Agenda item 7

Audit Committee – 15 January 2018

Treasury Management and Investment Strategy 2018/19 Draft Onwards

1. Summary of report

1.1 This report sets out the council's proposed Treasury Management and Investment strategy 2018/19 onwards **(Appendix A).** It is included in the council's corporate budget plan 2018/19.

2. Recommendations

Audit Committee are asked to:

2.1 Note and endorse the Treasury Management and Investment Strategy 2018/19 onwards **(Appendix A).**

2.2 Note that any changes required, for instance as a result of budget consultation, capital programme changes, interest rate outlook, the Autumn Budget, the Local Government Finance Settlement etc., will be made prior to the final submission to Council for approval of the Strategy.

James T Walsh – Assistant Director, Finance
(Chief Finance Officer)
21 December 2017

3. Background information

3.1 Treasury Management is defined 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."

3.2 **Appendix A** is the proposed Treasury Management and Investment Strategy 2018/19 onwards, which forms part of the council budget setting process presented to Cabinet and Council.

3.3 Members consider the Strategy each year as a requirement of the CIPFA Code of Practice on Treasury Management in the Public Services; the updated version (revised 2011) which Cabinet formally adopted on 22 March 2010.

3.4 The proposed strategy for 2018/19 onwards supports the council's 2018/19 Corporate budget plan and in particular, the financing of the capital programme. It is based upon the treasury officers' view on interest rates, supplemented with leading market forecasts provided by the council's treasury adviser, Link Asset Services, Treasury Solutions.

The Strategy covers:-

- The Capital and Prudential Indicators 2018/19, 2019/20 and 2020/21
- Minimum Revenue Provision (MRP) Policy Statement
- Borrowing
- Annual Investment Strategy

3.5 Borrowing and investment objectives have been updated to take account of the continued low interest rate environment. Short-term additional borrowing may be taken to assist cash flows where it is deemed advantageous. This is reviewed continually and may change if economic circumstances change, for example if there are signs that interest rates are going to rise more steeply than currently predicted then further borrowing may be taken.

3.6 Following a review, the council's Minimum Revenue Provision policy statement has not required amendment.

4. Risk Management

4.1 Treasury management activity takes place within a robust risk management environment, which enables the council to effectively maximise investment income and minimise interest payments without undue or inappropriate exposure to financial risk. The Treasury Management Policies approved by Audit Committee on 20 November 2017 provide the framework of governance and control in which the strategy operates

5. Financial Implications

5.1 The Treasury Management and Investment Strategy is a key document for the operation, review and performance assessment of treasury management and is reviewed annually. It forms part of the council's financial framework and supports delivery of the medium term financial strategy.

6. Legal Implications

6.1 The council is required to have regard to the Prudential Code under the duties outlined by the Local Government Act 2003. One requirement of the Prudential Code is that the council should comply with the CIPFA Code of Practice for Treasury Management. The council adopted the original Treasury Management Code in 1992 and further revised Codes in 2002 and 2011. Both of these codes have also been subject to consultation during 2017 regarding proposed changes, with revised codes due to be issued shortly. Any amendments required because of changes to the codes will be made prior to the final submission to Council for approval of the strategy.

7. Property implications

7.1 None directly relating to this report.

8. Health and wellbeing implications

8.1 None directly relating to this report.

9. Staffing implications

9.1 None directly relating to this report.

10. Equality Implications

10.1 None directly relating to this report.

11. Consultation

11.1 The report has been approved by the finance treasury management panel, an internal governance arrangement comprising the Chief Finance Officer, Head of Finance and Senior Finance Manager.

12 Background papers

- Various financial working papers
- Annual review of treasury management policy statement - Audit Committee 20/11/16

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Appendix 1

Treasury Management and Investment Strategy for 2018/19 Onwards

1 INTRODUCTION

1.1 Background

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 counterparties or instruments with an appropriate level of risk (as defined within the Councils Treasury Management Policies), providing adequate liquidity initially before considering investment return.

The other main function of the treasury management service is to enure approiate arrangements are in place to fund the council's approved 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.

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."

Reporting requirements

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

Prudential and treasury indicators and treasury strategy - This covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure i.e. that funded from borrowing, 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 that set out how investments are to be made and managed).

A mid-year treasury management report – This will update members on the progress of the capital plans, amending prudential indicators as necessary, and identify whether any policies require revision.

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

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. For Walsall Council the Audit Committee undertakes this role.

