**Agenda Item No. 9**

# WEST OXFORDSHIRE DISTRICT COUNCIL

## FINANCE AND MANANGEMENT OVERVIEW AND SCRUTINY COMMITTEE

## WEDNESDAY 3 FEBRUARY 2016

## CABINET

## WEDNESDAY, 10 FEBRUARY 2016

## TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY

## 2016/2017 – 2018/2019

## REPORT OF THE GO SHARED SERVICE HEAD OF FINANCE

**(Contact: Paul Stuart, Tel: (01993) 861171)**

(The Treasury Management Strategy Statement will be approved by Council and the Prudential Indicators and Limits will also be approved by Council as part of the formal budget and tax setting process).

## 1. PURPOSE

To consider the Council's Treasury Management Strategy for 2016/17 and approve; Prudential Indicators; MRP Statement and the Use of Specified and Non Specified Investments.

## 2. RECOMMENDATIONS

(a) That the Cabinet be requested to recommend that the Council approves:

(i) The Treasury Management Strategy 2016/2017 to 2018/2019 at Appendix A.

(ii) The adoption of MRP Option 3, the asset life method, which makes revenue provision over the estimated life (in equal instalments) of the asset (as defined within Appendix A Paragraph 6).

(b) That the Cabinet be requested to recommend that the Council adopts the Prudential Indicators and Limits for 2016/2017 to 2018/2019 as detailed in Appendix B and summarised in Appendix E.

## 3. BACKGROUND

3.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services 2011 Edition (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. This statement also incorporates the Annual Investment Strategy as required by the Department for Communities and Local Government (CLG) Investment Guidance. Together, these cover the financing and investment strategy for the forthcoming financial year.

3.2. The purpose of this Treasury Management Strategy Statement is to approve:

- Treasury Management Strategy 2016/17 (Investments)
- Investment Strategy for 2016/17
- Prudential Indicators for 2016/17, 2017/18 and 2018/19 (the Authorised Limit is a statutory limit)
- MRP Statement

3.3. In accordance with the requirements of the Prudential Code, the Council has adopted the CIPFA Treasury Management Code at its Cabinet meeting on 17 February 2010. All treasury activity will comply with relevant statute, guidance and accounting standards.

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

## 4. ALTERNATIVES/OPTIONS

The Committee may suggest amendments to the proposed Treasury Management Strategy for 2016/2017 to 2018/2019.

## 5. FINANCIAL IMPLICATIONS

There are no direct financial implications

## 6. REASONS

To incorporate the requirements of the Local Government Act 2003 and the guidance on Local Government Investments whilst complying with the principles of the CIPFA Code of Practice for Treasury Management.

Paul Stuart
GO Shared Services Head of Finance

(Author: Andrew Sherbourne / Paul Stuart, Tel: (01993) 861171;
Email: paul.stuart@westoxon.gov.uk)
Date: 7th January 2016

<u>Background Papers:</u>

ODPM Guidance under Section 15(1) (a) Local Government Act 2003.
CIPFA Treasury Management in the Public Service Code of Practice and Cross-Sectoral Guidance Notes.
Arlingclose Treasury Management Strategy Report.

**Appendix A**

# Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19

## 1. Capital Financing Requirement

1.1 The underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves are the core drivers of Treasury Management Activity.

1.2 The Council's current level of investments is set out below:

EXISTING INVESTMENT PORTFOLIO

| **Investments** | **31/12/2015 Actual Portfolio £m** |
|---|---|
| ***Managed in-house*** | |
| - Short Term Monies (Deposits) | 11.000 |
| - Monies on Call / MMF | 5.250 |
| - Corporate Bonds | 4.991 |
| - Long Term Investments -RSL | 5.000 |
| ***Managed externally*** | |
| - Insight Liquidity Plus Fund | 2.018 |
| - Payden & Rygel Sterling Fund | 2.023 |
| - UBS Multi Asset Income Fund | 1.953 |
| - Aberdeen Absolute Return Bond Fund | 1.818 |
| - Schroders Income Maximiser Fund | 0.961 |
| - Threadneedle Global Equity Fund | 1.087 |
| - M&G Global Dividend Fund | 0.953 |
| - M&G Strategic Corporate Bond Fund | 0.978 |
| | |
| **Total Investments*** | **38.032** |
| | |
| Icelandic Investments O/S | 0.933 |

* Please note this total excludes Icelandic Investments. The outstanding balance is shown separately in the line below.

