

Report of the Section 151 Officer

Council – 23 February 2017

**TREASURY MANAGEMENT STRATEGY, PRUDENTIAL INDICATORS,
INVESTMENT STRATEGY
AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2017/18**

Purpose:	To recommend the Treasury Management Strategy Statement, Prudential Indicators, Investment Strategy and Minimum Revenue Provision Policy Statement for 2017/18.
Policy Framework:	None
Reason for Decision:	To allow for the proper management of the Council's borrowing and investments, to comply with statute, and the adopted CIPFA Prudential Code for Capital Finance in Local Authorities and the Revised CIPFA Treasury Management Code of Practice
Consultation:	Legal, Finance & Delivery and Access to Services.
Recommendations:	That the: (1) Treasury Management Strategy and Prudential Indicators (Sections 2-7) and (2) Investment Strategy (Section 8) and (3) Minimum Revenue Provision (MRP) Statement (Section 9) be recommended to Council for approval
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Finance Officer:	Mike Hawes
Legal Officer:	Debbie Smith
Access to Services Officer:	Sherill Hopkins

1. Introduction

1.1 This strategy statement has been prepared in accordance with the revised CIPFA Treasury Management Code of Practice adopted by this Council in 2010. The Council's Treasury Management Strategy will be received and reviewed annually by Council and there will also be a mid year report providing an interim update. The aim of these

reporting arrangements is to ensure that those with ultimate responsibility for the scrutiny of the Treasury Management function appreciate fully the implications of Treasury Management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.2 Revised CIPFA Prudential Code

CIPFA has issued a revised Prudential Code which primarily covers borrowing and the Prudential Indicators. Three of these indicators have now been moved from being Prudential Indicators to being Treasury Indicators: -

- authorised limit for external debt
- operational boundary for external debt
- actual external debt.

However, all indicators are to be presented together as one suite. In addition, where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy report.

1.3 The Local Government Act 2003 requires the Council to have regard to the Prudential Code and to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Council is required to formally consider the Prudential and Treasury Indicators as detailed in section 2 of this report

1.4 The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy as required by Investment Guidance issued subsequent to the Act. This strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. The management of the Council's Treasury Management activities are in line with the CIPFA Treasury Management Revised Code of Practice.

1.5 The recommended strategy for 2017/18 is based upon a view on interest rates, having considered leading market forecasts provided by the Council's treasury advisor, Capita Asset Services. The overall strategy covers:

- Treasury Limits 2017/18-2020/21
- Prudential / Treasury Indicators
- The current portfolio position
- Prospects for interest rates including a summary of the economic background
- The Borrowing Requirement
- The Borrowing Strategy
- Gross v Net Debt Position

- Policy on Borrowing in Advance of Need
- Debt Rescheduling
- The Annual Investment Strategy
 - Investment Policy
 - Interest Rate Outlook
 - Creditworthiness Policy
 - Country Limits
 - Policy on the Use of External Advisors
 - Scheme of Delegation
 - Pension Fund Cash
- Minimum Revenue Provision (MRP) Policy Statement

1.6 A glossary of terms used within this report is attached at Appendix A.

2. Treasury Limits 2017/18 to 2020/21

2.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to set a balanced budget. Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

- increases in capital finance charges (principal and net interest) caused by increased borrowing to finance additional capital expenditure and
- any increases in running costs from new capital projects

are affordable within the projected revenue of the Council for the foreseeable future.

2.2 Under statute, the Council is required to set an Affordable Borrowing Limit i.e a limit which the Council can afford to borrow. In Wales, the Authorised Limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

2.3 The Council must have regard to the Prudential Code when setting the Authorised Limit . This limit requires the Council to ensure that total capital investment remains within sustainable limits. The Authorised Limit must be set for the forthcoming financial year and the two successive financial years.

2.4 The Prudential Code for Capital Finance in Local Authorities requires Councils to calculate treasury indicators (formerly prudential indicators) which demonstrate prudence in the formulation of borrowing proposals. These are defined as:

- The Operational Boundary :
"...is based on expectations of the maximum external debt of the authority according to probable not simply possible

events and being consistent with the maximum level of external debt projected by the estimates....”

- The Authorised Limit :
“..the Authorised Limit must therefore be set to establish the outer boundary of the local authority’s borrowing based on a realistic assessment of the risks. The authorised limit is certainly not a limit that an authority will expect to borrow up to on a regular basis. It is crucial that it is not treated as an upper limit for borrowing for capital expenditure alone since it must also encompass borrowing for temporary purposes...”
- Upper limits for borrowing of fixed and variable rate loans.
- Upper limit for investments for over 364 days.
- Upper and lower limits for the maturity profile of the Council’s debt
- Estimates of the incremental impact of capital investment decisions on Council Tax / Housing rents
- Estimates of the ratio of financing costs to net revenue stream
- Estimates of the capital financing requirement

2.5 In setting and revising Prudential Indicators the authority is required to have regard to:-

- Affordability e.g. implications for Council Tax / Housing rents
- Prudence and sustainability e.g. implications for external borrowing
- Value for money e.g. option appraisals
- Stewardship of assets e.g. strategic planning
- Practicality e.g. achievability of forward plans

2.6 It is a requirement of the Code that Prudential / Treasury Indicators are regularly monitored and systems are in place to achieve compliance.