1.2 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital issues

- capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

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

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Department for CommunitiDCLG MRP Guidance, the CIPFA Treasury Management Code and DCLG Investment Guidance.

1.3 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. A treasury management e-learning course is available to all members and further specific training is then arranged as when required.

1.4 Treasury management consultants

The council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. The council recognises that the responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.5 Treasury management Monitoring

Local and Prudential indicators are used to monitor treasury management activities which are produced monthly and reported at least quarterly to the treasury management panel. The indicators monitored during the year are detailed in **Annex 1.**

2 THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

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

2.1 Capital Expenditure - Prudential Indicator 1

This prudential indicator is a summary of the council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are recommended to approve the capital expenditure forecasts. The financing need below excludes other long term liabilities, such as Private Finance Initiative and leasing arrangements which already include borrowing instruments within them. The current capital plans which this strategy supports are detailed in Table 1 below.

Table 1 : Current Capital Programme

	2016/17 Actual £m	2017/18 Forecast £m	2018/19 Estimated £m	2019/20 Estimated £m	2020/21 Estimated £m
Total capital expenditure	**80.847**	**94.659**	**92.590**	**66.490**	**52.390**
Resourced by: • Capital receipts	2.016	2.500	2.170	1.350	0.180
• Capital grants	64.762	61.442	68.060	56.640	45.270
• Capital Reserves	-	-	-	-	-
• Revenue	3.118	1.880	0.130	0.040	0.040
• Borrowing	10.951	28.837	22.230	8.460	6.900
Total resources available	**80.847**	**94.659**	**92.590**	**66.490**	**52.390**

2.2 Affordability Indicators

The previous prudential code required the authority to prepare indicators (prudential indicator 2 and 3) so that the council could assess the affordability of its capital investment plans. Although these are no longer required under the code, the authority still prepares these former prudential indicators as they provide an indication of the impact of the capital investment plans on the council's overall finances. Council is recommended to approve the following indicators:

Ratio of financing costs to net revenue stream – Former Prudential Indicator 2

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

	2016/17 Actual	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Ratio	5.5%	9.11%	9.6%	10.1%	10%

Incremental impact of capital investment decisions on council tax – Former Prudential Indicator 3

This indicator (shown in Table 3) identifies the revenue costs associated with the proposed changes to the capital programme recommended in the budget report compared to the council's existing approved commitments and current plans. This indicator will change during the year if the council makes changes affecting the borrowing required to support the capital programme.

Table 3 : Former Prudential Indicator 3					
	2016/17 Actual	**2017/18 Forecast**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Council tax - band D	£7.98	£12.90	£24.14	£9.19	£7.49

2.3 The council's borrowing need (the Capital Financing Requirement) – Prudential Indicator 4

Prudential indicator 4 is the council's Capital Financing Requirement (CFR). The CFR is 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 not immediately paid 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 estimated life.

The CFR does include 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 schemes include a borrowing facility within them and so the council is not required to separately borrow for these schemes. The council currently has £8.236m of such schemes within the CFR. Council is asked to approve the CFR projections in Table 4 which shows that the council's net borrowing need for the period 2018/19 to 2020/21 is estimated to see a decrease of £0.007m. The council's borrowing strategy is set out in section 4.

Table 4 : Analysis of CFR				
	2017/18 Forecast £m	**2018/19 Estimated £m**	**2019/20 Estimated £m**	**2020/21 Estimated £m**
Opening Capital Financing Requirement	335.150	356.904	367.661	363.298
Net financing need for the year				
Less MRP and other financing movements	(2.002)	(11.510)	(12.825)	(13.301)
Additional Borrowing	23.756	22.267	8.462	6.900
Movement in CFR	21.754	10.757	(4.363)	(6.401)
Closing Capital Financing Requirement	356.904	367.661	363.298	356.897

The council has maintained an under-borrowed position, which means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy has been prudent whilst investment returns have remained low and counterparty risk is relatively high compared to the historical position.

3. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

The MRP policy (see **Annex 2**) details the council's policies for calculating the annual amount charged to revenue for the repayment of debt.

3.1 Background to Annual MRP policy Review

A local authority shall determine each financial year an amount, it considers to be prudent, to be set aside for the repayment of accumulated borrowing relating to capital expenditure. This is known as the minimum revenue provision (MRP). There are four ready-made options available for calculating MRP, however authorities do also have discretion to determine their own MRP, other approaches are not ruled out, as long as the authority is properly reasoned and justified utilising them.

