Agenda Item No.

WYRE FOREST DISTRICT COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE
4TH FEBRUARY 2016

Treasury Management Strategy 2016/17

OPEN	
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1. PURPOSE OF REPORT

1.1 To provide Members with background information on the Chartered Institute of Public Finance (CIPFA) Prudential Code for Capital Finance in Local Authorities (Prudential Code).

1.2 To restate the Prudential Indicators and Limits for the financial years 2016/17 to 2018/19 and set out the expected treasury operations for this period.

1.3 To seek approval for the Council's Treasury Management Strategy Statement for the period 1st April 2016 to 31st March 2017 that sets out how the Council's treasury service will support the capital decisions taken, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by Section 3 of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

1.4 To seek approval for the Council's Investment Policy and Strategy Statement for the period 1st April 2016 to 31st March 2017 that sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

1.5 To seek approval for the Council's Minimum Revenue Provision Policy Statement for the period 1st April 2016 to 31st March 2017 that sets out the Council's criteria for repayment of Prudential Borrowing.

1.6 This proposed strategy was endorsed by the Treasury Management Review Panel on 2nd February 2016, who commended to the Overview and Scrutiny Committee to recommend that February Council gives approval to this key strategy. This is in compliance with the CIPFA Treasury Management Code of Practice.

1.7 To fulfil four key legislative requirements:

- The reporting of the Prudential Indicators as required by the CIPFA Prudential Code;
- The Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management and CIPFA Prudential Code;
- The Investment Policy and Strategy Statement (in accordance with Communities and Local Government (CLG) investment guidance);
- The Minimum Revenue Provision (MRP) Policy Statement (as required by Regulation under the Local Government and Public Involvement in Health Act 2007).

2. RECOMMENDATIONS

Overview and Scrutiny Committee recommends to Council to:

2.1 Approve the restated Prudential Indicators and Limits for the financial years 2016/17 to 2018/19 included in Appendix 3. These will be revised for the February 2016 Council meeting, as per paragraph 7.3 of this report, following any changes to the Capital Programme brought about as part of the budget process.

2.2 Approve the updated Treasury Management and Investment Policy and Strategy Statements for the period 1st April 2016 to 31st March 2017 (the associated Prudential Indicators are included in Appendix 3 and the detailed criteria is included in Section 10 and Appendix 5).

2.3 Approve the Minimum Revenue Provision (MRP) Statement that sets out the Council's policy on MRP included in Appendix 1.

2.4 Approve the Authorised Limit Prudential Indictor included in Appendix 3.

3. BACKGROUND

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."

3.4 **Reporting Requirements**

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

- **Prudential and treasury indicators and treasury strategy** (this report) - The 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).

- **A mid year treasury management report** – This updates members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

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

3.5 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Treasury Management Review Panel who make recommendations to the Overview and Scrutiny Committee.

3.6 Treasury Management Strategy for the period 1st April 2016 to 31st March 2017

The strategy for 2016/17 covers two main areas:

1. **Capital Issues**
   - the capital plans and the prudential indicators;
   - the minimum revenue provision (MRP) strategy.

2. **Treasury management Issues**
   - the current treasury position;
   - treasury indicators which will 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.

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

4. TREASURY LIMITS FOR THE PERIOD 1st APRIL 2016 to 31st MARCH 2017

4.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

4.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

4.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion, incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and three successive financial years, details of the Authorised Limit can be found in Appendix 3 of this report.

5. CURRENT PORTFOLIO POSITION

5.1 The Council's treasury portfolio position at 8th January 2016 comprised:

Investments Held With	As at 8th January 2016 £	Average Rate of Return	Duration
Lloyds Bank	1,690,030	0.40%	Instant Access
Santander	1,000,000	0.40%	Instant Access
Standard Life (previously Ignis) Money Market Fund	3,815,000	Variable (0.45% on 08/01/16)	Instant Access
Black Rock Money Market Fund	3,735,000	Variable (0.45% on 08/01/16)	Instant Access
Federated Prime Money Market Fund	2,855,000	Variable (0.46% on 08/01/16)	Instant Access
Federated Prime Short Term Cash Fund	1,000,000	Variable (average 0.61% April 2015 to December 2015)	Trade plus 1 day
Santander	500,000	0.75%	60 days notice (Maturity due 29/01/16)
Santander	1,000,000	0.90%	95 days notice
Santander	1,000,000	1.05%	120 days notice
Lloyds Bank	1,000,000	1.00%	Fixed to 03/03/16 (12 months)
Lloyds Bank	1,000,000	0.75%	Fixed to 31/05/16 (6 months)
Nationwide Building Society	1,000,000	0.50%	Fixed to 19/01/16 (3 months)
Nationwide Building Society	1,000,000	0.50%	Fixed to 08/02/16 (3 months)
Nationwide Building Society	1,000,000	0.50%	Fixed to 22/02/16 (3 months)
Barclays Bank	1,000,000	0.70%	Fixed to 08/02/16 (6 months)
Barclays Bank	1,000,000	0.52%	Fixed to 15/01/16 (3 months)
Barclays Bank	1,000,000	0.52%	Fixed to 16/02/16 (3 months)
Barclays Bank	1,000,000	0.539%	Fixed to 16/03/16 (3 months)
Svenska Handelsbanken Certificate of Deposit (CD)	1,000,000	0.51%	Fixed to 03/02/16 (3 months)
RBS Certificate of Deposit (CD)	1,000,000	0.87%	Fixed to 13/05/16 (12 months)
Total £	**27,595,030**		

5.2 The Council had £9m invested in Icelandic Banks at the time of collapse in October 2008. In January 2014 the Council sold its Landsbanki claim and has recovered almost 97% of the £3million that it had deposited.

The table below details the latest position regarding the Council's remaining two Icelandic investments. Twelve dividends have been paid by KSF to date, reducing the principal investment to £875,000. A fifteenth dividend was received from Heritable Bank on 27th August 2015, reducing the principal investment to £20,357. A full and final distribution is awaited in respect of this investment.

Bank	Original Investment £	Interest Claimed £	Total Claim £	Dividends Received £	Balance Outstanding including Interest Due £	Balance Outstanding Principal Only £
Kaupthing Singer & Friedlander	5,000,000	156,378	5,156,378	4,254,012	902,366	875,000
Heritable Bank	1,000,000	31,110	1,031,110	1,010488	20,622	20,357
Total	6,000,000	187,488	6,187,488	5,264,500	922,988	895,357

6. BORROWING REQUIREMENT

6.1 The Council's Capital Financing Requirement (CFR), its underlying borrowing requirement, is detailed below. Capital expenditure was originally approved by Council on 25th February 2015; slippage in the Capital Programme is now factored into the Prudential Indicators included in this report.

	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital Financing Requirement as at 31st March	**7,910**	**14,614**	**17,861**	**18,403**	**18,274**

7. PRUDENTIAL AND TREASURY INDICATORS FOR THE PERIOD 1st APRIL 2016 to 31st MARCH 2017

7.1 Prudential and Treasury Indicators (as set out in Appendix 3 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

7.2 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This Council adopted the Code of Practice on Treasury Management on 27th February 2003 C90 (10), and as a result adopted a Treasury Management Policy Statement (Executive 13th February 2003 ED.223). The November 2011 revision of the Code was adopted by Council on 29th February 2012.

7.3 Within the Budget Report to Council in February 2016, revised Prudential Indicators 2016/17 to 2018/19 will be presented for approval (see Recommendation 2.1 of this report).

8. BORROWING STRATEGY

8.1 The Council has undertaken external borrowing to fund the CFR and will continue to do so for any future unsupported capital expenditure.