Treasury / Prudential Indicators						
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000
	Actual	Probable	Estimate	Estimate	Estimate	Estimate
Capital Expenditure						
GF	47,679	47,923	38,284	22,608	16,166	13,166
HRA	114,997	54,354	59,259	51,230	56,270	49,414
TOTAL	162,679	102,277	97,543	73,838	72,436	62,580
Capital Financing Requirement 31st March***						
GF	333,683	341,717	357,987	358,957	356,171	351,612
HRA	135,158	153,724	153,545	162,823	177,918	192,709
Magistrates' Court **	1,470	1,411	1,354	1,300	1,248	1,198
Credit Arrangements*	1,656	1,451	893	484	236	115
Total	471,967	498,303	513,719	523,564	535,573	545,634
Authorised limit for external debt	606,216	603,564	615,573	615,573	615,573	615,573
Operational boundary for external debt	546.216	543,564	555,573	555,573	555,573	555,573
Upper limit for fixed interest rate exposure	68.61%/£214,230	100%	100%	100%	100%	100%
Upper limit for variable rate exposure	31.39%/£98,000	40%	40%	40%	40%	40%
Upper limit for total principal sums invested for over 364 days	40,000	40,000	40,000	40,000	40,000	40,000

* The GF Capital Financing Requirements includes arrangements classified as credit arrangements (finance leases) under International Financial Reporting Standards (IFRS) requirements as of 2011/12. However these continue to be funded directly on a revenue basis and do not form part of the borrowing requirement.

** Legacy Magistrates' Court debt which is wholly recharged is included for completeness

*** Excludes potential additional borrowing if forecast capital financing shortfalls cannot be resolved in future years

Maturity structure of fixed rate borrowing during 2016/17-2019/21		
	Upper limit %	Lower limit %
Under 12 months	60	0
12 months and within 24 months	60	0
24 months and within 5 years	60	0
5 years and within 10 years	90	0
10 years and above	95	15

Ratio of Financing Costs to Net Revenue Stream						
	Actual 2015/16 %	Revised 2016/17 %	Estimate 2017/18 %	Estimate 2018/19 %	Estimate 2019/20 %	Estimate 2020/21 %
General Fund	7.96	6.73	6.90	7.08	7.01	6.97
HRA	8.01	13.46	16.44	17.53	18.46	19.36

Estimates of Incremental Impact of Discretionary Capital Investment Decisions on Council Tax (Band D) and Council Housing Rents						
	Actual 2015/16 £	Revised 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £	Estimate 2020/21 £
General Fund*	86.94	93.27	111.41	119.44	115.52	114.08
HRA*	0.00	40.94	140.42	238.40	338.61	420.28

*It should be noted that in formulating this indicator, it is necessary to hypothecate funding (in this case council tax and housing rents) to wholly fund specific areas of capital expenditure, however in reality the full allowable spectrum of funding resource is utilised in funding capital expenditure as appropriate.

Gross Debt v Capital Financing Requirement

The gross debt position versus the capital financing requirement is detailed below. The profile below assumes progressive external funding of the internalised borrowing and the budgeted use of reserves as profiled in the revenue budget report.

Comparison of average gross debt and capital financing requirement	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	actual	probable	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Average debt (gross)	402,432	443,138	463,200	483,200	503,200	523,200
Capital Financing Requirement at 31st March (Borrowing Required)	470,311	496,852	512,886	523,080	535,337	545,519
Net Position	67,879	53,714	49,686	39,880	32,137	22,319

3 . The current portfolio position

3.1 The Council's probable debt portfolio position at 31/3/17 comprises:

	Principal outstanding 31 March 2017 £'000	Average rate of Interest %
Public Works Loan Board (fixed)	323,086	5.20
Money Market	98,000	4.10
Temporary	2,052	0.70
TOTAL	423,128	4.92%

3.2 The Council's forecast investment portfolio at 31 March 2017 is as follows:

Managed Investments	Investments 31 March 2017	2016/17 Probable Investment Return	2017/18 Estimated Investment Return
	£'000	%	%
Internally Managed	67,752	0.40	0.20

4. Prospects for Interest Rates

4.1 The Council's Treasury advisers (Capita Asset Services) provided the following interest rate forecast for both short term (bank rate) and long term (PWLB) interest rates as at 16th January 2017. There is a downside risk to these forecasts if economic growth proves to be weaker and slower than currently forecast.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

4.2 Economic Background

Attached at Appendix B is an economic background assessment provided by our Treasury advisers, Capita Asset Services. This assessment has informed the proposed strategies .

5. The In Year Borrowing Requirement

5.1 The Council will have the following net capital borrowing / repayment requirements for 2016/17 to 2020/21:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Borrowing and repayment requirements	Actual	Probable	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
To finance new capital expenditure by supported borrowing	6,356	6,367	6,365	6,365	6,365	6,365
To finance new capital expenditure by unsupported borrowing	2,813	22,660	24,697	9,030	4,841	2,928
To replace loans maturing/repaid prematurely	3,189	286	9,002	1	1	3,000
Less						
Repayments (MRP)	15,690	17,823	16,881	17,541	17,292	17,452
Set aside capital receipts	650	600	600	600	600	600
NET IN YEAR BORROWING /(REPAYMENT) REQUIREMENT	(3,982)	10,890	22,583	(2,745)	(6,685)	(5,759)
Principal repayment element of finance lease payments	843	577	410	325	133	83

5.2 The borrowing requirement above reflects known planned capital expenditure to date as outlined in the *"The Capital Budget and Programme 2017/18 – 2020/21"* elsewhere at this agenda.