1.3 The controls for borrowing allow an authority to borrow funds in excess of the current level of its CFR up to the three year projected date – 2018/19. The condition of such borrowing is that the Council could only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required. However, the Council is currently debt free, funding its capital programme from existing resources such as capital receipts, earmarked reserves and capital contributions. The strategy is to minimise impact on the Council's revenue account. Consequently, at present while capital funding can be contained within existing resources this will be the continuing capital funding strategy.

1.4 The forecasted movement in the CFR in the coming years is one of the Prudential Indicators (PIs). The movement in actual external debt (this Council is debt free) and usable reserves combine to identify the authority's borrowing requirement and potential investment strategy in the current and future years.

**Table 1: Balance Sheet Summary Analysis**

| | **2015/16 Estimate £'000** | **2016/17 Estimate £'000** | **2017/18 Estimate £'000** | **2018/19 Estimate £'000** |
|---|---|---|---|---|
| General Fund CFR | 555 | 183 | (28) | (46) |
| | | | | |
| Less: Borrowing and Other Long Term Liabilities | (601) | (229) | (18) | 0 |
| Usable Reserves | (20,738) | (15,421) | (14,046) | (11,461) |
| **Cumulative Net Borrowing Requirement / (Investments)** | (20,784) | (15,467) | (14,092) | (11,507) |

Table 1 shows that the capital expenditure plans of the authority can be funded entirely from sources other than external borrowing.

## 2. External Context and Interest Rate Forecast

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

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

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

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

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

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

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

2.6 A more detailed economic and interest rate forecast provided by the Arlingclose is attached at ***Appendix C***.

2.7 For the purposes of setting the budget, it has been assumed that the overall portfolio of short term investments, long term investments and pooled funds will aggregate at £33.67m for the year and achieve a return £657,500 at 1.93%.

## 3. <u>Borrowing Strategy</u>

3.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment.

3.2 As indicated in Table 1, the Authority is currently debt free and its capital expenditure plans do not currently imply any external borrowing requirement in 2016/17. However, it should be noted in line with the current Medium Term Financial Strategy (MTFS) the Council may need to consider borrowing to finance its capital programme in the longer term as capital receipts diminish.

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

- Operating and finance leases
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

3.4 In addition, the Authority may borrow short-term loans (normally up to one month) to cover unexpected cash flow shortages.

## 4. Investment Strategy

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

4.1.2 **Strategy**: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to carry on with its diversification of investments during 2016/17. This is especially the case for the estimated £22m that is available for longer-term investment. The day to day cash surpluses are currently invested in short-term unsecured bank deposits, certificates of deposits and money market funds.