The Council's external borrowing position at 8th January 2016 totalled £15m, detailed below:

Lender	Principal	Date	Type	Interest Rate	Maturity
PWLB	£1m	15/03/13	Fixed interest rate	2.62%	15/03/22 (9 years)
PWLB	£1m	02/04/13	Fixed interest rate	1.52%	02/04/18 (5 years)
Market - Borough of Kings Lynn & West Norfolk	£2m	14/07/14	Fixed interest rate	0.95%	14/07/16 (2 years)
PWLB	£1m	29/07/14	Fixed interest rate	3.99%	29/07/33 (19 years)
PWLB	£1m	20/10/14	Fixed interest rate	3.54%	20/10/56 (42 years)
PWLB	£1m	02/12/14	Fixed interest rate	3.44%	02/12/39 (25 years)
PWLB	£1m	20/01/15	Fixed interest rate	2.99%	20/01/39 (24 years)
PWLB	£1m	04/02/15	Fixed interest rate	2.87%	04/02/41 (26 years)
PWLB	£1m	04/02/15	Fixed interest rate	2.80%	04/02/37 (22 years)
PWLB	£1m	08/04/15	Fixed interest rate	2.96%	08/04/35 (20 years)
PWLB	£1m	02/07/15	Fixed interest rate	3.35%	02/07/32 (17 years)
PWLB	£1m	20/07/15	Fixed interest rate	3.40%	20/07/31 (16 years)
PWLB	£1m	29/07/15	Fixed interest rate	3.13%	29/07/30 (15 years)
PWLB	£1m	06/08/15	Fixed interest rate	2.96%	06/08/28 (13 years)
Total	**£15m**				

8.2 **Prospects for Interest Rates: View provided by Capita Asset Services - Treasury Solutions**

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central 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	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%

Capita has also provided a detailed Economic Background, see Appendix 4.

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

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the US and UK, an increase in world economic activity or a sudden increase in inflation risks, 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.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

8.4 In view of the above forecast the Council's borrowing strategy will be to consider all suitable options and take advantage of the most attractive rates available, both from the PWLB and from the Market, including other Local Authorities and other bodies as relevant, as and when required.

8.5 **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.

In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk and other risks and the level of such risks given the controls in place to minimise them

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.

8.6 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Chief Financial Officer may consider the use of this new source of borrowing as and when appropriate and will continue to monitor progress of this new potential treasury partner. Any arrangement will be subject to compliance with the approved treasury policy in accordance with standard practice.

8.7 Property Investment Funds

Property funds are a vehicle for investing funds and diversifying investments. The Council currently has no investments within these types of funds, but is continuing to review the suitability of this option. Property funds should be seen as a medium to long term investment (5 years minimum) to ensure that the full benefit of the return is seen, and to also ensure that any entry and exit costs are covered over the life of the investment. Any fund of this nature incurs costs, and these vary depending on the type of fund. Property funds can provide a regular return on the initial investment amount. As a result of the increased durations required to increase the yield a revision to our treasury strategy is necessary, as set out in Appendix 5 to provide the Chief Financial Officer with the flexibility to consider the use of this non-specified investment if appropriate. Any arrangement will be subject to compliance with the approved treasury policy in accordance with standard practice.

9. DEBT RESCHEDULING

9.1 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).

9.2 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).

9.3 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.

9.4 Any rescheduling will be reported to the Cabinet at the earliest meeting following its action.

10. ANNUAL INVESTMENT STRATEGY

10.1 Investment Policy

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 and then return.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

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. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; 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 monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita in producing its colour codings which show the varying degrees of suggested creditworthiness.

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

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investments and minimisation of risk.

Investment instruments identified for use in the financial year are listed in Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

10.2 Creditworthiness Policy

The Council continues to apply the creditworthiness service provided by Capita.

Capita advise that their service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Chief Financial Officer is satisfied that this service will continue to provide a high level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The Council will therefore use counterparties within the following durational bands:

- Yellow — 5 years * (credit score 1)
- Dark pink — 5 years for Enhanced money market funds (EMMFs) (credit score 1.25)
- Light pink — 5 years for Enhanced money market funds (EMMFs) (credit score 1.5)
- Purple — 2 years (credit score 2)
- Blue — 1 year (only applies to nationalised or semi nationalised UK Banks) (credit score 3)
- Orange — 1 year (credit score 4)
- Red — 6 months (credit score 5)
- Green — 100 days (credit score 6)
- No colour — not to be used (credit score 7+)

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	[illegible]	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

The following table shows the standard limits using the Capita Creditworthiness Policy. However, details of the limits for Specified and Non-Specified Investments applicable to this Council can be found in Appendix 5.

	Colour (and long term rating where applicable)	% Limit	Time Limit
Banks *	yellow	25%	5yrs
Banks	purple	25 %	2 yrs
Banks	orange	25 %	1 yr
Banks – part nationalised	blue	50% (subject to a maximum value of £5m, whichever is the lower) Requires Chief Financial Officer approval if greater than 25%	1 yr
Banks	red	25 %	6 mths
Banks	green	25 %	100 days
Other institutions limit	green	25 %	100 days
DMADF	AA+	unlimited	6 months
Local authorities	n/a	25 %	5 yrs
Money market funds	AAA	25%	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	25 %	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	25 %	liquid
Property Funds		25%	Up to 5 years and over

* The yellow colour category is for UK Government debt or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

The Capita credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one Agency's ratings. The financial institutions, on the resultant current Counterparty list, are detailed in Appendix 9.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a weekly basis as a minimum requirement. The Council is immediately alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap (CDS) against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively by Capita. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support the decision making process. Capita will supply this information to the Treasury team as part of their comprehensive service.

10.3 **Non UK Country Limits**

The Council has determined that it will only use approved counterparties from countries outside the UK with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

In addition to the minimum sovereign credit rating, no more than 25% would be placed with any individual non-UK country at any time should they meet the creditworthiness criteria.

10.4 **Investment Strategy**

In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

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

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

The 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.

For its cash flow generated balances, the Council will seek to utilise its instant access/call accounts, business reserve accounts, 31, 60, 95 and 120 day accounts, money market funds, money market instruments (such as gilts and Treasury Bills) and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

10.5 **End of Year Investment Report**

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

10.6 **External Fund Managers**

The use of specialist investment managers be considered by the Chief Financial Officer on an ongoing basis, to manage a proportion of the Council's investments (minimum market requirement is usually £10 million) where market conditions are considered favourable to achieve higher overall investment returns. Specialist investment managers will be appointed by the Chief Financial Officer under delegated powers and subject to the Council's Standing Orders Relating to Contracts, if applicable. It is however highly unlikely the Council will hold sufficient funds for investment to be able to consider the use of External Fund Managers due to diminishing cash reserves and the increasing Capital Financing Requirement.

The Council's external fund manager(s) would comply with the Annual Investment Strategy. Any agreement(s) between the Council and the fund manager(s) would additionally stipulate guidelines and duration and other limits in order to contain and control risk.

11. POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

11.1 The Council uses Capita Asset Services – Treasury Solutions (Capita) as its external treasury management advisers, with the current contract ending on 31st August 2020.

11.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and the Chief Financial Officer will ensure that statutory Section 151 responsibilities continue to be met, in close liaison with, but without undue reliance, upon our external service providers.

11.3 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.