5.3 It is clear, however, that there are significant potential developments which are currently being developed which may have a significant effect on the Council's proposals for Capital Expenditure during the period covered by this report but which have not been included for a number of reasons including:-

- Schemes which are currently in the 'bid' stage where approval is required in terms of overall scheme approval, the overall level of expenditure within each scheme and the projected level of CCS contribution.
- Such bids would encompass the current City Deal bid and the initial bids in respect of Band B of the 21st Century Schools programme.
- Schemes which are being developed outside of formal bid processes but where the current level of development is insufficient to estimate potential levels of CCS contributions and the nature and timing of funding requirements.
- Such schemes would include the potential for the development of the majority of the St. David's site and the potential relocation and development of the Civic Centre site.

- 5.4 In considering the above, the Council shall determine that its plans are affordable, prudent and sustainable and shall formulate its Treasury Management , Borrowing & Investment Strategy and MRP Policy accordingly.
- 5.5 The above table in 5.1 details the net borrowing requirement for each financial year. In accordance with the Prudential Code, borrowing must be undertaken in line with a funding plan informed by the projected capital financing requirement. Borrowing may be financed from one or more of Public Works Loan Board loans; Money Market loans or internal loans. The precise choice and timing will depend on market conditions from time to time and will not necessarily mirror the profiling above.
- 5.6 At time of writing, borrowing rates are materially higher than investment rates as has been the case since the onset of the financial crisis. Considering this it has been determined that in the main the borrowing requirement for the capital programme shall be met by internalising the borrowing. However, as cashflow constraints and prospects for interest rate rises remain, we shall continue averaging in the borrowing requirement in 2016/17 and 2017/18 and in the forthcoming financial years to fund the capital programme when borrowing rates offer long term value and Cashflow requirements dictate .

Short term savings (by avoiding material new long term external borrowing) will be weighed against the potential additional long term extra costs (by delaying unavoidable new external borrowing until later when PWLB long term rates are forecast to be marginally higher).

- 5.7 Housing Revenue Account (HRA) Subsidy Reforms - Self Financing Settlement
As outlined in the report approved by Council on 2nd Dec 2014 entitled "*Reform of the Housing Revenue Account Subsidy System*", the Authority has entered into a Voluntary Agreement with Welsh Government to exit the current HRA subsidy system, resulting in more flexibility for the Authority in meeting affordable housing needs in the locale. In order to exit the current HRA subsidy system, a cash settlement amount had to be paid over to HM Treasury equal to a sum determined by formulae agreed in the Voluntary Agreement which resulted in a settlement figure of £73.58m for this Authority. The overriding principle of the HRA Reform is that all local housing authorities will be financially better off in revenue terms after the reforms.
- 5.8 The HRA reform settlement was required to be made to the Welsh Government on 1 April 2015 which was subject to a separate borrowing strategy dictated by the terms outlined in the Voluntary Agreement. The Council borrowed £73.58m from the PWLB and remitted this total amount to Welsh Government on April 2nd 2015.
- 5.9 The servicing and amortisation of this pool of debt shall be managed completely separately from the remainder of the pooled (GF and HRA) debt

portfolio and recharged directly to the HRA.

6. Borrowing Strategy

- 6.1 Long term borrowing rates are expected to be significantly higher than rates available for investment deposits. It is likely that this position will pertain in the short to medium term.

In addition, the continuing uncertain economic conditions has maintained the need for caution in managing credit counterparty risk. There is still the risk of a bank / institution defaulting on the payment of interest due or repayment of amounts invested.

At the current time, long term PWLB and market rates offer attractive funding opportunities and some borrowing may be taken in the short to medium term to average in the long term borrowing requirement demanded by the council's capital programme reported separately on this agenda and to address cash flow requirements.

- 6.2 However, the overall strategy - with a view to minimising interest costs and the risk of default by counterparties - is therefore to continue to internalise the majority of the borrowing requirement for the capital programme with a view to averaging in the remainder of the borrowing requirement as cashflow and interest rates dictate in the medium term.

6.4 Policy on borrowing in advance of need

The Council has only a limited power to borrow in advance of need.

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

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to borrow in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and which repayment profiles to use.

7 Debt Rescheduling

- 7.1 The introduction of different PWLB rates on 1 November 2007 for new borrowing (as opposed to early repayment of debt) and the setting of a spread between the two rates (of about 0.4%-0.5% for the longest period loans narrowing down to 0.25%-0.30% for the shortest loans), has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date.

- 7.2 Due to short term borrowing rates being expected to be cheaper than longer term rates, there may be 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 their short term nature

and the likely cost of refinancing short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any rescheduling needs to be considered net of any premium payable which in light of current interest rates is likely to be considerable.

- 7.3 In actively managing credit counterparty and interest rate risks, consideration will also be given to running down investment balances by repaying debt prematurely as short term rates on investments are likely to be significantly lower than rates paid on current debt.

However, a repayment strategy will only be considered if a loan repayment offers value in terms of discount / associated costs and does not compromise the Council's long term debt management policies. In this respect, we will need to be mindful of the potential future need to arrange new long term loans as market conditions change from time to time.

- 7.4 Notwithstanding the above, it is not envisaged that there will not be any debt rescheduling opportunities in the remainder of 2016/17 or 2017/18 in the PWLB portfolio, however there may be opportunities to review the Authority's market debt dependent upon counterparty appetite. All rescheduling decisions will be reported to the Cabinet Member for Finance & Strategy in the quarter following action.

