

Appendix 1 - Treasury Management Strategy Statement & Investment Strategy 2016/17 (including MRP policy Statement)

Introduction

In March 2005 the Authority originally adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services Code. The Code of Practice 2011 Edition* (the CIPFA Code) requires the Authority to approve a treasury management strategy before the start of each financial year.

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

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

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

External Context

Economic background: Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve raised its policy rates by 0.25% at its meeting in December 2015. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

Credit outlook: The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government’s stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

Interest rate forecast: The Authority’s treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years’ time. Persistently low inflation, subdued global growth and potential concerns over the UK’s position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Annex A**.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.5%, (due to low expected investment balances), and that new long-term loans will be borrowed at an average rate of 3.5%.

Local Context

At the 31st December 2015, the Authority had £95.0m of borrowing and £13.1m of investments. This is set out in further detail at **Annex B**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Forecast £m	31.3.18 Forecast £m	31.3.19 Forecast £m	31.3.20 Forecast £m
General Fund CFR	122.9	113.3	124.8	121.1	118.0	116.0
Less: Other debt liabilities *	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Borrowing CFR	121.7	112.1	123.6	119.9	115.8	114.8
Less: External borrowing **	-99.3	-92.6	-63.6	-60.5	-59.6	-57.8
Internal (over) borrowing	22.4	19.5	60.0	59.4	56.2	57.0

Less: Usable reserves	-36.6	-22.3	-31.7	-20.0	-17.4	-16.9
(Investments) or New borrowing	-14.2	-2.8	28.3	39.4	38.8	40.1

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of £5m.

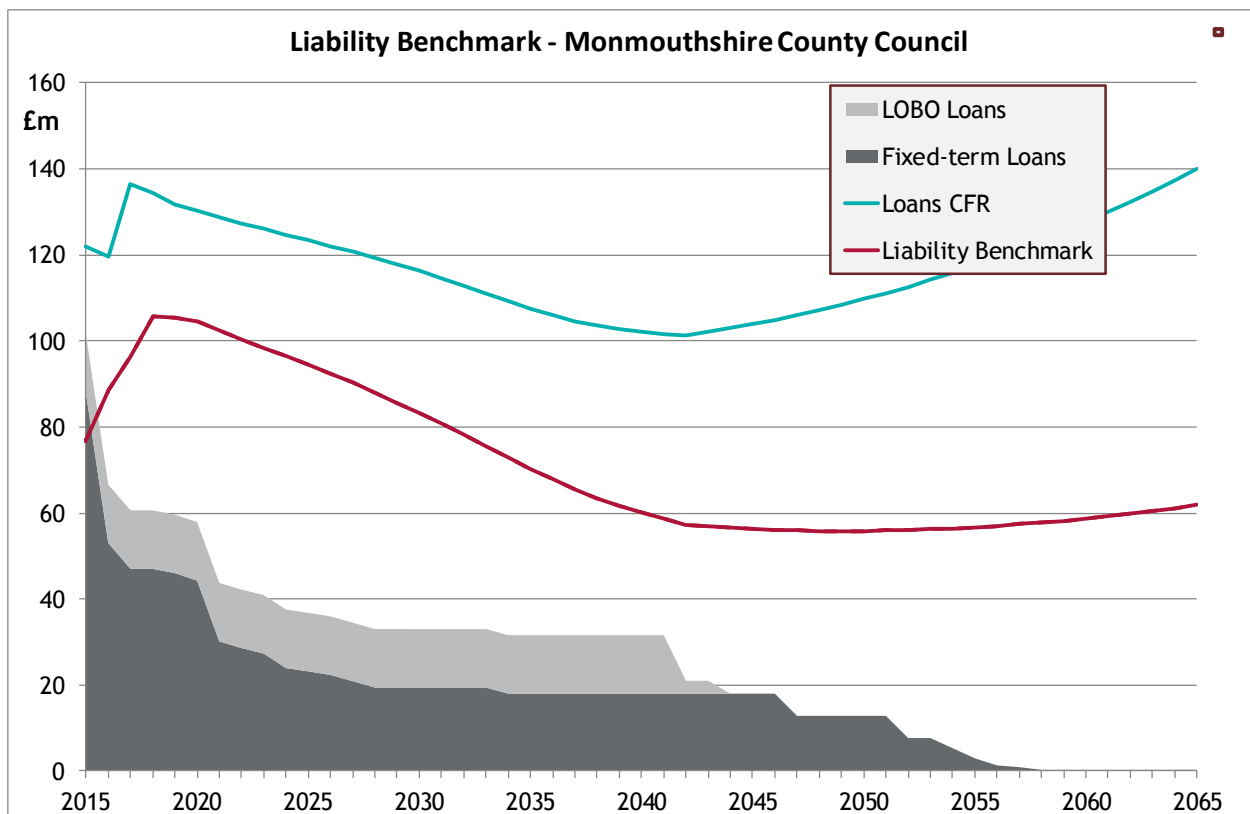
The Authority is intent to maximise internal borrowing to reduce the cost of carry (the difference between the cost of new borrowing offset by the return from investing surplus cash). The internal borrowing at the 31st March 2016 is expected to be £19.5m. At the 31st December 2015 the Authority was holding £27m of short term borrowing which is not included in the 31/3/17 and later external borrowing figures above. The bottom line shows a net borrowing requirement from 2016/17 onwards which can be satisfied by renewing the £27m of temporary borrowing and/or taking out new long term borrowing. The 2016/17 treasury budget is based on taking out £10m of long term borrowing, the rest being short term.

