** – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	£2m

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within categories c and d, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are a robust balance sheet, a supportive trading and credit history, and information published by the Prudential Regulation Authority, the Financial Conduct Authority, and the Bank of England.

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 Strategic Manager, Financial Services, and if required new counterparties which meet the criteria will be added to the list.

Appendix D

Approved Countries for Investments

Based on the lowest available rating:

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- United States

AA+

- UK

Appendix E

Treasury Management Scheme of Delegation

(i) Full Council

- Receiving and reviewing reports on treasury management policies, practices and activities

- Approval of annual strategy

(ii) Policy Committee

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices

- Budget consideration and approval

- Approval of the division of responsibilities

- Receiving and reviewing regular monitoring reports and acting on recommendations

- Approving the selection of external service providers and agreeing terms of Appointment

(iii) Audit and Governance Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body

Appendix 2

1 UK Economic Background

1.1 UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and 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%.

1.2 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 @ 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.

1.3 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.

1.4 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.

1.5 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.

1.6 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 Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, 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.

1.7 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.

1.8 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.

2 Capita Asset Services Forward View

2.1 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.

2.2 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 19 January 2016. Our 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.

2.3 The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. 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.

2.4 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.

2.5 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 Fed. 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 we 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.

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

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the Fed. funds rate causing a fundamental

reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

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

Appendix 1

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

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