8. The Annual Investment Strategy

8.1 Investment policy

- 8.1.1 The Council will have regard to the National Assembly of Wales' Guidance on Local Government Investments ("the Guidance") issued in March 2004 (and subsequent amendments); CIPFA's Revised Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code") and the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004 SI 1010(W.107). The Council's investment priorities are: -

- (a) to ensure the security of capital
- (b) to ensure the liquidity of investments.
- (c) to maximise interest returns (yield) commensurate with (a) and (b)

The investment strategy will be implemented with security of investment as the main consideration. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

- 8.1.2 The investment criteria are outlined in Appendix C.

- 8.1.3 Amendments to the arrangements, limits and criteria detailed in Appendix C may be made by the Section 151 Officer and advised to the Cabinet Member for Finance & Strategy in the quarter following action.

Appendix G is the list of UK financial institutions (counterparties) which

satisfy the Council's minimum credit criteria as at 16th January 2016

8.1.4 The Council also retains the services of two external fund managers.. They are Investec Asset Management and Invesco Asset Management. They currently have no Council assets under management (and therefore no mgt. fees are payable) - The fund managers shall comply with the Annual Investment Strategy. The fund managers' investment criteria are outlined in Appendix C.

8.1.5 It is anticipated that the Council will continue to hold internally managed funds during 2017/18 ensuring a suitable spread of investment risks. The Council has fixed benchmarks against which investment performance will be measured, i.e. 7 day LIBID rate (internally managed).

8.1.6 Interest Rate Outlook:

Investment returns 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%

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs earlier) if economic growth strengthens. However, should the pace of growth slow, there could be a downside risk.

8.1.7 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (1-3 months) in order to benefit from the compounding of interest. However longer dated deposits will be made with appropriate counterparties if opportunities arise.

8.1.8 During and following the end of the financial year, the Council will report on its investment activity as part of its Mid Term Treasury Management Report and its Annual Treasury Management Report.

8.2 Creditworthiness Policy

This Council uses the creditworthiness service provided by our Treasury Management Advisors. This service has been progressively enhanced over the years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies. Fitch, Moodys and Standard & Poors form the core element.

Appendix C outlines the Council's creditworthiness policy. Details of Fitch's short and long term ratings are at Appendix D.

The creditworthiness service does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system. The end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments.

All credit ratings will be monitored regularly with reference to the credit ratings report and updates. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

There will be no future use of a counterparty/investment scheme which fails the credit rating tests .

In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swaps against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data, market information, information on government support for banks and the credit ratings of that government support.

8.3 Country Limits

The Authority has not made any new overseas deposits for several years since the financial crisis. Going forward, continued caution will be required when considering future opportunities to make overseas investments. There are no plans to make overseas investments at this time.

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

8.4 Policy on the use of external advisers

The Council uses the services of an external Treasury Management adviser namely - Capita Asset Services Treasury Management Advisors.

The Council recognises that responsibility for Treasury Management decisions remains with the Council at all times and as such, we will ensure that undue reliance is not placed upon external advisers.

However it is recognised that there is value in employing external advisers in relation to Treasury Management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

8.5 Scheme of Delegation

The role and responsibilities of the Council, Cabinet Member for Finance & Strategy and the s151 officer are as follows:

(i) Council

- to receive and review reports on Treasury Management policies, practices and activities
- to receive and review the annual strategy.
- to receive and review amendments to the Authority's adopted clauses, Treasury Management policy statement
- to consider and approve the annual budget
- to receive and review the division of responsibilities

(ii) Cabinet Member for Finance & Strategy

- to receive and review regular briefings/reports
- to receive and review the Treasury Management policy and procedures

(iii) Section 151 Officer

- to recommend clauses, Treasury Management policy for approval
- Implement and keep up to date operational Treasury Management practices
- to review the same regularly and monitor compliance
- to submit regular Treasury Management policy reports
- to submit budgets and budget variations
- to receive and review management information reports
- to review the performance of the Treasury Management function
- to ensure the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function
- to ensure the adequacy of internal audit, and liaise with external audit
- to recommend the appointment of external service providers.

8.6 Pension Fund Cash

The Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which was implemented on 1st January 2010. Any investments made by the Pension Fund will comply with the requirements of SI 2009 No 393 and will comply with the prevailing City & County of Swansea Treasury Management Policies, Practices and Strategies.

9. Minimum Revenue Provision Policy Statement

9.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery. It

is inappropriate to charge the entirety of this expenditure in the year in which it is incurred i.e the expenditure benefits more than a single year of account. As such, the resulting costs are spread over several years. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP) which was previously determined under Regulation and now is determined under Guidance.

- 9.2 Statutory instrument WSI 2008 no.588 section 3 states that “..a local authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent,,”

The previous requirement to make a 2% MRP charge for the Housing Revenue Account share of the Capital Financing Requirement (CFR) is unchanged by this instrument.

- 9.3 Along with the above duty, the Welsh Assembly Government issued guidance in March 2008 which requires that a Statement on the Council’s Policy for its annual MRP should be submitted to the full Council for review before the start of the financial year to which the provision will relate. The Council is legally obliged to ‘have regard’ to the guidance.

- 9.4 The Welsh Assembly Government guidance outlined four broad options to adopt for the calculation of MRP. They are:

- Option 1- Regulatory Method
- Option 2 - Capital Financing Requirement Method
- Option 3 - Asset Life Method
- Option 4 – Depreciation Method

The options and guidance are detailed at Appendix F.

- 9.5 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will calculate the MRP for 2017/18 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act.