12. SCHEME OF DELEGATION

12.1 The Council's Treasury Management Scheme of Delegation is detailed in Appendix 7.

13. ROLE OF THE SECTION 151 OFFICER

13.1 The Treasury Management Role of the Section 151 Officer is detailed in Appendix 8.

14. MEMBER AND OFFICER TRAINING

14.1 The CIPFA Code requires the Responsible Officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. The Council has addressed this important issue by:

- Annual Portfolio holder training from the Chief Financial Officer and Treasury Consultants;
- Treasury Management Review Panel annual training updates (with additional updates as necessary);
- Quarterly Treasury Update Reports to Members;
- Daily Officer monitoring of Treasury and Money Market information by Treasury Officers;
- Regular attendance by Officers at professional Seminars provided by Treasury Consultants, CIPFA and CLG

15. LOCAL ISSUES

15.1 During the next year the funds available for investment will continue to reduce as the Council continues to progress its Transformation Agenda. Wyre Forest Forward initiatives are being pursued to ensure that the Council can reduce on-going revenue costs of delivering services. As approved capital projects progress, the most significant being the construction of the new Leisure Centre, the borrowing requirement will continue to increase, as detailed in this report until at least 2017/18 and then may plateau/reduce depending on future capital decisions.

15.2 Historically, the most significant issue to affect the Council was the exposure of investments with links to Icelandic Banks. Repayments in respect of the remaining two investments continue in line with expectations. The Council remains optimistic of overall recovery rates for the two remaining investments. Further details can be found in Section 5.2 of this report.

15.3 Over the coming years the Council is also scheduled to make disposals of assets, however, careful consideration will be made at each opportunity to ensure that the Council sells at a time that maximises the return to the authority.

16. KEY ISSUES

16.1 The Council continues to enter into external borrowing in accordance with the current approved TMSS. Loans outstanding as at 8th January 2016 total £15million, and this will increase in line with the CFR over the period of the Financial Strategy. It is essential that we continue to take advantage of the historically low borrowing rates, subject to cost of carry, before they start to rise again. Full details can be found in Section 8.1 of this report.

16.2 As reported previously, the returns the Council is currently receiving from investment returns remain significantly lower than those achieved during years up to 2007/2008. Interest rates are estimated to remain historically low. Modest increases are anticipated to commence in Quarter 2 of 2016, implemented over a long period. Section 10 of this report identifies the on-going sensitivity that the Council faces in relation to investment returns.

16.3 The Chief Financial Officer will continue to keep the current Treasury Management Practices (TMP) under review with the assistance of the Council's Treasury Consultants and report to members as appropriate.

16.4 The financial situation facing this Council continues to be extremely challenging. The Provisional Local Government Settlement was announced following the Chancellor's Autumn Statement, on 17th December 2015. The announcement contained details of proposed reductions in Revenue Support Grant, New Homes Bonus together with Business Rates Retention Reform over the term of the Strategy with more severe reductions in 2018/19. This Strategy manages the risks as set out in section 19. All relevant factors will be monitored and if the risks change significantly then further reports will be made to update the Treasury Strategy.

16.5 As previously reported, Lloyds Bank became the Council's bank with effect from 1st April 2014. The Council is aware of the potential for an increasing exposure to risk as the Government continues to sell its share interest in Lloyds Bank and the banking group is returned to full private ownership. The Government's current stake in Lloyds Bank is just under 11%, with a final sale planned for Spring 2016.

However, Lloyds has successfully passed both the Prudential Regulation Authority (PRA) and European Banking Authority (EBA) Stress Tests. Both tests examined the banks ability to maintain liquidity during a succession of simulated economic scenarios and defaults. It is notable that the only UK High Street Bank to fail was the Co-operative Bank.

It is important to note that the Council would rank 5th under any bail-in order of priority (exposure) out of a list of 10, after shareholders and un-secured creditors. The exposure to risk will in future be significantly reduced by the ring fenced proposal that separates the speculative operations (casino banking) from the normal banking operations (vanilla deposits).

17. FINANCIAL IMPLICATIONS

17.1 The Financial Implications of the Treasury Management function are included in the Council's Medium Term Financial Strategy and Three Year Budget and Policy Framework.

18. LEGAL AND POLICY IMPLICATIONS

18.1 The Local Government Act 2003 supplemented by Regulations set out the current framework for a prudential system for local authority capital finance. This Act, together with CIPFA's Prudential Code for Capital Finance in Local Authorities, came into effect on 1st April 2004. This code together with recent revised editions, guides decisions on what Local Authorities can afford to borrow and has statutory backing under Regulations issued in accordance with the Local Government Act 2003.

18.2 Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services as part of the Authority's Standing Orders and Financial Regulations, gives it the status of a "code of practice made or approved by or under any enactment", and hence proper practice under the provisions of the Local Government and Housing Act 1989.

19. RISK MANAGEMENT

19.1 The Council is aware of the risks of passive management of the treasury portfolio. With the support of Capita, the Council's treasury advisors, the Council has proactively managed the portfolio over the year.

19.2 Shorter-term variable rates and likely future movement in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the lending list, accurately forecasting returns can be difficult.

19.3 In the event of a counterparty default, a formal demand for payment, to include principal, contractual interest and default interest, will be made a soon as possible. Such demand will need to meet the criteria as specified in the Insolvency Act Amendments Rules 2010.

19.4 The main risk associated to the Council's Capital Programme, allied to this TMSS, is that given the current depressed economy, asset disposals are not fully realised in terms of timing and valuation assumptions. This may increase external borrowing until such sales proceeds are realised and also incur additional costs, of debt repayment to these already included in Finance Strategy. For major projects reserves are held to mitigate this risk.

19.5 There is a small increase in risk by placing up to 50% of the total investments with the part-nationalised banks. However, such investments will only be placed by exception, with the express approval of the Chief Financial Officer. The Council will continue to aim to achieve the optimum return on its investments commensurate with its investment priorities of security and liquidity. The Council has been advised that any withdrawal of Government support for the remaining part-nationalised bank could take 12 months.

19.6 There is a risk that as the government further relinquishes its stake holding in Lloyds Bank the credit agencies may react by reducing the credit rating of the Council's bank and that it may be excluded from investments under the Capita Creditworthiness Methodology. In a positive move, in 2014/15, the credit agencies moderated their initial response by removing sovereign support from their assessments. This should reduce the possibility of short term reductions in counterparty's creditworthiness. The response of the credit rating agencies to the continuing bank bail-in will be carefully monitored in liaison with Capita to ensure our treasury risk management does not increase beyond acceptable parameters within this policy.

20. EQUALITY IMPACT ASSESSMENT

20.1 This is a financial report and there is no requirement to consider an Equality Impact Assessment.

21. CONCLUSION

21.1 See Recommendations.

22. CONSULTEES

22.1 Capita Asset Services – Treasury Solutions (Treasury Advisors)

22.2 Cabinet

22.3 CLT

22.4 Treasury Management Review Panel

23. BACKGROUND PAPERS

23.1 Local Government Act 2003.

23.2 CIPFA's Revised Prudential Code for Capital Finance in Local Authorities, 2011.

23.3 CIPFA's Revised Code of Practice on Treasury Management in the Public Services, 2011.

23.4 Local Government and Housing Act 1989.

23.5 Council 25/02/15 – Treasury Management Strategy 2015/16.
http://www.wyreforest.gov.uk/council/docs/doc49836_20150225_council_agenda.pdf

23.6 Council 30/09/15 - Annual Report on Treasury Management Service and Actual Prudential Indicators 2014/15.
http://www.wyreforest.gov.uk/council/docs/doc50371_20150930_council_agenda.pdf

23.7 Council 09/12/15 – Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2015/16.
http://www.wyreforest.gov.uk/council/docs/doc50540_20151209_council_agenda.pdf

23.8 The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2013 Edition).

23.9 Treasury Management Review Panel 02/02/16 – Treasury Management Strategy 2016/17.

APPENDIX 1 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

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).

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:

Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

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

Asset Life Method

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday').

The equal instalment method will be used to calculate charges under this method. Estimated life periods will be determined by the Chief Financial Officer (Section 151 Officer) under powers delegated by Council. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council as determined by the Chief Financial Officer. However, under these powers delegated by Council, the Chief Financial Officer reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. For example, the Guidance recommends that in the case of Loans and grants towards capital expenditure by third parties (under Regulation 25(1)(b), a charge should be made over a period “equal to the estimated life of the assets in relation to which the third party expenditure is incurred” and this is the approach adopted in this revised MRP Policy. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

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

In accordance with the Guidance, MRP will be charged in the financial year following that in which the asset is completed or becomes operational.