3.2 MRP Policy Objectives

- The council shall determine for each financial year an amount of revenue provision for the future repayment of debt that it considers prudent.
- To set aside funds at a rate such that future generations who benefit from the assets are contributing to the associated debt and avoiding the situation of future generations paying for the debt on assets that are no longer useable.

3.3 MRP Policy Review 2018/19

Full Council is required to approve an MRP Statement each year. The MRP review in 2015/16 was comprehensive and approved by Council on 26 February 2016. It amended the implementation date of the MRP policy introduced in 2014/15. It was considered an appropriate and prudent approach for the council; was agreed with external auditors and is fully consistent with the statutory duty to make prudent revenue provision for the redemption of debt.

The policy statement for 2018/19 is detailed in **Annex 2** and there are no changes proposed from 2017/18.

The MRP policy is regularly monitored, and because the MRP policy has to be approved by Council each year there is an opportunity to revisit the policy, and the prudent approach utilised to set the policy, as required.

4 BORROWING

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

4.1 Current portfolio position

The council is expected to end 2017/18 with borrowing of over 1 year length of £275m against an asset base of approximately £590m, and short term investments of between £125m and £150m. These will be proactively managed to minimise borrowing costs and maximise investment returns within a robust risk management environment. In 2018/19 estimated annual interest payments are £10.745m (£9.191m budget for 2017/18), with the increase due to planned borrowing included within the budget to take account of capital expenditure where approval to borrow was agreed by Council but this expenditure has initially been funded from cash balances. Net investment interest income for 2018/19 is estimated to be £1.524m (£0.930m budget for 2017/18), with the increase due to further investment income planned to be generated as cash reserves are replenished (linked to the increase in borrowing set out above). The net budget for capital financing in 2018/19 is £18.673m (£16.565m in 2017/18), with the increase mainly as a result of the changes set out above. The treasury management budget required for the running of the treasury management function for 2018/19 is £0.155m (£0.162m in 2017/18). By having a proactive approach to managing cash flows and investments it is estimated that investment income of £0.888m above the bank base rate will be generated.

The council's treasury portfolio position at 30th November 2017 is shown in Table 5; year end forward projections are summarised in Table 6. This shows that the actual external borrowing (the treasury management operations), against the capital borrowing need and operational debt, and highlights any over or under borrowing. It shows that the council's underborrowing position is expected to continue for the medium term.

Table 5 : Borrowing and Investments			
	Borrowing £ m	**Investments £ m**	**Net Borrowing £ m**
31 March 2017	(266.890)	154.230	112.660
30 November 2017	(328.955)	164.368	164.587
Change in year	(62.065)	10.138	(51.927)

Table 6 : Borrowing Forward Projections			
Borrowing profile	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Under 12 months	1.795	0.000	0.000
12 months to within 24 months	10.014	0.000	0.000
24 months to within 5 years	13.016	3.000	3.000
5 years to within 10 years	66.973	84.255	89.255
10 years and above	226.658	226.658	226.658
Total Borrowing	**318.456**	**313.913**	**318.913**
Operational Debt – Prudential Indicator 6	376.096	369.190	361.414
(Under) / Over Borrowing	**(57.640)**	**(55.277)**	**(42.745)**

Within the prudential indicators, there are a number of key indicators to ensure that the council operates its activities within defined limits. **Prudential Indicator 7** relates to the councils need 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 2017/18 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 Chief Finance Officer reports that the council complied with **Prudential Indicator 7** in the current year and does not envisage this indicator being breached in the future. This view takes into account current commitments, existing plans, and the proposals in this budget report. In accordance with **Prudential Indicator 8,** the council has adopted and complies with the Cipfa Code of Practice for Treasury Management.

4.2 Treasury Indicators: Limits to Borrowing Activity

The Authorised Limit for External Debt - Prudential Indicator 5

This 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 Full Council. It reflects the level of external debt, which, whilst not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is based on the requirement to set a 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.

The Council is asked to approve the following authorised limit:

Table 7 : Authorised Limit £m – Prudential Indicator 5				
	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Total	**362.390**	**442.096**	**402.190**	**361.414**

The Operational Boundary - Prudential Indicator 6

This is the limit beyond which external debt is not normally expected to exceed. It has been calculated by deducting the other long term liabilities, Birmingham Airport investment and the Local Authority Mortgage Scheme (which together total £16.951m in 2017/18) from the capital financing requirement (CFR) and then adding any expected in year cash-flow borrowing requirements.