- 9.6 The major proportion of the MRP chargeable will relate to the historic debt liability (pre 2008/09) that will continue to be charged at the rate of 4% reducing balance, in accordance with option 1 or 2 of the guidance.

Certain expenditure reflected within the debt liability at 31st March 2016 will under delegated powers be subject to MRP under option 3 or 4 which will be charged over a period commensurate with the estimated useful life applicable to the nature of expenditure.

Estimated life periods will be determined under delegated powers having taken professional advice. The Section 151 Officer reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Going forward, it is proposed that all debt arising from capital expenditure

supported by the WG through supported borrowing or the Local Government Borrowing Initiative will be charged MRP in accordance with option 1 or 2 and all other capital expenditure and other 'capitalised' expenditure will be repaid under option 3 as appropriate unless otherwise superseded by any accompanying capitalisation directive/guidance.

10 Legal Implications

10.1 The Authority is under a duty to make arrangements for the proper administration of its financial affairs. Failure to do so will be a breach of that duty. The statutory provisions and guidance imposing such a duty on the Authority are as set out in the main body of the Report.

11. Equality Impact Implications

11.1 An equality impact assessment screening has been undertaken and it concludes that there are no equality impact implications arising from this report

Background papers: The revised CIPFA Treasury Management Code of Practice 2011

The revised CIPFA Prudential Code for Capital Finance in Local Authorities 2011

Appendices:

Appendix A – Glossary of Terms

Appendix B – Treasury Advisors' View On The Economic Background

Appendix C – Investment Criteria and creditworthiness policy

Appendix D – Credit Rating Agency Definitions

Appendix E – Approved Countries for Investment

Appendix F Minimum Revenue Provision Guidance

Appendix G – Approved Internal Counterparty Lending List

TREASURY MANAGEMENT – GLOSSARY OF TERMS

Annualised Rate of Return	Represents the average return which would have been achieved each year.
Authorised Limit <i>(can also be considered as the affordable borrowing limit)</i>	The authorised limit must be set to establish the outer boundary of the local authority’s borrowing based on a realistic assessment of the risks. The authorised limit is certainly not a limit that an authority will expect to borrow up to on a regular basis. It is crucial that it is not treated as an upper limit for borrowing for capital expenditure alone since it must also encompass borrowing for temporary purposes. It is the expected maximum borrowing need, with some headroom for unexpected movement.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank’s operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Basis Points (bp)	A basis point is 0.01 of 1% (100 bp = 1%)
Borrowing	<p>In the Code, borrowing refers to external borrowing. Borrowing is defined as both:-</p> <ul style="list-style-type: none"> • Borrowing repayable with a period in excess of 12months • Borrowing repayable on demand or within 12months
Capital Expenditure	The definition of capital expenditure starts with all those items which can be capitalised in accordance with the Statement of Recommended Practice (SORP). To this must be added any items that have/will be capitalised in accordance with legislation that otherwise would not be capitalised. Prudential indicators for current and future years are calculated in a manner consistent with this definition.

Capital Financing Charges (see financing costs also)	These are the net costs of financing capital i.e. interest and principal, premium less interest received and discounts received.
Capital Financing Requirement	The Capital Financing Requirement is simply the total 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.
CIPFA	The Chartered Institute of Public Finance and Accountancy. One of the leading professional accountancy bodies in the UK and the only one which specialises in the public services.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Rating	<p>This is a scoring system that lenders issue people with to determine how credit worthy they are.</p> <p>The Credit Rating components are as follows:</p> <ol style="list-style-type: none"> 1. The AAA ratings through to C/D are long-term rating definitions and generally cover maturities of up to five years, with the emphasis on the ongoing stability of the institution's prospective financial condition. AAA are the most highly rates, C/D are the lowest. This Council does not invest with institutions lower than AA- for investments over 364 days 2. F1/A1/P1 are short-term rating definitions used by Moody's, S&P and Fitch Ratings for banks and building societies based on their individual opinion on an institution's capacity to repay punctually its short-term debt obligations (which do not exceed one year). This Council does not invest with institutions lower than F1/A1/P1 for investments under 364 days.
Debt	For the purposes of the Code, debt refers to the sum of borrowing (see above) and other long-term liabilities (see below). It should be noted that the term borrowing used with the

	Act includes both borrowing as defined for the balance sheet and other long terms liabilities defined as credit arrangements through legislation.
Discounts	Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.
Financing Costs	The financing costs are an estimate of the aggregate of the following:- <ul style="list-style-type: none"> • Interest payable with respect to borrowing • Interest payable under other long-term liabilities • Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount to be met from government grants and local taxpayers (premiums and discounts) • Interest earned and investment income • Amounts required in respect of the minimum revenue provision plus any additional voluntary contributions plus any other amounts for depreciation/impairment that are charged to the amount to be met from government grants and local taxpayers
Financial Reporting Standards (FRSs)	These are standards set by governing bodies on how the financial statements should look and be presented.
Investments	Investments are the aggregate of:- <ul style="list-style-type: none"> • Long term investments • Short term investments (within current assets) • Cash and bank balances including overdrawn balances <p>From this should be subtracted any investments that are held clearly and explicitly</p>