The CFR increases in 2016/17 are due to the borrowing funded element of the future schools program.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2016/17.

To assist with its long-term treasury management strategy, the Authority and its advisers have created a liability benchmark, which forecasts the Authority's need to borrow over a 50 year period. Following on from the medium term forecasts in table 1 above, the benchmark assumes:

- capital expenditure funded by borrowing increases by 2.5% per year
- minimum revenue provision on new capital expenditure based on a 25 year asset life
- income, expenditure and reserves all increase by 2.5% inflation a year



The loans CFR is the level of borrowing the Authority is entitled to take out. The liability benchmark (lower line) is the Loans CFR adjusted for reserves and working capital which represents the borrowing level which is required if we continue to maximise internal borrowing. The shaded area represents loans which we are committed to. The gap between the blue line and the grey shaded area is the new borrowing which the Authority will need to take out if the assumptions above the graph do not change. This shows that if we renew the £27m of short term borrowing for the foreseeable future, we would need an additional level of borrowing, maybe long term borrowing, of about £10m from about 2017 to about 2035 ie about 18 years.

Borrowing Strategy

At the 31st March 2016, the Authority expects to be holding £92.6 million of loans, a decrease of £6.7m million on the previous year. The balance sheet forecast in table 1 shows that the Authority expects to borrow £28.3m in 2016/17 in order to fund its capital program.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring external borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs lower, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unexpected cash flow shortages.

Any borrowing taken out for more than one year requires the approval of the S151 officer or deputy.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Greater Gwent Pension Fund)
- Local Fire or Police authorities
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

LGA Bond Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

LOBOs: The Authority holds £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. These 3 LOBOS all have options during 2016/17, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an

element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans is limited by the debt maturity profile.

Short-term and Variable Rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £13 and £39 million. The levels in the forthcoming year are expected to range from £5 to £20m as internal borrowing levels are maximised.

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

Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority will continue to review, with its treasury advisors more secure and/or higher yielding asset classes during 2016/17. Due to the low levels of investment balances available as a result of internal borrowing, the scope for this is not likely to be extensive. The Authorities surplus cash is currently invested in short-term unsecured bank deposits and CDs, deposits with other Local Authorities, t-bills and the DMO and with money market funds.

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown. Any formal recommendations received from the Authority's treasury advisors which places additional restrictions on certain counterparties in terms of eligibility or duration of Investments will supersede the limits set below. Investments classified as Non Specified must obtain further approval before implementation see page 9.

Table 2: Approved Investment Counterparties and Limits

Counterparty / Instrument	Instrument Limit of Portfolio	Counterparty Limit of Portfolio	Country Limit	Other Limits	Time Limit (Over 1 Year = Non Specified)
UK Central Government including Debt Mgt deposit facility, Gilts and T Bills.	100%	100%	N/A	N/A	50 Years

