Agenda item No. 9

Audit Committee – 16 January 2017

Treasury Management and Investment Strategy 2017/18 Onwards

1. Summary of report

1.1. This report sets out the council's proposed Treasury Management and Investment Strategy 2017/18 onwards **(Appendix A).** It will form part of a suite of documents included within the council's Corporate Budget Plan 2017/18 that will be presented to Cabinet for recommendation on to Council in February 2017.

2. Recommendations

Audit Committee are asked to:

2.1. Note and endorse the Treasury Management and Investment Strategy 2017/18 onwards **(Appendix A).**

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

James T Walsh – Assistant Director, Finance
(Chief Finance Officer)
3rd January 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 2017/18 onwards which forms part of the council budget setting documents presented to Cabinet and Council. Members consider the Strategy each year as a requirement of the CIPFA Code of Practice on Treasury Management in the Public Services.

3.3. The proposed strategy for 2017/18 onwards supports the council's 2017/18 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, Capita Asset Services.

The Strategy covers:

- The Capital and Prudential Indicators 2017/18, 2018/19 and 2019/20
- Minimum Revenue Provision (MRP) Policy Statement
- Borrowing
- Annual Investment Strategy

3.4. Borrowing and investment objectives have been updated to take into account the expected 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.

3.5 The council's Minimum Revenue Provision policy statement has been reviewed, and remains unchanged.

4. Resource and Legal considerations

4.1 Financial

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.

4.2 Legal

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.

5. Risk and performance management issues

5.1 Risk

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 21 November 2016 provide the framework of governance and control within which the strategy operates.

5.2 **Performance**

Performance is regularly reviewed by the treasury management panel. The treasury management Annual Report has been distributed to all councillors. Prudential and Local Indicators used for regular monitoring are shown in **Appendix 1** of the Treasury Management Strategy Statement.

6. Equality implications

6.1 None directly relating to this report.

7. Consultation

7.1 The report has been approved by the finance treasury management panel, an internal governance arrangement comprising the Chief Finance Officer, Head of Finance and Treasury Financial Administration and Systems Manager.

8.0 Background papers

- Various financial working papers
- Annual review of Treasury Management Policy Statement - Audit 21.11.16
- Rebalancing the Budget: Options for Consultation - Cabinet 26.10.16
- Draft Revenue Budget and Draft Capital Programme 2016/17 to 2019/20 – Cabinet 14.12.16

Authors

Michael Tomlinson, Treasury Financial Administration and Systems Manager
☎ 01922 652360, ✉ tomlinsonm@walsall.gov.uk

Vicky Buckley, Head of Finance, ☎ 01922 652326
✉ buckleyv@walsall.gov.uk

Appendix A

Treasury Management and Investment Strategy for 2017/18 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 low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

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 the Treasury Strategy cover:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including Treasury Indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

A mid-year Treasury Management Report – This will update Members with the progress on the capital position, amending prudential indicators as necessary, and 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 within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

1.2 Treasury Management Strategy for 2017/18

The Strategy for 2017/18 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, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG 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. Annual treasury management briefings are held and further training is arranged as and when required.

1.4 Treasury management consultants

The council uses Capita Asset Services 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 that are monitored during the year are detailed in **Annex 1.**

2 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

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 which are 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 asked to approve the capital expenditure forecasts. The financing need below excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. The current capital plans which this strategy supports is detailed in Table 1 below.

Table 1 : Current Capital Programme

	2015/16 Actual £m	2016/17 Estimated £m	2017/18 Estimated £m	2018/19 Estimated £m	2019/20 Estimated £m
Total capital expenditure	**88.326**	**89.648**	**48.569**	**32.700**	**32.873**
Resourced by:					
• Capital receipts	0.790	2.500	1.500	1.500	1.500
• Capital grants	56.042	73.285	36.667	21.310	25.901
• Capital Reserves		-	1.098		
• Revenue	6.052	1.658	0.110	0.040	0.040
• Borrowing	25.442	12.205	9.194	9.850	5.432
Total resources available	**88.326**	**89.648**	**48.569**	**32.700**	**32.873**

2.2 Affordability Prudential Indicators

The prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the council's overall finances. Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream – 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.

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Ratio	6.4%	9.5%	11.0%	11.0%	11.0%

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

This indicator (see Table 3) identifies the revenue costs associated with 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 : Prudential Indicator 3					
	2015/16 Actual	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Band D Council tax	£30.33	£7.98	£10.21	£10.94	£6.03

2.3 The council's borrowing need (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 which has not immediately been paid for will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of schemes include a borrowing facility and so the council is not required to separately borrow for these schemes. The council currently has £6.796m 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 2016/17 to 2019/20 is estimated to be an increase of £10.322m. The council's borrowing strategy is discussed in section 4.