The Council is satisfied that the policy for calculating MRP set out in this Policy Statement will result in the Council continuing to make prudent provision for the repayment of debt, over a period that is on average reasonably commensurate with that over which expenditure provides benefit.

The Chief Financial Officer will, where it is prudent to do so, use discretion to review the overall financing of the Capital Programme and the opportunities afforded by the regulations, to maximise the benefit to the Council whilst ensuring the Council meets its duty to charge a prudent provision.

APPENDIX 2   INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by Capita Asset Services and Capital Economics (an independent forecasting consultancy).

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

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%	-	-	-	-	-

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

APPENDIX 3 PRUDENTIAL AND TREASURY INDICATORS

1 THE CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2018/19

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

The prudential indictors will be revised in February 2016 as part of the Council's approval of the Financial Strategy 2016 to 2019, as the indicators included within this report are based on current recommendations.

1.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans.

Capital expenditure £'000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Chief Executive	924	207	610	-	-
Community Well-being and Environment	2,401	7,157	4,861	-	-
Economic Prosperity and Place	1,020	4,075	3,138	622	556
Vehicle, Equipment and Systems Renewals	167	734	351	1,160	553
Total	**4,512**	**12,173**	**8,960**	**1,782**	**1,109**

Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. However, the Council currently has no other long term liabilities.

The table 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.

Capital expenditure £'000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	4,512	12,173	8,960	1,782	1,109
Financed by:					
Capital receipts	1,223	1,245	4,018	-	-
Capital grants	712	3,898	1,333	622	556
Revenue	4	153	122	-	-
Net financing need for the year	**2,573**	**6,877**	**3,487**	**1,160**	**553**

1.2 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 has not immediately been paid for, will increase the CFR.

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.

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 does not currently have such schemes within the CFR.

The current CFR projections are presented below:

£'000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Capital Financing Requirement					
Total CFR	**7,910**	**14,614**	**17,861**	**18,403**	**18,274**
Movement in CFR	**2,371**	**6,704**	**3,247**	**542**	**(129)**

Movement in CFR represented by:					
Net financing need for the year (above)	2,573	6,877	3,487	1,160	553
Less MRP/VRP and other financing movements	(202)	(173)	(240)	(618)	(682)
Movement in CFR	**2,371**	**6,704**	**3,247**	**542**	**(129)**

1.3 Affordability prudential indicators

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.

1.4 Ratio of financing costs to net revenue stream

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

%	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Ratio	1.72	3.73	6.29	9.65	9.71

The estimates of financing costs include current commitments.

1.5 Incremental impact of capital investment decisions on the Band D Council Tax

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

£	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Council tax - band D	1.23	2.25	2.25	2.25

1.6 Current portfolio position

The Council's treasury portfolio position at 31st March 2015, with forward projections are summarised below. 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.

£'000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
External Debt					
Gross debt at 31st March	**10,014**	**16,011**	**18,008**	**18,005**	**18,002**
The Capital Financing Requirement	**7,910**	**14,614**	**17,861**	**18,403**	**18,274**
Under / (over) borrowing *	**(2,104)**	**(1,397)**	**(147)**	**398**	**272**

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 2015/16 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. The Council has been able to benefit from historically low PWLB interest rates and has therefore taken some of the borrowing early. The table above shows that this is only for the short term, within the terms of the Code.

The Chief Financial Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the short term.

*However, in the future it may be that the Council will not be able to comply with this indicator introduced in November 2012 since any fixed term maturity loans would not be reduced until they are repaid. The CFR would continue to be reduced by MRP, hence the gross external debt may eventually exceed the CFR. The debt would attract excessive premiums if it was prematurely repaid. The unexpected change from net to gross debt in 2012 will be unachievable for many Councils given past decisions made in full accordance with the Prudential Code. Capita's advice is that it is sufficient to disclose this as part of the Strategy review.

1.7 Treasury Indicators: limits to borrowing activity

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.

Operational boundary £'000	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	27,000	27,000	27,000	27,000
Other long term liabilities	-	-	-	-
Total	27,000	27,000	27,000	27,000

The authorised limit for external debt

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.

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.

Authorised limit £'000	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	33,000	33,000	33,000	33,000
Other long term liabilities	0	0	0	0
Total	33,000	33,000	33,000	33,000

1.8 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. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- 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.

	2016/17	2017/18	2018/19
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	100%	100%	100%
Maturity structure of fixed interest rate borrowing 2016/17			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%
Maturity structure of variable interest rate borrowing 2016/17			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%

These limits give maximum flexibility for borrowing, to ensure financial advantages of each transaction.

1.9 Investment treasury indicator and limit

This indicator sets the limits on 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.

Maximum principal sums invested > 364 days			
£m	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 364 days	£2m	£2m	£2m

APPENDIX 4 ECONOMIC BACKGROUND (PROVIDED BY CAPITA ASSET SERVICES – TREASURY SOLUTIONS (TREASURY ADVISORS))

Economic Background

4.1 United Kingdom (UK) economy

UK Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country (G7 members are Canada, France, Germany, UK, Italy, Japan and United States of America (US)); 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 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3. The November 2015 Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that Consumer Price Index (CPI) inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, 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.

The Inflation Report was also notably subdued in respect of the forecasts for 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 was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. 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 Monetary Policy Committee (MPC) will decide to make a start on increasing Bank Rate.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

4.2 Global economy

US. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.0% in quarter 3. The run of strong monthly increases in non farm payrolls figures for growth in employment in 2015 prepared the way for the Federal Reserve (Fed) to embark on its long awaited first increase in rates of 0.25% at its December 2015 meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

Eurozone (EZ). The European Central Bank (ECB) unleashed a massive €1.1 trillion programme of quantitative easing (QE) in January 2015 to buy up high credit quality government and other debt of selected Eurozone (EZ) countries. This programme of €60bn of monthly purchases started in March 2015 and was intended to run initially to September 2016. At the ECB's December 2015 meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December 2015 and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July 2015, Greece finally capitulated to European Union (EU) demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January 2015, to EU demands. The surprise general election in September 2015 gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September 2015 and December 2015 respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. A left wing / communist anti-austerity coalition has won a majority of seats in Portugal. The general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already implemented the first two of its reforms but has hesitated about the third; deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 and the start of 2016, in implementing several stimulus measures to try to ensure the economy hits the growth target of about 7% for 2015. It has also sought to bring some stability after the major fall in the onshore Chinese stock market during the summer and then a second bout in January 2016. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, there are growing concerns about whether the Chinese economy could be heading for a hard landing and weak progress in rebalancing the economy from an over dependency on manufacturing and investment to consumer demand led services. There are also concerns over the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August 2015, September 2015 and again in January 2016, which could lead to a flight to quality to bond markets. In addition, the international value of the Chinese currency has been on a steady trend of weakening and this will put further downward pressure on the currencies of emerging countries dependent for earnings on exports of their commodities.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries, and their corporates, which are getting caught in a 'perfect storm'. Having borrowed massively in dollar denominated debt since the financial crisis, (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries), there is now a strong flow back to those western economies with strong growth and a path of rising interest rates and bond yields.

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

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

4.3 Capita Asset Services forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Capita Asset Services undertook its last review of interest rate forecasts on 19th January 2016. 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.

The overall trend in the longer term will be for gilt yields and Public Works Loan Board (PWLB) rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. At some future point in time, an increase in investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently to the downside, given the number of potential headwinds that could be growing on both the international and UK scene. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in January 2016, (based on short sterling), for the first Bank Rate increase are currently around quarter 1 2017.