4.2 Investments are categorised as 'Specified' or 'Non Specified' within the investment guidance issued by the CLG.

**Specified Investments**: The CLG Guidance defines specified investments as those:

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

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

4.2.1 **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

4.2.2 **Approved Counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

**Table 2: Approved Investment Counterparties and Limits**

| Credit Rating | Banks Unsecured | Banks Secured | Government | Corporates | Registered Providers |
|---|---|---|---|---|---|
| UK Govt | n/a | n/a | £ Unlimited<br>50 years | n/a | n/a |
| AAA | £7m<br>5 years | £7m<br>20 years | £7m<br>50 years | £5m<br>20 years | £5m<br>20 years |
| AA+ | £5m<br>5 years | £6m<br>10 years | £5m<br>25 years | £4m<br>10 years | £5m<br>10 years |
| AA | £5m<br>4 years | £6m<br>5 years | £6m<br>15 years | £4m<br>5 years | £5m<br>10 years |
| AA- | £5m<br>3 years | £6m<br>4 years | £5m<br>10 years | £3m<br>4 years | £5m<br>10 years |
| A+ | £5m<br>2 years | £6m<br>3 years | £4m<br>5 years | £2m<br>3 years | £3m<br>5 years |
| A | £5m<br>13 months | £5m<br>2 years | £5m<br>5 years | £2m<br>2 years | £3m<br>5 years |
| A- | £5m<br>6 months | £5m<br>13 months | £4m<br>5 years | £2m | £3m<br>5 years |
| BBB+ | £1m<br>100 days | £1m<br>6 months | £2m<br>2 years | £1m<br>6 months | £1m<br>2 years |
| BBB or BBB- | £1m<br>next day only | £1m<br>100 days | n/a | n/a | n/a |
| None | £1m<br>100 days | £1m<br>100 days | n/a | n/a | n/a |
| Pooled funds | £6m max per fund | | | | |

This table must be read in conjunction with the notes below and in Appendix D.

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

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

4.3.2 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

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

4.3.4 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

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

Registered Providers (RPs) have been included within the approved counterparty investments for 2016/17 following on from their use over the last three financial years. Investments with RPs will be analysed on an individual basis and discussed with Arlingclose prior to investing. If the RP have a credit rating from one of the agencies we would look at their viability rating and could lend to them on either a secured or unsecured basis on the assets it holds. If the RP does not hold a credit rating but is HCA (Homes & Communities Agency) rated then any investment made would be on a secured basis on the assets (i.e. Homes) it has as security for loans borrowed. In previous years investment has been limited to £10m for RP's, however for 2016/17 it has been recommended after holding discussions with Arlingclose, that this limit be increased to £12.5m as one of the current bonds held, matures in December 2016, and the Authority may need to purchase a new RP Bond if the timing and price is right beforehand.

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

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

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

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

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

4.5 **Other Information on the Security of Investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

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

4.5.2 **Authority's Banker** – The Authority banks with Lloyds Bank PLC. At the current time it does meet the proposed minimum credit criteria of A- (or equivalent) long term. Even if the credit rating falls below the Authority's minimum criteria Lloyds Bank PLC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

## 5. Balanced Budget Requirement

5.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

## 6. 2016/17 MRP Statement

6.1.1 The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of borrowing (MRP). This year's policy is as follows:

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

The four MRP options available are:

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

Although four options are detailed, the guidance also allows authorities to develop their own method of calculating MRP, providing the method is prudent.

MRP in 2016/17: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.
The MRP Statement will be submitted to Council before the start of the 2015/16 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Authority at that time.

6.1.2 For 2016/17 the Council will apply Option 3, the 'Asset Life' Method, which makes revenue provision over the estimated life (in equal instalments) of the asset for which the borrowing is undertaken. MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

6.1.3 Although the Council does not plan to finance capital expenditure through borrowing within the term shown within the current Medium Term Financial Strategy (MTFS), it has a duty to approve a statement of policy to account for the MRP. The requirement is that the MRP Statement is submitted to Council before the start of 2016/17 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to the Council at that time.

## 7. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

The Strategic Director will report to the Finance and Management Overview and Scrutiny Committee on treasury management activity and performance, including the monitoring of Prudential Indicators as follows:

(a) Activity and performance against the strategy approved for the year will be reported regularly to the Finance and Management Overview and Scrutiny Committee and as a minimum a mid-year and year end review.

(b) The Finance and Management Overview and Scrutiny Committee will receive an outturn report on treasury activity no later than 30th September after the financial year end.

(c) The Finance and Management Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

## 8. Other items

8.1 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

## 8.2 Training

The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

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

## 8.3 Investment Consultants / Treasury Advisors

The Authority uses Arlingclose as Treasury Management Advisors and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshop and training events
- Ad hoc advice and events.

The Authority maintains the quality of the service with its advisors by holding regular meetings. Arlingclose have been awarded the contract until November 2017.