Table 4 : Analysis of CFR				
	2016/17 Estimate	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**

	£m	£m	£m	£m
Opening CFR	328.021	336.573	341.756	346.154
Less MRP and other financing movements	Cr 3.653	Cr 4.011	Cr 5.452	Cr 13.243
Additional Borrowing	12.205	9.194	9.850	5.432
Movement in CFR	8.552	5.183	4.398	Cr 7.811
Closing Capital Financing Requirement	336.573	341.756	346.154	338.343

The MRP policy (see **Annex 5**) details the council's policies for calculating the annual amount charged to revenue for the repayment of debt. The council is currently maintaining an under-borrowed position. This 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 is prudent as investment returns are low and counterparty risk is relatively high.

3. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

3.1 Background to Annual MRP policy Review

A local authority shall determine each financial year an amount which 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 4 ready-made options for calculating MRP, however authorities do have discretion to determine their own MRP, and other approaches are not meant to be ruled out, as long as it is properly reasoned and justified in doing so.

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 to be prudent.
- To set aside funds at a rate such that future generations who benefit from the assets are contributing to the associated debt and also avoiding the situation of future generations paying for the debt on assets that are no longer useable.

3.3 MRP Policy Review 2017/18

Full Council is required to approve an MRP Statement each year. A variety of options are provided to councils, so long as there is a prudent provision. 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, agreed with by our external auditors and fully consistent with the statutory duty to make prudent revenue provision for the redemption of debt.

The Statement is detailed in **Annex 2** and there are no changes proposed.

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

4 BORROWING

The resourcing of capital expenditure plans set out in **Section 2** provides details 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 2016/17 with borrowing, over a 1-year length, of £250m against an asset base of approximately £533m, and short term investments of between £80m and £120m. These will be proactively managed to minimise borrowing costs and maximise investment returns within a robust risk management environment. The increase in borrowing prior to year-end is due to a planned advanced pension payment in April 2017. In 2017/18 estimated annual interest payments are £9.231m (£9.486m in 2016/17) and net investment interest income is £0.555m (£0.830m in 2016/17). The net budget for capital financing in 2017/18 is £16.385m (£17.488m in 2016/17). The treasury management budget required for the running of the treasury management function for 2017/18 is £0.162m (£0.167m in 2016/17). By having a proactive approach to managing cash flows and investments it is estimated that investment income of £0.620m above the bank base rate will be generated.

The council's treasury portfolio position at 31st December 2016 is shown in Table 5; year end forward projections for the following three years are summarised in Table 6. It shows the actual external borrowing (the treasury management operations) against the capital borrowing need, 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 2016	232.789	Cr 129.799	102.990
31 December 2016	237.758	Cr 143.000	94.758
Change in year	4.969	Cr 13.201	Cr 8.232

Table 6: Borrowing Forward Projections			
Borrowing profile	**2017/18**	**2018/19**	**2019/20**

	£ m	£ m	£ m
Under 12 months	**55.000**	**43.000**	**22.000**
12 months to within 24 months	**43.000**	**22.000**	**20.000**
24 months to within 5 years	**50.266**	**44.541**	**51.379**
5 years to within 10 years	**22.087**	**19.866**	**11.984**
10 years and above	**94.658**	**94.658**	**94.658**
Total Borrowing	**265.012**	**224.065**	**200.021**
Operational Debt – Prudential Indicator 6	**327.030**	**332.041**	**324.829**
(Under) / Over Borrowing	**(62.018)**	**(107.976)**	**(124.808)**

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 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Finance Officer reports that the council complied with **Prudential Indicator 7** in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report. 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.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Council is asked to approve the following authorised limit:

Table 7 : Authorised Limit £m – Prudential Indicator 5				
	2016/17	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**

Total	360.965	359.733	365.244	357.312

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 (totalling £15.578m in 2016/17) from the capital financing requirement (CFR).

Table 8 : Operational Boundary £m – Prudential Indicator 6				
	2016/17	2017/18	2018/19	2019/20
Total	£m 328.150	£m 327.030	£m 332.041	£m 324.829

4.3 Prospects for interest rates

The council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates. Table 9 overleaf gives Capita Assets' view on Interest rate prospects. If this is significantly changed before the report goes to Council for approval then the Treasury Management and Investment Strategy may be updated.

Table 9: Prospects for Interest Rates				
Date	Bank Rate %	PWLB Borrowing Rates %		
		5 Year	25 Year	50 Year
Mar-17	0.25	1.6	2.9	2.7
Jun-17	0.25	1.6	2.9	2.7
Sep-17	0.25	1.6	2.9	2.7
Dec-17	0.25	1.6	3.0	2.8
Mar-18	0.25	1.7	3.0	2.8
Jun-18	0.25	1.7	3.0	2.8
Sep-18	0.25	1.7	3.1	2.9
Dec-18	0.25	1.8	3.1	2.9
Mar-19	0.25	1.8	3.2	3.0
Jun-19	0.50	1.9	3.2	3.0
Sep-19	0.50	1.9	3.3	3.1
Dec-19	0.75	2.0	3.3	3.1
Mar-20	0.75	2.0	3.4	3.2

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications - see below. **Annex 3** provides a detailed Economic commentary.