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

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or 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.

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 5 SPECIFIED AND NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS:

The Council has determined to authorise Specified Investments as follows:
(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility (DMADF) – UK Government	-	In-house
The Councils Own Bank - Transactional	End of day balance £1m (at the discretion of the Chief Financial Officer)	In-house
The Council's Own Bank - Investments	Green	In-house
Term deposits – local authorities	-	In-house
Term deposits – banks and building societies *	Green	In-house
Money Market Funds and Financial Instruments	Green	In-house

	Minimum Credit Criteria	**Use**	**Max % of total investments***	**Max. maturity period**
UK nationalised banks*– currently RBS Group. This banking group can be included if it continues to be part nationalised or meets the ratings in the Table above.	Blue	In-house	**50% (subject to a maximum value of £5m, whichever is the lower)** **Requires Chief Financial Officer approval if greater than 25%**	**As per colour**
Banks nationalised by high credit rated (AAA sovereign rating) countries – non UK*. For UK revert to Capita Creditworthiness Methodology	Green	In-house and Fund Managers	**25%**	**As per colour**
Government guarantee (explicit) on ALL deposits by high credit rated (non UK AAA sovereign rating) countries**. For UK revert to Capita Creditworthiness Methodology	Green	In-house and Fund Managers	**25%**	**As per colour**

* Where a bank is part of a group then the total exposure to the group will be the same as the individual exposure assigned to the parent organisation

** e.g. Singapore (AAA); specified list of countries approved for investing with their banks detailed in Appendix 6

Additional Information on Specified Investments as Detailed Above

Nationalised/part-nationalised banks. The current Capita Creditworthiness Methodology assigns a 12 month (blue) duration to nationalised/part-nationalised banks to recognise the perceived higher credit quality. The Council's Treasury Strategy gives sufficient flexibility to enable a maximum investment level of 50% with such institutions (subject to a maximum value of £5m, whichever is the lower) that would require Chief Financial Officer approval if greater than 25%. The Government currently has a major stake in the Royal Bank of Scotland Group.

Other countries. The Council will only consider investments with non UK countries that are AAA rated (for UK revert to Capita Creditworthiness Methodology).

Council's Own Bank – For transactional purposes. Where the Council's own bankers fail to meet the basic credit criteria, balances will be minimised as far as possible with an upper limit of £1m. This allows for reasonable flexibility needed for day to day cash flow management.

Council's Own Bank – For investment purposes. Where the Council's own bankers fail to meet the basic credit criteria, it shall not be used for investment purposes.

NON-SPECIFIED INVESTMENTS:

The Council has determined to authorise Non-Specified Investments as follows:

1. Maturities of ANY period

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Green	In-house	25%	As per colour
Treasury Bills	UK sovereign rating	In-house and Fund Managers	25%	6 months
Bonds issued by multi-lateral development banks	AAA	In-house and Fund Managers	25%	As per colour
CDs or Corporate Bonds with banks and building societies	Green	In-house and Fund Managers	25%	As per colour

2. Maturities in excess of 1 year

	* Minimum Credit Criteria/Colour Band	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	-	In-house	25%	As per colour
Term deposits – banks and building societies	Green	In-house	25%	As per colour
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee)	Green	In-house	25%	As per colour
Certificates of deposit issued by banks and building societies covered by the UK government banking support package (implicit guarantee)	Green	In-house	25%	As per colour
Certificates of deposit issued by banks and building societies NOT covered by UK Government support package (implicit guarantee)	Green	In-house	25%	As per colour
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	25%	As per colour
Property Funds	-	Externally Managed	25%	Up to 5 years and over

For both Specified and Non Specified Investments, due to the continued uncertainty in the financial markets, it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from this criteria to ensure that security of capital remains the paramount consideration. Currently this may involve the use of the Debt Management Account Deposit Facility (DMADF), AAA rated Money Market Funds and institutions (as deemed appropriate) with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are currently being maintained up to 12 months, although this will be kept under review and longer term investments may be considered within the approved policy in the future. This is also applicable to the approved countries detailed in Appendix 6.

APPENDIX 6 APPROVED NON UK COUNTRIES FOR INVESTMENTS

AAA

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

The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This list will be added to or deducted from by officers should ratings change in accordance with this policy. For the UK revert to Capita Methodology (currently AA+).

In addition to the minimum sovereign credit rating, no more than 25% would be placed with any individual non-UK country at any time, should they meet the credit worthiness criteria.

APPENDIX 7 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Committees/Council/responsible body – Cabinet, with recommendations from the Overview and Scrutiny Committee and Treasury Management Review Panel as appropriate*

- 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) Body/person(s) with responsibility for scrutiny – Cabinet, with recommendations from the Overview and Scrutiny Committee and Treasury Management Review Panel as appropriate*

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

*Currently the Overview and Scrutiny Committee make recommendations to full Council. This arrangement is subject to annual review.

APPENDIX 8 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

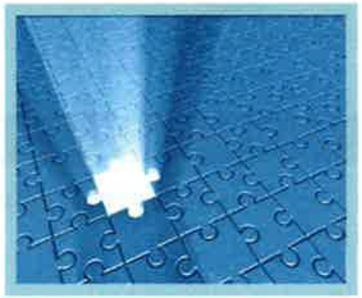
- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the 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

CAPITA

Asset Services

Credit List

Friday 8th January 2016



Upper Boundary: 150

Top 3 Counterparties closest to moving FROM "Monitoring" TO "Out of Range" status

Reference	Institution	Current CDS	Proximity to Boundary	Week % Change
1	Standard Chartered Bank	144.09	5.91	8.43%
2	Norddeutsche Landesbank Girozentrale	109.79	40.21	0.00%
3	Macquarie Bank Limited	103.94	46.06	2.13%

Monitoring Boundary: 100

Top 5 Counterparties closest to moving FROM "In Range" TO "Monitoring" status

Reference	Institution	Current CDS	Proximity to Boundary	Week % Change
1	Deutsche Bank AG	99.01	0.99	3.60%
2	Commerzbank AG	92.63	7.37	2.16%
3	Credit Suisse AG	91.05	8.95	5.16%
4	Goldman Sachs International Bank ~	90.49	9.51	7.60%
5	Sumitomo Mitsui Banking Corporation Europe Ltd ~	90.34	9.66	-0.06%

CAPITA

Asset Services

Weekly Credit List: 08/01/2016

Institution Benchmark
iTraxx Senior Financials Index 79.25 (76.5)

CDS Lower Boundaries
Monitoring Boundary: 100
Out of Range Boundary: 150

Sovereign Benchmark
iTraxx SOVX Western Europe Index 20 (20)
Upper Boundary (SOVX + 20bps) 40