Any investment with UK Local Authorities (irrespective of credit rating)	75%	The higher of £2m or 10% of total investments (at the time of deposit)	N/A	NA	2 Years
'Unsecured' investments with Banks, Building Societies, Other Organisations and Securities whose lowest published rating from Fitch, Moody's and S&P's is (A-)	75% of total investments at the time of deposit	Upper limit of £2m.	£4m per foreign country	Limit for negotiable instruments held in Brokers nominee accounts: the lower of 50% or £10m per Broker	6 months
As above but (A)	For Non-UK 50% of total investments at the time of deposit	An additional £1m can be held in the Authority's bank current account to cover the total of credit balances.			13 months
As above but (A+)					2 years
Unsecured Investments with Banks, Building Societies, Other Organisations and Securities whose lowest published rating is BBB+ or lower.	25% of total investments	£1m per Counterparty (Additional £1m total of credit balance's in Authority's current account)	£1m per foreign country	N/A	BBB+ 100 Days BBB (Authority Current Account Only)
Secured Investments with Banks, Building Societies, Other Organisations and Securities, (including Re-po's) whose lowest published rating from Fitch, Moody's and S&P's is (A-)	75% of total investments at the time of deposit (both secured and unsecured) For Non-UK 50% of total investments at the time of deposit (both secured and unsecured)	£4m per counterparty (both secured and unsecured)	£4m per foreign country for all investment types	N/A	13 months
Deposits with unrated UK Building Societies which have been assessed by our Treasury	25% of total investments	£1m per Counterparty	UK only	N/A	100 Days

advisers as comparable with the Building Societies that have an A- credit rating or higher					
Money Market Funds with a Constant Net Asset Value (CNAV) or Variable Net Asset Value if assessed by our Treasury advisers as being of high credit worthiness	50% of total investments at the time of deposit increased to 75% if total investments is £10m or less	The lower of £2m and 10% of total investments rounded up to the next £0.5m; not exceeding 0.50% of MMF size or 2% for Government MMFs	N/A	N/A	N/A
Pooled funds without credit ratings if assessed by our Treasury advisers as being of high credit worthiness	£4m total investment at the time of deposit	£2m per issuer	N/A	N/A	N/A
Investments with UK Registered Providers (e.g. Housing Associations) where the lowest published credit rating is A- or higher	£4m of total investments at the time of deposit.	£2m per issuer	N/A	N/A	5 years

This table must be read in conjunction with the notes below

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

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

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating

will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

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

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely. These are included under Secured / Unsecured investments with Banks, Building Societies, Other Organisations in the table above.

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

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

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

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

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in

the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

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

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

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. A non-specified investment can only be undertaken after gaining approval by the Authority’s Section 151 officer or deputy and the Authority’s treasury management advisor. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore comprise long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure by legislation; and investments with bodies and schemes not meeting the definition on high credit quality.

The Authority has set an upper Limit for its non-specified investments in total at:- **£10m**.

An indication of how this might be made up is shown in table 3 below.

Table 3: Non-Specified Investments

	Cash level
Total long-term investments	£0 - 5m
Total shares in pooled funds	£0 - 4m
Total investments without credit ratings or rated below [A-]	£0 - 3m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below [AA+]	£0m
Total non-specified investments	£10m

Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be £16 million on 31st March 2016. The maximum that will be lent to any one organisation (other than the UK Government and Local Authorities) is £4m for secured investments or £2.0 million for unsecured investments to banks & building societies. The amount that is put at risk in the case of a single default should therefore be no more than 25% (secured) or 12.5% (unsecured) of reserves, levels which are considered prudent.

A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits have also been placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors in table 2 above. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Liquidity Management: The Authority uses an excel based cash flow forecasting tool to determine the maximum period for which funds may prudently be committed. Amounts are held on an ongoing basis in instant access accounts to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, 'AA+'=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating / score	A- / 5.0

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures are expressed as the net amount of principal borrowed/invested as follows:

	Existing Level 31.12.15	2015/16 Approved	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Upper limit on fixed interest rate exposure	49.9	100.0	100.0	100.0	100.0	100.0
Variable Interest Rate exposure on Debt	45.1					
Variable Interest Rate Exposure on Investments	13.1					
Upper Limit on Net Variable Interest Rate Exposure	32	50.0	50.0	50.0	50.0	50.0

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

In the table above, LOBO loans have been classed as fixed rate instruments. The Authority is currently paying a fixed rate of interest. They may be called at each 6 monthly interval, but this outcome is not expected in the current interest rate climate and they could be replaced with a PWLB loan at a lower rate of interest if this did occur.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower Limit for 2015/16 %	Upper Limit for 2015/16 %	Level at 31/03/15 % - £m	Lower Limit for 2016/17 %	Upper Limit for 2016/17 %
Under 12 months - LOBO's	0	50	23.7% - £13.6m	0	50
Under 12 months - Other			13.2% - £7.6m		
12 months and within 24 months	0	40	5.2% - £3.0m	0	40
24 months and within 5 years	0	45	5.9% - £3.4m	0	45
5 years and within 10 years	0	30	12.0% - £6.9m	0	30
10 years and above	0	100	39.9% - £22.9m	0	100

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£5m	£5m	£5m

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or WG to include in its Treasury Management Strategy.