## 9. Financial Implications

The budget for investment income in 2016/17 is estimated to be £657,500, based on an average investment portfolio of £33.69 million at an interest rate of 1.93%.

**Other Options Considered**

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Strategic Director, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

**Appendix B**

## Prudential Indicators 2015/16 and 2016/17 – 2018/19

### 1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

The revised estimates are the updates to the approved estimates. It is the revised and estimate indicators that are recommended for adoption.

### 2. Gross Debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that the debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

The Strategic Director reports that the authority had no difficulty meeting this requirement in 2015/16, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

### 3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

| Capital Expenditure | 2015/16 Approved £'000 | 2015//16 Revised £'000 | 2016/17 Estimate £'000 | 2017/18 Estimate £'000 | 2018/19 Estimate £'000 |
|---|---|---|---|---|---|
| Capital Programme | 5,471 | 2,414 | 3,508 | 1,182 | 1,382 |

3.2 Capital expenditure will be financed or funded as follows:

| **Capital Financing** | **2015/16 Approved £'000** | **2015/16 Revised £'000** | **2016/17 Estimate £'000** | **2017/18 Estimate £'000** | **2018/19 Estimate £'000** |
|---|---|---|---|---|---|
| Capital receipts | 2,367 | 976 | 936 | 175 | 331 |
| Government Grants / Contributions | 704 | 638 | 315 | 251 | 251 |
| Revenue contributions | 2,400 | 800 | 2,257 | 756 | 800 |
| **Total Financing** | 5,471 | 2,414 | 3,508 | 1,182 | 1,382 |

## 4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income. As West Oxfordshire is in a position where investment receipts exceed financing costs the indicator generates a negative ratio.

| **Ratio of Financing Costs to Net Revenue Stream** | **2015/16 Approved %** | **2015/16 Revised %** | **2016/17 Estimate %** | **2017/18 Estimate %** | **2018/19 Estimate %** |
|---|---|---|---|---|---|
| Ratio | -8% | -6% | -7% | -8% | -9% |

## 5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing.

| **Capital Financing Requirement** | **2015/16 Approved £'000** | **2015/16 Revised £'000** | **2016/17 Estimate £'000** | **2017/18 Estimate £'000** | **2018/19 Estimate £'000** |
|---|---|---|---|---|---|
| **Total CFR** | 555 | 555 | 183 | (28) | (46) |

## 6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

| **Actual External Debt as at 31/03/2015** | **£'000** |
|---|---|
| Borrowing | 0 |
| Other Long-term Liabilities – vehicle 'finance leases' * | 957 |
| **Total** | **957** |

* The finance lease liability represents the proportion of the Council's Waste Collection contract which it estimates is attributable to the cost of the vehicle fleet. This 'debt' is being financed as part of the Council's waste and recycling contract payments

## 7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

| **Incremental Impact of Capital Investment Decisions** | **2015/16 Approved £** | **2015/16 Revised £** | **2016/17 Estimate £** | **2017/18 Estimate £** | **2018/19 Estimate £** |
|---|---|---|---|---|---|
| Increase in Band D Council Tax | 0.66 | 0.53 | 0.47 | 0.09 | 0.20 |

7.2 The Council's capital plans, as estimated in forthcoming financial years, have a minimal impact on council tax. This reflects the fact that capital expenditure is predominantly financed from internal resources (grants, contributions and revenue contributions).

## 8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

| **Authorised Limit for External Debt** | **2015/16 Approved £'000** | **2015/16 Revised £'000** | **2016/17 Estimate £'000** | **2017/18 Estimate £'000** | **2018/19 Estimate £'000** |
|---|---|---|---|---|---|
| Borrowing | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| Other Long-term Liabilities | 601 | 601 | 229 | 18 | 0 |
| **Total** | **8,601** | **8,601** | **8,229** | **8,018** | **8,000** |

8.5 The **Operational Boundary** has been set on the estimate of the most likely i.e. prudent but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements. Other long term liabilities such as finance leases and other liabilities that are not borrowing but form part of the Authority's debt.