		Credit Ratings																				Subjective Overlay						
		Fitch Rating								Moody's Ratings						S&P Ratings						CDS Data						
	Counterparty	Long Term Status	Long Term	Short Term Status	Short Term	Viability Status	Viability	Support Status	Support	Long Term Status	Long Term	Short Term Status	Short Term	FSR Status	FSR	Long Term Status	Long Term	Short Term Status	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	07/01/2016	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS Adjusted with manual override)
	Abu Dhabi (U.A.E)	SB	AA							SB	Aa2					SB	AA			Not Applicable	Not Applicable	98.5	9.3%	20.6%	31.0%	63.3%	Out Of Range	Not Applicable
	National Bank of Abu Dhabi	SB	AA-		F1+		a-		1	SB	Aa3		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
	Australia	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	41.5	1.8%	5.9%	-18.7%	26.4%	Out Of Range	Not Applicable
	Australia and New Zealand Banking Group Ltd	SB	AA-		F1+		aa-		1	SB	Aa2		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths	82.9	-0.9%	5.0%	-7.3%	22.8%	In Range	O - 12 mths
	Commonwealth Bank of Australia	SB	AA-		F1+		aa-		1	SB	Aa2		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths	83.4	-1.2%	6.2%	-5.9%	23.7%	In Range	O - 12 mths
●	Macquarie Bank Limited	SB	A		F1		a		3	SB	A2		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	103.9	2.1%	1.3%	-0.3%	18.0%	Monitoring	G - 100 days
	National Australia Bank Ltd	SB	AA-		F1+		aa-		1	SB	Aa2		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths	83.4	-1.2%	6.2%	-5.9%	23.7%	In Range	O - 12 mths
	Westpac Banking Corporation	SB	AA-		F1+		aa-		1	SB	Aa2		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths	83.4	-1.2%	6.2%	-5.9%	23.7%	In Range	O - 12 mths
(I)	**Belgium**	NO	AA							SB	Aa3					SB	AA			Not Applicable	Not Applicable	31.6	1.6%	1.5%	-12.4%	-24.1%	Monitoring	Not Applicable
24 (I)	BNP Paribas Fortis	SB	A+		F1		a		1	SB	A1		P-1			NW	A+		A-1	R - 6 mths	R - 6 mths							R - 6 mths
(I)	KBC Bank NV	SB	A-		F1		a-		5	PO	A2		P-1			NO	A		A-1	R - 6 mths	R - 6 mths							R - 6 mths
	Canada	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable							Not Applicable
(I)	Bank of Montreal	SB	AA-		F1+		aa-		2	NO	Aa3		P-1			SB	A+		A-1	O - 12 mths	O - 12 mths							O - 12 mths
(I)	Bank of Nova Scotia	SB	AA-		F1+		aa-		2	NW	Aa2		P-1			SB	A+		A-1	O - 12 mths	O - 12 mths							O - 12 mths
(I)	Canadian Imperial Bank of Commerce	SB	AA-		F1+		aa-		2	NO	Aa3		P-1			SB	A+		A-1	O - 12 mths	O - 12 mths							O - 12 mths
(I)	National Bank of Canada	SB	A+		F1		a+		2	NO	Aa3		P-1			SB	A		A-1	R - 6 mths	R - 6 mths							R - 6 mths
(I)	Royal Bank of Canada	SB	AA		F1+		aa		2	NO	Aa3		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
(I)	Toronto Dominion Bank	SB	AA-		F1+		aa-		2	NO	Aa1		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
	Denmark	SB	AAA							SB	Aaa					SB	AAA			Not Applicable	Not Applicable	13.6	-0.1%	3.7%	-6.9%	-24.9%	In Range	Not Applicable
	Danske Bank	SB	A		F1		a		5	SB	A2		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	63.6	4.9%	10.2%	-14.6%	-35.2%	In Range	R - 6 mths
(I)	**Finland**	NO	AAA							NO	Aaa					NO	AA+			Not Applicable	Not Applicable	18.0	2.9%	0.0%	-5.3%	-16.2%	In Range	Not Applicable
(I)1	Nordea Bank Finland plc ~	SB	AA-		F1+		aa-		5	SB	Aa3		P-1			NO	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
(I) ✕	Pohjola Bank	WD		WD				WD		SB	Aa3		P-1			NO	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
(I)	**France**	SB	AA							SB	Aa2					NO	AA			Not Applicable	Not Applicable	24.3	2.1%	5.4%	-17.7%	-35.1%	Monitoring	Not Applicable
(I)	BNP Paribas	SB	A+		F1		a+		5	SB	A1		P-1			NW	A+		A-1	R - 6 mths	R - 6 mths	71.9	2.1%	13.1%	-6.4%	-20.6%	In Range	R - 6 mths
2(I)	Credit Agricole Corporate and Investment Bank	PO	A		F1					PO	A2		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	66.3	1.5%	8.0%	-8.3%	-27.3%	In Range	R - 6 mths
3(I)	Credit Industriel et Commercial	SB	A+		F1		a+		5	SB	Aa3		P-1			NO	A		A-1	R - 6 mths	R - 6 mths							R - 6 mths

	Counterparty	Credit Ratings																				Subjective Overlay						
		Fitch Rating								Moody's Ratings						S&P Ratings						CDS Data						
		Long Term Status	Long Term	Short Term Status	Short Term	Viability Status	Viability	Support Status	Support	Long Term Status	Long Term	Short Term Status	Short Term	FSR Status	FSR	Long Term Status	Long Term	Short Term Status	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	07/01/2016	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS Adjusted with manual override)
(I)	Credit Agricole SA	PO	A		F1		a		5	PO	A2		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	71.0	3.6%	8.2%	-7.7%	-26.5%	In Range	R - 6 mths
	Societe Generale	SB	A		F1		a		5	SB	A2		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	71.0	2.1%	4.3%	-17.7%	-29.7%	In Range	R - 6 mths
	Germany	SB	AAA							SB	Aaa					SB	AAA			**Not Applicable**	**Not Applicable**	**12.1**	**-0.1%**	**-0.1%**	**-9.3%**	**-17.2%**	**In Range**	**Not Applicable**
(I)	BayernLB	SB	A-		F1		bb+		1	PO	A3		P-2							G - 100 days	G - 100 days							G - 100 days
(I)	Commerzbank AG	PO	BBB		F2		bbb		5	PO	Baa1		P-2			NO	BBB+		A-2	N/C - 0 mths	N/C - 0 mths	92.6	2.2%	9.9%	-7.4%	-18.6%	In Range	N/C - 0 mths
(I)	Deutsche Bank AG	SB	A-		F1		a-		5	PO	A3		P-2			SB	BBB+		A-2	G - 100 days	G - 100 days	99.0	3.6%	9.8%	7.5%	-8.6%	In Range	G - 100 days
(I)	DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	SB	AA-		F1+					PO	Aa2		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
(I)	Landesbank Baden Wuerttemberg	SB	A-		F1		bbb		1	PO	A1		P-1							R - 6 mths	R - 6 mths							R - 6 mths
(I)	Landesbank Berlin AG									PO	A1		P-1							R - 6 mths	O - 12 mths							O - 12 mths
(I)	Landesbank Hessen-Thueringen Girozentrale (Helaba)	SB	A+		F1+					PO	A1		P-1			SB	A		A-1	R - 6 mths	O - 12 mths	59.5	0.0%	-1.7%	-6.3%	-9.1%	In Range	O - 12 mths
	Landwirtschaftliche Rentenbank	SB	AAA		F1+				1	SB	Aaa		P-1			SB	AAA		A-1+	P - 24 mths	P - 24 mths							P - 24 mths
◆	Norddeutsche Landesbank Girozentrale	SB	A-		F1		bb+		1	SB	A3		P-2							G - 100 days	G - 100 days	109.8	0.0%	2.8%	2.8%		Monitoring	N/C - 0 mths
	NRW.BANK	SB	AAA		F1+				1	SB	Aa1		P-1			SB	AA-		A-1+	P - 24 mths	P - 24 mths							P - 24 mths
	Netherlands	SB	AAA							SB	Aaa					SB	AAA			**Not Applicable**	**Not Applicable**	**14.1**	**0.0%**	**0.0%**	**-3.4%**	**-12.4%**	**In Range**	**Not Applicable**
	ABN AMRO Bank N.V.	SB	A		F1		a		5	SB	A2		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	62.7	3.2%	-4.6%	12.3%		In Range	R - 6 mths
	Bank Nederlandse Gemeenten	SB	AA+		F1+				1	SB	Aaa		P-1			SB	AAA		A-1+	P - 24 mths	P - 24 mths							P - 24 mths
6	Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	SB	AA-		F1+					SB	Aa2		P-1			SB	A+		A-1	O - 12 mths	O - 12 mths	54.7	4.7%	13.2%	-18.4%	-32.8%	In Range	O - 12 mths
	ING Bank NV	SB	A		F1		a		5	SB	A1		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	55.2	3.7%	10.8%	-19.5%	-40.1%	In Range	R - 6 mths
	Nederlandse Waterschapsbank N.V									SB	Aaa		P-1			SB	AAA		A-1+	P - 24 mths	P - 24 mths							P - 24 mths
	Qatar	SB	AA							SB	Aa2					SB	AA			**Not Applicable**	**Not Applicable**	**97.4**	**10.0%**	**20.1%**	**27.1%**	**60.3%**	**Out Of Range**	**Not Applicable**
	Qatar National Bank	SB	AA-		F1+		a		1	SB	Aa3		P-1			SB	A+		A-1	O - 12 mths	O - 12 mths							O - 12 mths
	Singapore	SB	AAA							SB	Aaa					SB	AAA			**Not Applicable**	**Not Applicable**							**Not Applicable**
8	DBS Bank Ltd	SB	AA-		F1+		aa-		1	SB	Aa1		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
	Oversea Chinese Banking Corporation Ltd	SB	AA-		F1+		aa-		1	SB	Aa1		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
	United Overseas Bank Ltd	SB	AA-		F1+		aa-		1	SB	Aa1		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
	Sweden	SB	AAA							SB	Aaa					SB	AAA			**Not Applicable**	**Not Applicable**	**13.1**	**0.0%**	**0.0%**	**0.1%**	**-13.2%**	**In Range**	**Not Applicable**
(I) 9	Nordea Bank AB	SB	AA-		F1+		aa-		2	SB	Aa3		P-1			NO	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
(I) 10	Skandinaviska Enskilda Banken AB	PO	A+		F1		a+		2	SB	Aa3		P-1			SB	A+		A-1	O - 12 mths	O - 12 mths							O - 12 mths
(I) 11	Swedbank AB	PO	A+		F1		a+		2	SB	Aa3		P-1			NO	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
(I)	Svenska Handelsbanken AB	SB	AA-		F1+		aa-		2	SB	Aa2		P-1			NO	AA-		A-1+	O - 12 mths	O - 12 mths							O - 12 mths
	Switzerland	SB	AAA							SB	Aaa					SB	AAA			**Not Applicable**	**Not Applicable**	**21.1**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**Monitoring**	**Not Applicable**