	in the course of the provision of, and for the purposes of, operational services.
IMF	International Monetary Fund
LOBO (Lender's Option/ Borrower's Option)	Money Market instruments that have a fixed initial term (typically one to ten year) and then move to an arrangement whereby the lender can decide at pre-determined intervals to adjust the rate on the loan. At this stage the borrower has the option to repay the loan.
London Inter-Bank Bid Rate (LIBID)	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Managed Funds	<p><u>In-House Fund Management</u> Surplus cash arising from unused capital receipts and working cashflows can be managed either by external fund managers or by the Council's staff in-house. The in-house funds are invested in fixed deposits through the money markets for periods up to one year.</p> <p><u>Externally Management Funds</u> Fund managers appointed by the Council invest surplus cash arising from unused capital receipts in liquid instruments such as bank certificates of deposit and government stocks. The fund managers' specialist knowledge should ensure a higher rate of earnings on the managed funds than would be otherwise obtained.</p>
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Minimum Revenue Provision (MRP)	The amount required by statute to be principal repayment each year.
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two year time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth

	and employment.
Money Market	<p>Consists of financial institutions and deals in money and credit.</p> <p>The term applied to the institutions willing to trade in financial instruments. It is not a physical creation, but an electronic/telephone one.</p>
Net Borrowing	For the purposes of the Code, net borrowing refers to borrowing (see above) net of investments (see above).
Net Revenue Stream	Estimates for net revenue stream for current and future years are the local authority's estimates of the amounts to be met from government grants and local taxpayers.
Operational Boundary	This is based on expectations of the maximum external debt of the authority according to probable not simply possible – events and being consistent with the maximum level of external debt projected by the estimates. It is not a limit and actual borrowing could vary around this boundary for short periods.
Other Long Term Liabilities	The definition of other long term liabilities is the sum of the amounts in the Council's accounts that are classified as liabilities that are for periods in excess of 12months, other than borrowing (see definition above).
Premature Repayment of Loans (debt restructuring/rescheduling)	A facility for loans where the Council can repay loans prior to the original maturity date. If the loan repaid has a lower interest rate than the current rate for a loan of the same maturity period the Council can secure a cash discount on the repayment of the original loan. If the loan replaced has a higher rate of interest than the current rate for a loan of the same maturity period, a cash penalty is payable to the lender.
Premia	Where the prevailing current interest rate is lower than the fixed rate of a long term loan, which is being repaid early, the lender can charge the borrower a premium. This is

	<p>calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.</p>
Prudential Code	<p>The Prudential Code is the largely self regulatory framework outlined by CIPFA for managing/monitoring capital investment in local government.</p>
Public Works Loan Board (PWLB)	<p>A Government agency which provides loans to local authorities. Each year, it issues a circular setting out the basis on which loans will be made available. Loans can be either at a fixed rate or on a variable rate basis. They can be repaid on either an annuity, equal instalment of principal or maturity basis. The interest rate charged is linked to the cost at which the Government itself borrows.</p>
Risk	<p><u>Counterparty Credit Risk</u> The risk that a counterparty defaults on its obligations.</p> <p><u>Inflation Risk</u> The risk that growth in the Authority's investment income does not keep pace with the effects of inflation on its expenditure.</p> <p><u>Interest Rate Risk</u> The risk that changes in rates of interest creates an unexpected or unbudgeted burden on the Council's finances.</p> <p><u>Liquidity Risk</u> The risk that cash will not be available when it is needed.</p> <p><u>Operational Risk</u> The risk of loss through fraud, error, corruption, system failure or other eventualities in Treasury Management dealings, and failure to maintain effective contingency management arrangements.</p> <p><u>Refinancing Risk</u> The risk that the Authority is unable to replace its maturing funding arrangements on</p>

	appropriate terms.
Set Aside Capital Receipts	A proportion of money received by the Council for the sale of fixed assets must be set aside to repay debt.
SORP	Statement of Recommended Practice, published by CIPFA (Local Authority Accounting Body). This sets out guidelines regarding the Council's financial matters.
Specified/Non Specified investments	Specified investments are sterling denominated investments for less than 364 days as identified in Appendix C in line with statutory investment regulations. Non-specified investments are all other investments identified in Appendix C in line with statutory investment regulations.
Supranational Bonds	These are bonds issued by institutions such as the European Investment Bank and World Bank. As with Government bonds (Gilts) they are regarded as the safest bond investments with a high credit rating.
Temporary Borrowing and Investment	Loans which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.
Treasury Management	<p>Treasury Management has the same definition as in CIPFA's code of Practice of Treasury Management in the Public Services.</p> <p>"The management of the organisation's 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."</p>
Yield Curve	The line resulting from portraying interest rate graphically for a series of periods, e.g. 7days, 1month, 3, 6, 9, and 12months. When longer-term interest rates are higher than short-term rates the yield curve slopes upwards and is described as positive. When the opposite prevails the yield curve is referred to as inverse.

TREASURY ADVISORS' VIEW ON THE ECONOMIC BACKGROUND

1.2

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 3 November** left Bank Rate 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 Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that 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 newly appointed 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. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

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 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 were 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. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the

Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- **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. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **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. The Bank of International Settlements has recently released a report that \$340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also 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.

APPENDIX C

Creditworthiness Policy and Investment Criteria

The Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands

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

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

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks /UK Govt debt*	yellow	£120m	5yrs
Banks	purple	£25m	2 yrs
Banks	orange	£25m	1 yr
Banks – part nationalised	blue	£30m	1 yr
Banks	red	£25m	6 mths
Banks	green	£25m / %	100 days
Banks	No colour	Not to be used	
Council’s banker	-	£30m / %	5 yrs
Other institutions limit	-	£25m	1yr
DMADF	AAA	unlimited	6 months
Local authorities	n/a	£30m	5yrs
	Fund rating	Money and/or % Limit	Time Limit
Money market funds	AAA	£25m / %	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£25m / %	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£25m / %	liquid

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

The Capita Asset Services’ creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency’s ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances

consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored before deals are undertaken and The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

Investment Criteria for Specified and Non Specified Investments

1.1 Investments will be made in accordance with the following terms:

1.1.1 Specified Investments:

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable and the principal sum to be repaid at maturity is the same as the initial sum invested other than investments in the UK Government.)