Table 8 : Operational Boundary £m – Prudential Indicator 6				
	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Total	**329.445**	**401.905**	**365.627**	**328.558**

4.3 Prospects for interest rates

The council has appointed Link 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.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into affecting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into affecting bond yields around the world.

Investment and borrowing rates

Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

Borrowing interest rates increased sharply after the result of the general election in June and then after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. The policy of avoiding new borrowing by running down spare cash balances has served the council well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances, as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

4.4 Borrowing Strategy

Our borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining an appropriate level of cash and a balanced loan portfolio
- To manage the council's debt maturity profile, ensuring no single future year has a disproportionate level of repayments
- To maintain a view on current and possible future interest rate movements and borrow accordingly
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and prudential indicators.

Specific Borrowing Objectives

L1. Full compliance with the Prudential Code - **No Change**.

L2. Average maturity date between 15 and 25 years - **No Change**.

L3a. Financing costs as % of council tax requirement – **Reduced from 25% to 20%**.

L3b. Financing costs as % of tax revenues (council tax requirement and NNDR contribution) - **Reduced from 13.5% to 12.5%**.

L4. Actual debt as a proportion of operational debt range is maintained in the range 65% - 85% - **No Change**.

L5. Average interest rate for internally managed debt will reduce to **3.76%** - **Changed from 4.97% in view of planned Borrowing re-profiling**.

L6. Average interest rate for total debt (including other local authority debt) will be equal to or less than **3.91% - Changed from 5.06% in view of planned Borrowing re-profiling**.

L7. The gearing effect on capital financing estimates of 1% increase in interest rates must not be greater than 5**%** - **No Change**.

The council has historically maintained an under borrowed position. This means that the capital borrowing need (CFR) has not been fully funded with loan debt and instead the council's cash which would normally be utilised to support the council's reserves, balances and cash flow has been used to fund the borrowing need as a temporary measure. This strategy has proved prudent as investment returns have been low and current levels of counterparty risk are higher than those seen historically and as such this is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Senior Finance manager responsible for Treasury Management will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example:

- 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 USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any changes that are required will be reported to the treasury management panel at the next available opportunity.

4.5 Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these is 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. These limits have been reviewed. The indicators the Council is asked to approve are in Table 10 below (please note there are no changes proposed to the targets approved for 2017/18):

Table 10: Borrowing Limits	2018/19	2019/20	2020/21
Prudential Code Indicator 9 Upper limits on fixed interest rate exposures.	95%	95%	95%
Lower limits on fixed interest rate exposures	40%	40%	40%
Prudential Code Indicator 10 Upper limits on variable interest rate exposures	45%	45%	45%
Lower limits on variable interest rate exposures	0%	0%	0%
Prudential Code Indicator 11/12 Lower limits for the maturity structure of borrowings:			
Under 12 Months	0%	0%	0%
12 months and within 24 months	0%	0%	0%
24 months and within 5 years	0%	0%	0%
5 years and within 10 years	5%	5%	5%
10 years and above	30%	30%	30%

Table 10 continued: Borrowing Limits	2018/19	2019/20	2020/21
Upper limits for the maturity structure of borrowings*:*			
Under 12 Months	25%	25%	25%
12 months and within 24 months	25%	25%	25%
24 months and within 5 years	40%	40%	40%
5 years and within 10 years	50%	50%	50%
10 years and above	85%	85%	85%

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 CFR 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.

4.6 Debt rescheduling

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

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

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. All potential rescheduling would require the approval of the treasury management panel.

5. ANNUAL INVESTMENT STRATEGY

5.1 Introduction: Changes to Credit Rating Methodology

The main rating agencies, through much of the financial crisis period from 2008 – 2015, provided some institutions with a ratings “uplift” due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies began removing these “uplifts” with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have “netted” each other off, to leave underlying ratings either unchanged or little changed.

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

5.2 Investment Policy

The council's Investment Policy has regard to the department of Communities and Local Government's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The council's investment priorities will be security first, liquidity second, then return.

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 maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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. Counterparty limits are set through the council's treasury management practices – schedules. This year the TM policies have been reviewed to ensure that any Banking Regulation changes are appropriately reflected to make certain that the security of the council's deposits remain the highest priority whilst the council seeks a fair return for its investment. See TMP 1 section on Credit and Counterparty Risk Management paragraph h. TMP 1 also allows the undertaking of non-specified investments on the approval of the Chief Finance Officer e.g. loans to housing associations, property funds and bond issues by other public sector projects etc. The use of property funds can be deemed to be capital expenditure, and as such in some instances will be an application (spending) of capital resources. This Authority will undertake due diligence and appropriate checks, and if required seek guidance, on the status of any fund it may consider using.