| **Operational Boundary for External Debt** | **2015/16 Approved £'000** | **2015/16 Revised £'000** | **2016/17 Estimate £'000** | **2017/18 Estimate £'000** | **2018/19 Estimate £'000** |
|---|---|---|---|---|---|
| Borrowing | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Other Long-term Liabilities | 601 | 601 | 229 | 18 | 0 |
| **Total** | **4,601** | **4,601** | **4,229** | **4,018** | **4,000** |

## 9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

9.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

9.2 The Council is debt free and will maintain that position in the medium term. The Council is not planning to borrow long term, but may need the flexibility to borrow on a temporary short term basis to accommodate cash flow fluctuation, within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

9.3 The Council's existing level of fixed or variable rate exposure is nil.

| | 2015/16 Approved % | 2015/16 Revised % | 2016/17 Estimate % | 2017/18 Estimate % | 2018/19 Estimate % |
|---|---|---|---|---|---|
| **Upper Limit for Fixed Interest Rate Exposure** | 100 | 100 | 100 | 100 | 100 |
| **Upper Limit for Variable Interest Rate Exposure** | 100 | 100 | 100 | 100 | 100 |

## 10. Maturity Structure of Fixed Rate borrowing:

10.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

10.2 As the Council is debt free and intends to remain so for the immediate future, this indicator does not apply.

## 11. Credit Risk:

11.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

11.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

11.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

11.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

## 12. Upper Limit for total principal sums invested over 364 days:

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

| Upper Limit for total principal sums invested over 364 days | 2015/16 Approved £m | 2015/16 Revised £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m |
|---|---|---|---|---|---|
| | 15 | 15 | 15 | 15 | 15 |

# Arlingclose Economic & Interest Rate Forecast January 2016

## Underlying assumptions:

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

**Forecast:**

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path; suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.

- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.

- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

| | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Official Bank Rate** | | | | | | | | | | | | | |
| **Upside risk** | | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 |
| **Arlingclose Central Case** | **0.50** | **0.50** | **0.50** | **0.75** | **0.75** | **1.00** | **1.00** | **1.25** | **1.25** | **1.50** | **1.50** | **1.75** | **1.75** |
| **Downside risk** | | | | -0.25 | -0.25 | -0.50 | -0.50 | -0.75 | -0.75 | -1.00 | -1.00 | -1.25 | -1.25 |
| **3-month LIBID rate** | | | | | | | | | | | | | |
| **Upside risk** | 0.20 | 0.30 | 0.30 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 |
| **Arlingclose Central Case** | **0.55** | **0.60** | **0.70** | **0.80** | **0.95** | **1.05** | **1.15** | **1.30** | **1.40** | **1.55** | **1.65** | **1.80** | **1.85** |
| **Downside risk** | | -0.20 | -0.30 | -0.45 | -0.55 | -0.65 | -0.80 | -0.90 | -1.05 | -1.10 | -1.20 | -1.20 | -1.20 |
| **1-yr LIBID rate** | | | | | | | | | | | | | |
| **Upside risk** | 0.25 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.40 | 0.40 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 |
| **Arlingclose Central Case** | **1.10** | **1.20** | **1.35** | **1.45** | **1.55** | **1.70** | **1.80** | **1.95** | **2.00** | **2.10** | **2.15** | **2.15** | **2.15** |
| **Downside risk** | -0.15 | -0.25 | -0.35 | -0.50 | -0.60 | -0.70 | -0.85 | -0.95 | -1.10 | -1.15 | -1.25 | -1.25 | -1.25 |
| **5-yr gilt yield** | | | | | | | | | | | | | |
| **Upside risk** | 0.40 | 0.50 | 0.50 | 0.50 | 0.55 | 0.55 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 |
| **Arlingclose Central Case** | **1.50** | **1.55** | **1.60** | **1.70** | **1.80** | **1.90** | **2.00** | **2.10** | **2.20** | **2.25** | **2.30** | **2.35** | **2.35** |
| **Downside risk** | -0.35 | -0.45 | -0.55 | -0.60 | -0.70 | -0.80 | -0.90 | -1.00 | -1.10 | -1.15 | -1.20 | -1.25 | -1.25 |
| **10-yr gilt yield** | | | | | | | | | | | | | |
| **Upside risk** | 0.40 | 0.50 | 0.50 | 0.50 | 0.55 | 0.55 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 |
| **Arlingclose Central Case** | **2.00** | **2.05** | **2.10** | **2.20** | **2.30** | **2.40** | **2.50** | **2.60** | **2.65** | **2.70** | **2.75** | **2.80** | **2.80** |
| **Downside risk** | -0.35 | -0.45 | -0.55 | -0.60 | -0.70 | -0.80 | -0.90 | -1.00 | -1.10 | -1.15 | -1.20 | -1.25 | -1.25 |
| **20-yr gilt yield** | | | | | | | | | | | | | |
| **Upside risk** | 0.40 | 0.50 | 0.50 | 0.50 | 0.55 | 0.55 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 |
| **Arlingclose Central Case** | **2.45** | **2.50** | **2.55** | **2.55** | **2.60** | **2.65** | **2.70** | **2.75** | **2.80** | **2.85** | **2.90** | **2.95** | **2.95** |
| **Downside risk** | -0.30 | -0.40 | -0.50 | -0.55 | -0.65 | -0.75 | -0.85 | -0.95 | -1.05 | -1.10 | -1.15 | -1.20 | -1.20 |
| **50-yr gilt yield** | | | | | | | | | | | | | |
| **Upside risk** | 0.40 | 0.50 | 0.50 | 0.50 | 0.55 | 0.55 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 |
| **Arlingclose Central Case** | **2.45** | **2.50** | **2.55** | **2.60** | **2.65** | **2.70** | **2.75** | **2.80** | **2.85** | **2.90** | **2.95** | **3.00** | **3.00** |
| **Downside risk** | -0.25 | -0.35 | -0.45 | -0.50 | -0.60 | -0.70 | -0.80 | -0.90 | -1.00 | -1.05 | -1.10 | -1.15 | -1.15 |

**Appendix D**

**Recommended Sovereign and Counterparty List**

| Instrument | Country/ Domicile | Counterparty | Long-Term Credit Rating Fitch/ Moody's/S&P | Maximum Counterparty Limit- Unsecured £m | Maximum Counterparty Limit- Secured £m |
|---|---|---|---|---|---|
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Santander UK Plc (Banco Santander Group) | A/A1/A | £5m | £5m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Bank of Scotland (Lloyds Banking Group) | A+/A1/A | £5m | £5m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Lloyds Bank (Lloyds Banking Group) | A+/A1/A | £5m | £5m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Barclays Bank Plc | A/A2/A- | £5m | £5m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Close Brothers Limited | A/Aa3/na | £5m | £5m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Goldman Sachs International Bank | A/A1/A | £5m | £5m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | HSBC Bank Plc | AA-/Aa2/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Leeds Building Society | A-/A3/na | £5m | £5m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Nationwide Building Society | A/A2/A | £5m | £5m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | NatWest (RBS Group) | BBB+/A3/BBB+ Not able to lend to at present | £5m | £5m |

| | | | | | |
|---|---|---|---|---|---|
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Royal Bank of Scotland (RBS Group) | BBB+/A3/BBB+- Not able to lend to at present | £5m | £5m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Standard Chartered Bank | A+/Aa2/A+ | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Australia | Australia and NZ Banking Group | AA-/Aa2/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Australia | Commonwealth Bank of Australia | AA-/Aa2/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Australia | National Australia Bank Ltd (National Australia Bank Group) | AA-/Aa2/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Australia | Westpac Banking Corp | AA-/Aa2/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Canada | Bank of Montreal | AA-/Aa3/A+ | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Canada | Bank of Nova Scotia | AA-/Aa2/A+ | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Canada | Canadian Imperial Bank of Commerce | AA-/Aa3/A+ | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Canada | Royal Bank of Canada | AA/Aa3/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Canada | Toronto-Dominion Bank | AA-/Aa1/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call | Denmark | Danske Bank | A/A2/A | £5m | £6m |