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

Investment Training: The needs of the Authority's treasury management staff for training in investment management are assessed on an ongoing basis and formerly as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

Investment Advisers: The Authority appointed Arlingclose Limited as treasury management advisers in 2011/12. This contract has come to its end and is currently being retendered for 2016/17. The Authority receives from its treasury management advisors specific advice on investment, debt and capital finance issues. The quality of this service is assessed at the contract tender stage by comparing to other market leaders and their historical track record. It is then monitored by on-going interaction with treasury personnel. The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically.

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

For 2016/17, the total amount borrowed will not exceed the authorised borrowing limit of £134 million.

Financial Implications

The budget for investment income in 2016/17 is £53,000, based on an average investment portfolio of £10 million at an interest rate of 0.5%. The budget for debt interest paid in 2016/17 is £3.5 million, based on an average debt portfolio of £95 million at an average interest rate of 3.5%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of finance/S151 officer, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income may be higher / or lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income may be lower / or higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow at long-term fixed interest rates instead of short term	Debt interest costs will rise in the short term but may level out in the medium term; this is unlikely to be offset by higher investment income in the short term	Long-term interest costs may be more certain
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise in the short term and medium term; this is unlikely to be	Higher investment balance leading to a higher impact in the event of a default;

	offset by higher investment income in the short term	however long-term interest costs may be more certain
Borrow more/even shorter-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower but this is more time consuming for the treasury team.	Debt interest costs will reduce in the short term but the benefit will reduce in the medium / long term; long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income; There is a minimum level of cash that can sensibly be managed due to the uncertainty of cash flow requirements.	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Annex A - Arlingclose Economic & Interest Rate Forecast November 2015

Underlying assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the first rise in official interest rates occurred at its meeting in December 2015.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	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
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	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
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.55	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.85
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	1.10	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	1.50	1.55	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.25	2.30	2.35	2.35
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.00	2.05	2.10	2.20	2.30	2.40	2.50	2.60	2.65	2.70	2.75	2.80	2.80
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	2.95
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.00	3.00
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

Annex B - Existing Investment & Debt Portfolio Position

	31 st December 2015	31 st December 2015
	Actual Portfolio	Average Rate
	£m	%
External Borrowing:		
PWLB - Fixed Rate	40.9	5.7
PWLB - Variable Rate	13.5	0.7
Local Authorities	27.0	0.6
LOBO Loans	13.6	4.8
Total External Borrowing	95.0	3.4
Other Long Term Liabilities:		
PFI / finance lease	0.9	
Other	0.3	
Total Gross External Debt	96.2	
Investments:		
<i>Managed in-house</i>		
Short-term investments	9.2	
Long-term investments	0	
<i>Managed externally</i>		
Money market funds	3.9	
Total Investments	13.1	0.44%
Net Debt	83.1	

Annex C - MRP Statement 2016/17

The Welsh Government's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Welsh Ministers and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

Note: This does not preclude other prudent methods.

MRP in 2015/16:

Options 1 and 2 can only be used for supported Non-HRA capital expenditure funded from borrowing (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government). Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses).

The MRP Statement will be submitted to Council before the start of the 2016/17 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Authority at that time.

The Authority's current policy is to apply Option 2 in respect of supported capital expenditure funded from borrowing. It has set its 2016/17 revenue MTFP on this basis.

The Authority's policy is to apply Option 3 in respect of unsupported capital expenditure funded from borrowing. There are 2 calculation methods which are available within option 3.

- The equal instalment method and
- The annuity method - whereby the MRP element increases over time to reflect a consistent charge over the assets life taking into account the real value of money

Following on from the approval by Council on the 17th December 2015 of a revision to the approach to MRP for unsupported borrowing, the annuity method will tend to be the default calculation, unless there is an overriding reason to use an alternative approach.

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the CIPFA Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.