Instrument	Minimum Credit Criteria	Use	Max investment
Debt Management Agency Deposit Facility	--	In-house	£120M
Term deposits – UK government	--	In-house	£120M
Term deposits – other LAs	--	In-house	£25M with each counterparty
Term deposits – banks and building societies	Short-term F1,P1,A1, Long-term AA- or UK nationalised banks Blue Orange Red Green No Colour	In-house and fund managers 12 months 12 months 6 months 100 days Not for use	£25M with each counterparty/ See 2 and 3 below
Term deposits – Banks	Short-term	In-house and	£30M with each

nationalised by highly credit rated sovereign countries	F1,P1,A1, Long-term AA- Blue Orange Red Green No Colour	fund managers 12 months 12 months 6 months 100 days Not for use	counterparty/ See 2 and 3 below
Government guarantee on all deposits by high credit rated sovereign countries	AA-	In-house and fund managers	£25M with each counterparty/ See 2 and 3 below
UK Government supported banking sector	AA-	In-house and fund managers	£30M with each counterparty/ See 2 and 3 below

1.1.2 **Non-Specified Investments:**

A maximum of 35% will be held in aggregate of Council managed funds in non-specified investments. A maximum of 50% of aggregate funds managed by the Council's external fund managers will be held in non-specified investments.

Instrument	Min Credit/Colour Criteria	Use	Maximum Period	Maximum Investment
Term deposits – UK government (with maturities in excess of 1 year)		In-house	5 years	£30M
Term deposits – other Local Authorities (with maturities in excess of 1 year)		In-house	5 years	£25M with each counterparty
Deposits with banks and building societies covered by UK government guarantee	Short-term F1,P1,A1 Long-term AA- Blue Orange	Fund managers/ in-house	See 2 and 3 below 12 months 12 months	See 2 below/£30m with each counterparty
Certificates of deposits issued by banks and building societies covered by UK government guarantee	Short-term F1,P1,A1 Long-term AA- Blue Orange	Fund managers/in house	See 2 and 3 below 12 months 12 months	See 2 below/£25m with each counterparty
UK Government Gilts	-	Fund Managers/in house	See 2 and 3 below/5 years	See 2 below /£25M
Treasury Bills	-	Fund Managers/in	See 2 and 3 below/5	See 2 below /£25M

		house	years	
Term deposits – banks and building societies (with maturities in excess of 1 year)	Short-term F1,P1,A1 Long-term AA-, or UK nationalised banks Blue Orange	In-house	5 years 12 months 12 months	£25M with each counterparty
Certificates of deposits issued by banks and building societies	Short-term F1,P1,A1 Long-term AA-, Blue Orange	fund managers/in-house	10 years 12 months 12 months	See 2 below/£25M with each counterparty
UK Government Gilts with maturities in excess of 1 year	AAA	Fund Managers/in house	10 years	See 2 below/£25M with each counterparty
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	5 years 10 years	£25M with each counterparty and See 2 below
Bonds issued by a financial institution which is guaranteed by the UK government	-	In-house on a 'buy-and-hold' basis. Also for use by fund managers	5 years 10 years	£25M with each counterparty See 2 below
Sovereign bond issues (i.e. other than the UK govt)	AAA	In- house Fund Managers	5 years 10 years	£25M with each counterparty See 2 below
Corporate Bonds : [under SI 1010 (W.107)]	Long-term AA-	In- house Fund Managers	5 years 10years	£25M with each counterparty See 2 below
Gilt Funds and Bond Funds	Long-term AA-	In- house Fund Managers	5 years 10years	£15M See 2 below
Money Market Funds	AAA	In- house Fund Managers	n/a n/a	£25M See 2 a below
Property funds	-	Fund	n/a	£20M

		managers		See 2 below
Floating Rate Notes	Long-term AA-	Fund managers	10 years	See 2 below
Treasury Bills	N/A	Fund Managers	10 years	See 2 below
Local authority mortgage guarantee scheme	Short-term F1,P1,A1 Long-term AA-,	In-house	10 years	£25m with each counterparty

2. Investment Criteria – Invesco/Investec

- 2.1 The Fund will normally be invested in short term fixed interest rate deposits and certificates of deposit carrying interest rates of up to one year or debt instruments guaranteed by the UK government and also AAA rated money market funds. At any given time, a maximum of 50% of the portfolio by market value may be invested in negotiable securities carrying rates of interest for periods of over one year from the date of investment.
- 2.2 The maximum exposure to any one counter party is not to exceed 10% of the fund value or £2,000,000 whichever is the lower with the exception of money market funds where the whole balance may be invested therein. Variances to be agreed by the Head of Finance & Delivery & Delivery
- 2.3 The average duration of the investments for the fund shall not exceed 3 years, with the maximum maturity of any individual investment shall not exceed 10 years.
- 2.4 The fund will only lend to counterparties on the Invesco Standard lending list. The minimum criterion for the same is:
- Short term rating of A1, F1, P1 from the credit ratings agencies Moody's Fitch and Standard and Poor.
 - Long term rating of AA- from Standard and Poor or equivalent from Moody's or Fitch.
 - Invesco reserve the right to amend the standard lending list if internal research generated supports such a move.