| | | | | | |
|---|---|---|---|---|---|
| Accounts | | | | | |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Finland | Pohjola Bank | A+/Aa3/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Germany | Deutsche Bank AG | A-/A3/BBB+ Not able to lend to at present | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Germany | Landesbank Hessen-Thuringen (Helaba) | A+/A1/A | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Netherlands | ING Bank NV | A/A1/A | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Netherlands | Rabobank | AA-/Aa2/A+ | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Netherlands | Bank Nederlandse Gemeenten | AA+/Aaa//AAA | £7m | £7m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Singapore | DBS Bank Ltd | AA-/Aa1/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Singapore | Oversea-Chinese Banking Corporation | AA-/Aa1/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Singapore | United Overseas Bank | AA-/Aa1/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Sweden | Nordea Bank AB | AA-/Aa3/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Sweden | Svenska Handelsbanken | AA-/Aa2/AA- | £5m | £6m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | Switzerland | Credit Suisse | A/A1/A | £5m | £5m |

| | | | | | |
|---|---|---|---|---|---|
| Term Deposits / CDs /Corporate Bonds/Call Accounts | US | JP Morgan | AA-/Aa3/A+ | £5m | £6m |

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if counterparty is downgraded, this list may be shortened.*

**Recommended UK Building Societies** – Arlingclose remains comfortable with new investments in the counterparties below:

| Instrument | Country/ Domicile | Counterparty | Maximum Duration | Maximum Counterparty Limit- Unsecured £m | Maximum Counterparty Limit- Secured £m |
|---|---|---|---|---|---|
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Coventry Building Society | 6 months | £3m | £3m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Leeds Building Society | 100 days | £3m | £3m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Nationwide Building Society | 6 months | £5m | £5m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Cumberland Building Society | 100 days | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Darlington Building Society | 100 days | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Furness Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Harpenden Building Society | 100 days | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Hinckley & Rugby Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Leek United Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Loughborough Building Society | 100 days | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Mansfield Building Society | 6 months | £1m | £2m |

| | | | | | |
|---|---|---|---|---|---|
| Term Deposits / CDs /Corporate Bonds/Call accs | UK | Market Harborough Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Marsden Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Melton Mowbray Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | National Counties Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Newbury Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Scottish Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Stafford Railway Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Accounts | UK | Tipton & Coseley Building Society | 6 months | £1m | £2m |
| Term Deposits / CDs /Corporate Bonds/Call Acs | UK | Vernon Building Society | 100 days | £1m | £2m |

**Summary of Prudential Indicators to be submitted to Council 25 February 2015.**

| | 2015/16 Revised | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|---|---|---|---|---|
| Capital expenditure | 2,414 | 3,508 | 1,182 | 1,382 |
| Ratio of financing costs to net revenue stream | -6% | -7% | -8% | -9% |
| Capital financing requirement | £555k | £183k | (£28k) | (£46k) |
| Actual External Debt as at 31/03/2015 | Nil | Nil | Nil | Nil |
| Incremental impact of capital investment decisions on the 'Band D' Council Tax | £0.53 | £0.47 | £0.09 | £0.20 |
| Authorised limit external debt | £8.601m | £8.229m | £8.018m | £8.0m |
| Operational boundary external debt | £4.601m | £4.229m | £4.018m | £4.0m |
| Adoption of the CIPFA Code of Practice in Treasury Management | Yes | Yes | Yes | Yes |
| Upper Limit for Fixed Interest Rate Exposure | 100% | 100% | 100% | 100% |
| Upper Limit for Variable Interest Rate Exposure | 100% | 100% | 100% | 100% |
| Maturity structure of fixed rate borrowing | N/A | N/A | N/A | N/A |
| Upper Limit for total principal sums invested over 364 days | £15m | £15m | £15m | £15m |