The key conclusions are:

- Investment returns are likely to remain relatively low during 2017/18 and beyond;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns;
- There is tremendous uncertainty particulary in relation to Brexit.

4.4 Borrowing Strategy

Our borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining 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.
- Short term borrowing may be taken to assist cash flows where it is deemed advantageous.

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 rise due to the scheduled repayments of PWLB loans **4.61%** - **No change**

L6. Average interest rate for total debt (including other local authority debt) will be equal to or less than **4.72% - No change**

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

The council is currently maintaining an under borrowed position. This means that the capital borrowing need (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 is prudent as investment returns are low and counterparty risk 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 2017/18 treasury operations. The Treasury Manager 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 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 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 approved are in Table 10 overleaf:

Table 10: Borrowing Limits	2017/18	2018/19	2019/20
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%
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 (amending 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 have, 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 CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The council's investment priorities will be security first, liquidity second, then return.

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 practices have been reviewed to ensure that the new 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. The use of property funds can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.

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 21st November 2016 and by Council on 9th January 2017.

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 Capita Asset Services as and when ratings change and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list by the Treasury Manager, 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 return expectations. Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%

Capita Assets suggest the investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years. The list below shows a dramatic drop between the investments earnings suggested this year compared to last years.

	Predicted last year	Now

2016/17	0.90%	0.25%
2017/18	1.50%	0.25%
2018/19	2.00%	0.25%
2019/20	2.25%	0.50%
2020/21	2.50%	0.75%
2021/22	3.00%	1.00%
2022/23	3.00%	1.50%
2023/24	3.00%	1.75%
Later years	3.00%	2.75%

5.6 Specific Investment Objectives

The specific investment objectives below reflect the reduction in rates available.

L8. Average interest rate received on STI Versus 7 day Libid rate – **0.5%**
L9. Average interest rate received on:
At call investments – **0.30%** a change from **0.40%**
Short term investments – **0.75%** a change from **0.90%**
Long term investments – **1.20%** a change from **1.80%**
L10 Average rate on at call and short term investments will be equal to or greater than **0.70%**
L11 Average rate on all investments will be equal to or greater than 0**.75%**
L12 % daily bank balances within a target range of **98%.**

However, it should be noted that the downside view reflects the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, 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	**2017/18**	**2018/19**	**2019/20**
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	2016/17	2017/18	2018/19	2019/20
PCI 1	a. Capital expenditure - Council Resources	16.363	11.902	11.390	6.972
PCI 1	b. Capital expenditure - External Resources	73.285	36.667	21.310	25.901
PCI 2	Estimates of the ratio of financing costs to the net revenue stream	10.5%	11.0%	11.0%	11.0%
L.3	a. Financing costs as % of council tax requirement	25.0%	20.0%	20.0%	20.0%
L.3	b. Financing costs as % of tax revenues	13.5%	12.5%	12.5%	12.5%
L.4	Actual debt versus operational debt within the following range	65%-85%	65%-85%	65%-85%	65%-85%
L.5	Average interest rate of debt excluding OLA less than	4.61%	4.61%	4.61%	4.61%
L.6	Average interest rate of debt including OLA	4.72%	4.72%	4.72%	4.72%
L.8	Average interest rate received on STI Versus 7 day LIBID rate	0.50%	0.50%	0.50%	0.50%
L.9	Average interest rate received on:				
	(a) At call investments	0.40%	0.30%	0.30%	0.30%
	(b) Short Term investments	0.90%	0.75%	0.75%	0.75%
	(c) Long Term investments	1.80%	1.20%	1.20%	1.20%
L.10	Average interest rate on all ST investments. (ST and At call)	0.80%	0.68%	0.69%	0.69%
L.11	Average rate on all investments	1.10%	0.77%	0.78%	0.78%
L.12	% daily bank balances within target range	98%	98%	98%	98%

Annex 2

There are no changes 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 unsupported 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. 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 – Capita Asset Services. Key topics are denoted in bold.

UK. **GDP growth rates** in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 15 December** left Bank Rates unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut the Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank

The latest MPC decision included a forward view that the **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that the Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16). This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate. What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook was to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ:

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137) was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.

- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in
- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised.
- **French presidential election;** first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. Financial markets could be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

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: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- 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 may also exit without any such agreements.
- 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 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.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

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.
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.
IMP	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.
Long Term Liabilities	Amounts owed by the council greater than 12 months old.

TERM	DEFINITION
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
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.
Definition of Fitch Primary Credit Rating Scales	
Long Term Ratings A: High credit quality.	A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
Short-Term Ratings F1: Highest short term credit quality.	Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
Definition of Moodys General Credit Rating	
LongTerm Corporate Obligation Ratings A	Obligations rated A are considered upper-medium grade and are subject to low credit risk.