5.3 Creditworthiness Policy

Approved Organisations for Investments

Only organisations that are eligible to receive investments from local authorities may be used. The council's credit worthiness policy was reviewed and approved by Audit Committee on 20th November 2017 and by Council on 8th January 2018.

5.4 The Monitoring of Investment Counterparties

The credit rating and financial resilience of counter parties are monitored regularly. The council receives credit rating information from Link Asset Services as and when ratings change and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list by the Senior Finance Manager and / or Finance Manager – Technical Accounting and Treasury management, and if required new counterparties which meet the criteria will be added to the list.

5.5 Investment strategy

The general policy objective for this council is for the prudent investment of its treasury balances. The council's investment priorities are:

- The security of capital
- Liquidity of its investments
- All investments will be in sterling
- The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for interest rates.

Investment returns expectations. Investment returns expectations.
Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

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

	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%

2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

5.6 Specific Investment Objectives

The specific investment objectives below expected ongoing reduction in rates available.

L8. Average interest rate received on short-term interest (STI) versus 7-day Libid rate – 0.5%

L9. Average interest rate received on:
At call investments – 0.20% - a change from 0.30%
Short-term investments – 0.70% - a change from 0.75%
Long-term investments – 1.05% - a change from 1.20%

L10 Average rate on at call and short-term investments will be equal to or greater than 0.65% - a change from 0.68%.

L11 Average rate on all investments will be equal to or greater than 1.00% - a change from 0.77% (including any property fund investments).

L12 % daily bank balances within a target range of 99% - a change from 98%.

Should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

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

The Council is asked to approve Prudential Indicator 13. Treasury indicator and limit:

Prudential Indicator 13 Maximum principal sums invested > 364 days			
£m	**2018/19**	**2019/20**	**2020/21**
Principal sums invested > 364 days	£25m	£25m	£25m

End of year investment report

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

Annex 1 - IN YEAR TREASURY MANAGEMENT INDICATORS TO BE MONITORED

No.	Indicator	2017/18 Forecast	2018/19 Estimated	2019/20 Estimated
PCI 1	a. Capital expenditure - Council Resources	33.217	24.530	9.850
PCI 1	b. Capital expenditure - External Resources	61.442	68.060	56.640
Former PCI 2	Estimates of the ratio of financing costs to the net revenue stream	9.11%	9.6%	10.1%
Former PCI 3	Incremental impact of capital investment decisions on council tax	£12.90	£24.14	£9.19
L.3	a. Financing costs as % of council tax requirement	15.8%	20%	20%
L.3	b. Financing costs as % of tax revenues	9.50%	12.50%	12.50%
L.4	Actual debt versus operational debt within the following range	65%-85%	65%-85%	65%-85%
L.5	Average interest rate of debt excluding other local authority debt	4.61%	3.76%	3.95%
L.6	Average interest rate of debt including other local authority debt	4.72%	3.91%	4.09%
L.8	Average interest rate received on STI Versus 7 day LIBID rate	0.50%	0.50%	0.50%
L.9	Average interest rate received on:			
	(a) At call investments	0.30%	0.20%	0.20%
	(b) Short Term investments	0.75%	0.70%	0.70%
	(c) Long Term investments	1.20%	1.05%	1.05%
L.10	Average interest rate on all ST investments. (ST and At call)	0.68%	0.65%	0.65%
L.11	Average rate on all investments	0.77%	1.00%	1.00%
L.12	% daily bank balances within target range	0.98%	0.99%	0.99%

Annex 2

There is no change proposed

MINIMUM REVENUE PROVISION 2017/18 ONWARDS

Under the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010, local authorities have a duty to produce an annual statement on its policy for making a minimum revenue provision (MRP).

For the financial years **2008/09** onwards the authority will be adopting the following policies in determining the MRP:

1. For any capital expenditure carried out prior to 31 March 2008 or financed by supported borrowing capital expenditure, the authority will be charging MRP at 2% of the balance at 31 March 2013 (which has been adjusted as per the 2003 regulations, i.e. net of Adjustment A), fixed at the same cash value so that the whole debt is repaid after 50 years.