	Counterparty	Credit Ratings																				Subjective Overlay						
		Fitch Rating								Moody's Ratings						S&P Ratings						CDS Data						
		Long Term Status	Long Term	*Short Term Status*	Short Term	*Viability Status*	Viability	*Support Status*	Support	*Long Term Status*	Long Term	*Short Term Status*	Short Term	*FSR Status*	FSR	*Long Term Status*	Long Term	*Short Term Status*	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	07/01/2016	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS Adjusted with manual override)
(!)12	Credit Suisse AG	PO	A		F1		a		5	NW	Aa3		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	91.1	5.2%	13.6%	18.0%	2.2%	In Range	R - 6 mths
(!)	UBS AG	PO	A		F1		a		5	PW	A1		P-1			PO	A		A-1	R - 6 mths	R - 6 mths	52.7	6.0%	20.3%	-10.9%	-30.6%	In Range	R - 6 mths
(!)	U.K	SB	AA+							SB	Aa1					NO	AAA			Not Applicable	Not Applicable	19.5	5.3%	11.3%	23.9%	5.1%	In Range	Not Applicable
(!)	Abbey National Treasury Services plc	PO	A		F1					SB	A1		P-1							R - 6 mths	R - 6 mths							R - 6 mths
(!)	Bank of Scotland Plc	SB	A+		F1		a		5	PO	A1		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	54.0	3.8%	11.1%	-13.5%	-28.2%	In Range	R - 6 mths
	Barclays Bank plc	SB	A		F1		a		5	SB	A2		P-1			SB	A-		A-2	R - 6 mths	R - 6 mths	58.5	-4.8%	-0.1%	-12.0%	-34.7%	In Range	R - 6 mths
	Close Brothers Ltd	SB	A		F1		a		5	SB	Aa3		P-1							R - 6 mths	R - 6 mths							R - 6 mths
(!) 14	Clydesdale Bank	NW	A	NW	F1		bbb+	NW	1	SB	Baa1		P-2			NW	BBB+		A-2	G - 100 days	N/C - 0 mths							N/C - 0 mths
(!)	Co-operative Bank Plc	SB	B		B		b		5	PO	Caa2		NP							N/C - 0 mths	N/C - 0 mths							N/C - 0 mths
(!)	Goldman Sachs International Bank ~	PO	A		F1					SB	A1		P-1			PW	A		A-1	R - 6 mths	R - 6 mths	90.5	7.6%	7.0%	-10.1%	-1.3%	In Range	R - 6 mths
	HSBC Bank plc	SB	AA-		F1+		a+		1	SB	Aa2		P-1			SB	AA-		A-1+	O - 12 mths	O - 12 mths	75.9	6.9%	14.0%	-4.9%	-6.7%	In Range	O - 12 mths
(!)	Lloyds Bank Plc	SB	A+		F1		a		5	PO	A1		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	52.2	3.9%	9.2%	-11.0%	-34.2%	In Range	R - 6 mths
(!) 18	Santander UK plc	PO	A		F1		a		2	SB	A1		P-1			NO	A		A-1	R - 6 mths	R - 6 mths							R - 6 mths
(!) ●	Standard Chartered Bank	NO	A+		F1		a+		5	NW	Aa2		P-1			SB	A+		A-1	O - 12 mths	O - 12 mths	144.1	8.4%	11.0%	9.3%	37.4%	Monitoring	R - 6 mths
	Sumitomo Mitsui Banking Corporation Europe Ltd ~	SB	A		F1				1	SB	A1		P-1			SB	A		A-1	R - 6 mths	R - 6 mths	90.3	-0.1%	-2.4%	49.8%	64.9%	In Range	R - 6 mths
(!)	UBS Ltd ~	PO	A		F1				1	PW	A2		P-1			PO	A		A-1	R - 6 mths	R - 6 mths	52.7	6.0%	20.3%	-10.9%	-30.6%	In Range	R - 6 mths
	U.S.A	SB	AAA							SB	Aaa					SB	AA+			Not Applicable	Not Applicable	12.6	-2.0%	-30.4%	-10.8%	-10.8%	In Range	Not Applicable
(!)	Bank of America, N.A ~	SB	A+		F1		a		5	SB	A1		P-1			PW	A		A-1	R - 6 mths	R - 6 mths							R - 6 mths
	Bank of New York Mellon, The	SB	AA		F1+		aa-		5	SB	Aa1		P-1			SB	AA-		A-1+	P - 24 mths	P - 24 mths							P - 24 mths
(!)	Citibank, N.A. ~	SB	A+		F1		a		5	SB	A1		P-1			PW	A		A-1	R - 6 mths	R - 6 mths	87.8	7.8%	5.1%	-10.5%	3.7%	In Range	R - 6 mths
	JPMorgan Chase Bank NA	SB	AA-		F1+		a+		5	SB	Aa2		P-1			SB	A+		A-1	O - 12 mths	O - 12 mths	61.3	-0.1%	0.0%		0.1%	In Range	O - 12 mths
	Wells Fargo Bank NA	SB	AA		F1+		aa-		5	SB	Aa1		P-1			SB	AA-		A-1+	P - 24 mths	P - 24 mths	57.1	5.4%	3.5%	-9.1%	4.5%	In Range	P - 24 mths
	UK BUILDING SOCIETIES																											
(!)	Coventry BS	SB	A		F1		a		5	PO	A2		P-1							R - 6 mths	R - 6 mths							R - 6 mths
	Leeds BS	SB	A-		F1		a-		5	SB	A2		P-1							R - 6 mths	R - 6 mths							R - 6 mths
	Nationwide BS	SB	A		F1		a		5	SB	A1		P-1			SB	A		A-1	R - 6 mths	R - 6 mths							R - 6 mths
	Newcastle BS	SB	BB+		B		bb+		5											N/C - 0 mths	N/C - 0 mths							N/C - 0 mths
	Nottingham BS									SB	Baa1		P-2							N/C - 0 mths	N/C - 0 mths							N/C - 0 mths
(!)	Principality BS	SB	BBB+		F2		bbb+		5	PO	Baa3		P-3							N/C - 0 mths	N/C - 0 mths							N/C - 0 mths
	Skipton BS	SB	BBB+		F2		bbb+		5	SB	Baa2		P-2							N/C - 0 mths	N/C - 0 mths							N/C - 0 mths
	West Bromwich BS									SB	B1		NP							N/C - 0 mths	N/C - 0 mths							N/C - 0 mths
(!)	Yorkshire BS	SB	A-		F1		a-		5	PO	A3		P-2							G - 100 days	G - 100 days							G - 100 days