2. For any capital expenditure carried out after 1 April 2008 being financed by borrowing the authority will be adopting the asset life method (option 3). This is where MRP will be based on the capital expenditure divided by a determined asset life or profile of benefits to give annual instalments. The annual instalment may be calculated by the equal instalment method, annuity method or other methods as justified by the circumstances of the case at the discretion of the Chief Finance Officer.

3. The authority will treat the asset life as commencing in the year in which the asset first becomes operationally available. Noting that in accordance with the regulations the authority may postpone the beginning of the associated MRP until the financial year following the one in which the asset becomes operational, there will be an annual adjustment for Assets Under Construction.

4. In all years, the CFR for the purposes of the MRP calculation will be adjusted for other local authority transferred debt.

5. The Section 151 officer shall on an annual basis review the level of MRP to be charged, as calculated as per paragraphs 1, 2 and 3 above to determine if this is at a level, which is considered prudent. Dependant on this review the Section 151 officer shall be able to adjust the MRP charge (the total cumulative adjustment will never exceed the calculated CFR variance of £24.6m identified when reviewing the current MRP policy during 2015/16). The amount of MRP charged shall not be less than zero in any financial year.

Finance Leases

In accordance with legislation, the council will make a MRP for finance leases equivalent to the principal payment contained with the lease terms.

Annex 3

ECONOMIC BACKGROUND

This Economic Commentary is based upon information provided by our Treasury Management Advisors – Link Asset Services. Key topics are denoted in bold.

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this. The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently, in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to either squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.2% (+2.0% y/y), quarter 2 was +0.3% (+1.7% y/y) and quarter 3 was +0.4% (+1.6% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector**, which is seeing strong growth, particularly because of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting MPC. (Inflation actually came in at 3.0% in September and is expected to rise slightly in the coming months.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies because of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt would hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25-34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EU. Economic growth in the EU, (the UK’s biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y), 0.6% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.2%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two-year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two-year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

Annex 4

GLOSSARY OF TERMS

TERM	DEFINITION
Authorised Limit	Level of debt set by the council that must not be exceeded.
Bond	A government or public company's document undertaking to repay borrowed money usually with a fixed rate of interest.
Borrowing	Obtaining money for temporary use that has to be repaid.
Capital expenditure	Expenditure on major items e.g. land and buildings, which adds to and not merely maintains the value of existing fixed assets.
Capital grants	Specific targeted grants to cover capital expenditure.
Capital receipts	The proceeds from the disposal of land or other assets. Capital receipts can be used to fund new capital expenditure but cannot be used to finance revenue expenditure
Cash flow Management	The management of the authority's receipts and payments to ensure the authority can meet its financial obligations.
CIPFA	The chartered institute of public finance and accountancy
CLG	The department for Communities and Local Government
Counter party limits	Maximum amount that the council may lend to other institutions will vary according to size and credit rating of other intuitions.
Dividends	Sum to be payable as interest on loan.
ECB	European Central Bank
EU	European Union
EZ	Euro Zone
GDP	Gross Domestic Product – the total market value of all final goods and services produced in a country in a given year, equal to total consumer investment and government spending, plus the value of exports minus the value of imports.
IMF	International Monetary Fund – an organisation of 187 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
Investments	The employment of money with the aim of receiving a return.
Libid rate	London Interbank Bid Rate (the rate that banks are willing to borrow from each other)
LOBO	Lenders Option Borrowers Option. A type of loan arrangement.
Liquidity	How easily an asset including investments may be converted to cash.

Long Term Borrowing	Borrowing of money for a term greater than one year.
TERM	**DEFINITION**
Long Term Liabilities	Amounts owed by the council greater than 12 months old.
Market convention	The rules and regulations by which all brokers and dealers should abide by. It includes standards of practice and calculation conventions for interest. They are defined in the London Code of Conduct ("The London Code") published by the Bank of England.
MPC	Monetary Policy Committee – group that sets the bank base rate for the Bank of England
OLA	Other Local Authorities
STI	Short term investments
Temporary borrowing	Borrowing of money for a term of up to 364 days.
Treasury management	The management of the local authority's cash flows, its borrowings and its investments, the management of associated risks, and the pursuit of the optimum performance or return consistent with those risks.
Treasury Policy Statement	A statement of key policies that an organisation follows in pursuit of effective treasury management, including borrowing limits and strategy.
Variable debt	This is money that has been borrowed at a variable interest rate, and as such is subject to interest rate changes.
Unsupported borrowing	Borrowing taken through the remit of the Prudential Code for which the council will not receive any government funding and will fund from own resources.