CDS Data Source: Reuters

	Counterparty	Credit Ratings																		Subjective Overlay								
		Fitch Rating								Moody's Ratings						S&P Ratings						CDS Data						
		Long Term Status	Long Term	*Short Term Status*	Short Term	*Viability Status*	Viability	*Support Status*	Support	*Long Term Status*	Long Term	*Short Term Status*	Short Term	*FSR Status*	FSR	*Long Term Status*	Long Term	*Short Term Status*	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	07/01/2016	Week % Change	1 Month % Change	3 Month % Change	6 Month % Change	CDS Status	Suggested Duration (CDS Adjusted with manual override)
	AAA rated and Government backed securities																											
	Collateralised LA Deposit*		AA+								Aa1						AAA			**Y - 60 mths**	**Y - 60 mths**							**No Data Available**
	Debt Management Office		AA+								Aa1						AAA			**Y - 60 mths**	**Y - 60 mths**							**No Data Available**
	Multilateral Development Banks		AAA								Aaa						AAA			**Y - 60 mths**	**Y - 60 mths**							**No Data Available**
	Supranationals		AAA								Aaa						AAA			**Y - 60 mths**	**Y - 60 mths**							**No Data Available**
	UK Gilts		AA+								Aa1						AAA			**Y - 60 mths**	**Y - 60 mths**							**No Data Available**
	* This is an assumed rating on the basis that all collateral is LA LOBOs which is government risk																											
	NATIONALISED AND PART NATIONALISED BANKS																											
(I)	Royal Bank of Scotland Group plc	*SB*	BBB+		F2		bbb+		5	*PO*	Ba1		NP			*SB*	BBB-		A-3									**Not Applicable**
(I)	National Westminster Bank Plc	*SB*	BBB+		F2		bbb+		5	*PO*	A3		P-2			*SB*	BBB+		A-2	**B - 12 mths**	**B - 12 mths**							**Not Applicable**
(I)	The Royal Bank of Scotland Plc	*SB*	BBB+		F2		bbb+		5	*PO*	A3		P-2			*SB*	BBB+		A-2	**B - 12 mths**	**B - 12 mths**	61.0	4.2%	8.7%	-22.1%	-41.6%		**Not Applicable**
(I)	**Ulster Bank Ltd (Suspended)**	*SB*	BBB+		F2		bb		2	*PO*	A3		P-2			*SB*	BBB		A-2	**N/C - 0 mths**	**N/C - 0 mths**							**Not Applicable**

■	Newly included on, or deleted from, the list OR Changes to ratings which have a significant effect
❑	Change to ratings
(!)	Ratings on Rating Watch / Rating Alert / Rating Outlook
●	New rating
✕	Ratings withdrawn
⬍	Change of duration based on CDS overlay

60 Months	Y
24 Months	P
12 Months	B
12 Months	O
6 Months	R
100 Days	G
0 Months	N/C

NO	Negative Outlook
NW	Negative Watch
DG	Downgrade
PO	Positive Outlook
PW	Positive Watch
UP	Upgrade
SB	Stable Outlook
EW	Evolving Watch
EO	Evolving Outlook
WD	Rating Withdrawn

DG NO	Downgrade & Negative Outlook
DG NW	Downgrade & Negative Watch
DG SB	Downgrade & Stable Outlook
DG EW	Downgrade & Evolving Watch
DG EO	Downgrade & Evolving Outlook
DG PO	Downgrade & Positive Outlook
UP PO	Upgrade & Positive Outlook
UP PW	Upgrade & Positive Watch
UP SB	Upgrade & Stable Outlook
UP EW	Upgrade & Evolving Watch
UP EO	Upgrade & Evolving Outlook

Additional Notes

Reference	Institution	Notes
1	Nordea Bank Finland Plc	Name changed from Mertia Bank Ltd. Please note that deposits in the future can no longer be taken out under the name of Nordea Bank Finland Plc, but must instead be taken under Nordea Bank AB
2	Credit Agricole Corporate and Investment Bank	Name changed from CALYON Corporate and Investment Bank
3	Credit Industriel et Commercial	Name changed from Compagnie Financiere de CIC et de l'Union Europeenne to CIC Group and then changed to Credit Industriel et Commercial (CIC)
4	Intesa Sanpaolo	Merger between Banca Intesa and San Paolo IMI
5	UniCredit SpA	Merger between Unicredit Banca di Roma Spa and Unicredit SpA
6	Cooperatieve Centrale Raiffeisen - Boerenleenbank BA	Also trades as Rabobank/Rabobank International/Rabobank Netherland
7	DnB NOR Bank	Name changed from DnB NOR Bank. Merger between the former Den Norske Bank and Union Bank of Norway January 04
8	DBS Bank Ltd	Name changed from Development Bank of Singapore Ltd
9	Nordea Bank AB	(publ) Name changed from Nordea Bank Sweden (previously Nordbanken AB)
10	Skandinaviska Enskilda Banken AB	(publ) (SEB AB)
11	Swedbank AB	Name changed from ForeningsSparbanken AB
12	Credit Suisse	Merger between Credit Suisse and Credit Suisse First Boston
13	Bank of New York Mellon (International) Ltd	Formerly, The Bank of New York Europe Ltd
14	Clydesdale Bank	Yorkshire Bank is the trading entity of Clydesdale Bank
15	Credit Suisse International	Name changed from Credit Suisse First Boston International
16	DB UK Bank Limited	Name changed from Morgan Grenfell and Co Ltd
17	Bank of New York Mellon, The	Formerly Bank of New York, The
18	Santander UK plc	Name changed from Abbey National plc
19	UniCredit Bank AG	Name changed from Bayerische Hypo und Vereinsbank
20	Belfius Bank	Name changed from Dexia Bank Belgium
21	Sumitomo Mitsui Trust Bank, Limited	Name changed from Sumitomo Trust & Banking Co Ltd
22	Permanent TSB plc	Name changed from Irish life & Permanent plc
23	Virgin Money plc	Name changed from Northern Rock plc to Virgin Money plc
24	BNP Paribas Fortis	Name changed from Fortis Bank to BNP Paribas Fortis
25	Mizuho Bank, Ltd	Name changed from Mizuho Corporate Bank Ltd to Mizuho Bank, Ltd
26	Dunbar Assets Ireland	Name changed from Zurich Bank to Dunbar Assets Ireland
27	ICBC Standard Bank plc	Name changed from Standard Bank Plc to ICBC Standard Bank plc
28	Citizens Bank, NA	Name changed from RBS Citizens Bank, NA to Citizens Bank, NA
~		CDS prices inherited from Parent/Group Company

CAPITA

Asset Services