N.B if there is a variation in ratings between agencies for a particular counterparty the lowest rating will be applied.

APPENDIX D

Fitch International Long-Term Credit Ratings

International Long-Term Credit Ratings (LTCR) may also be referred to as Long-Term Ratings. When assigned to most issuers, it is used as a benchmark measure of probability of default and is formally described as an Issuer Default Rating (IDR). The major exception is within Public Finance, where IDRs will not be assigned as market convention has always focused on timeliness and does not draw analytical distinctions between issuers and their underlying obligations. When applied to issues or securities, the LTCR may be higher or lower than the issuer rating (IDR) to reflect relative differences in recovery expectations. The following rating scale applies to foreign currency and local currency ratings:

Investment Grade	Definition
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.
Speculative Grade	Definition
BB	Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B	<p>Highly speculative.</p> <ul style="list-style-type: none"> • For issuers and performing obligations, 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment. • For individual obligations, may indicate distressed or defaulted obligations with potential for extremely high recoveries. Such obligations would possess a Recovery Rating of 'RR1' (outstanding).
CCC	<p>For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic conditions.</p> <ul style="list-style-type: none"> • For individual obligations, may indicate distressed or defaulted obligations with potential for average to superior levels of recovery. Differences in credit quality may be denoted by plus/minus distinctions. Such obligations typically would possess a Recovery Rating of 'RR2' (superior), or 'RR3' (good) or 'RR4' (average).
CC	<p>For issuers and performing obligations, default of some kind appears probable.</p> <ul style="list-style-type: none"> • For individual obligations, may indicate distressed or defaulted obligations with a Recovery Rating of 'RR4' (average) or 'RR5' (below average).
C	<ul style="list-style-type: none"> • For issuers and performing obligations, default is imminent. • For individual obligations, may indicate distressed or defaulted obligations with potential for below-average to poor recoveries. Such obligations would possess a Recovery Rating of 'RR6' (poor).
RD	<p>Indicates an entity that has failed to make due payments (within the applicable grace period) on some but not all material financial obligations, but continues to honour other classes of obligations.</p>
D	<p>Indicates an entity or sovereign that has defaulted on all of its financial obligations. Default generally is defined as one of the following:</p> <ul style="list-style-type: none"> • Failure of an obligor to make timely payment of principal and/or interest under the contractual terms of any financial obligation; • The bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of business

	<ul style="list-style-type: none"> • The distressed or other coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.
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Fitch International Short-Term Credit Ratings

The following ratings scale applies to foreign currency and local currency ratings. A Short-term rating has a time horizon of less than 13 months for most obligations, or up to three years for US public finance, in line with industry standards, to reflect unique risk characteristics of bond, tax, and revenue anticipation notes that are commonly issued with terms up to three years. Short-term ratings thus place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

Short Term Rating	Current Definition
F1	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non investment grade.
B	Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favourable business and economic environment.
D	Indicates an entity or sovereign that has defaulted on all of its financial obligations.

APPENDIX E

Approved Countries for Investment as at 1st Feb 2017

AAA

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

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium

MINIMUM REVENUE PROVISION

1. Government Guidance

The Welsh Assembly Government issued new guidance in March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council are legally obliged by section 21 (1b) to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Where the CFR was nil or negative on the last day of the preceding financial year, the authority does not need to make an MRP provision. MRP in the current financial year would therefore be zero,

Option 1: Regulatory Method

Under the previous MRP regulations, General Fund MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This option is available for the General Fund share of capital financing requirement which relates to capital expenditure incurred prior to 1 April 2008. It may also be used for new capital expenditure up to the amount which is deemed to be supported by the Welsh Assembly Government annual supported borrowing allocation. The use of the commutation adjustment to mitigate the MRP charge is also allowed to continue under this option.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

The guidance suggests that any new borrowing which receives no Government support and is therefore self-financed would fall under option 3

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

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

Equal instalment method – equal annual instalments which are calculated using a simple formula set out in paragraph 9 of the MRP guidance,

under this approach, the MRP is provided by the following formula

$A - B$ divided by C

A is the amount of capital expenditure in respect of the asset financed by borrowing or credit arrangements

B is the total provision made before the current financial year in respect of that expenditure

C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires

Annuity method – annual payments gradually increase during the life of the asset with an appropriate interest rate used to calculate the annual amount

Asset life - the MRP guidance makes it clear that the estimated life of an asset should be determined in the year MRP commences and should not subsequently be revised

Under both options, the authority may make additional voluntary revenue provision and this may require an appropriate reduction in later years' MRP

In addition adjustments to the calculation to take account of repayment by other methods (e.g. application of capital receipts) should be made as necessary.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

2. Date of implementation

The previous statutory MRP requirements cease to have effect after the 2006/07 financial year. However, the same basis of 4% charge in respect of the GF share of CFR may continue to be used without limit until the 2009/10 financial year, relative to expenditure incurred up to 31/3/2008.

The guidance suggests that Options 3 and 4 should be applied to any capital expenditure which results in an increase in the CFR and does not relate to the authority's Supported Capital Expenditure.

The guidance also provides the authority with discretion to apply Options 3 or 4 to all capital expenditure whether or not supported and whenever it is incurred.

Any capitalised expenditure incurred after 1 April 2008 which gives rise to an increase in the GF CFR should be repaid by using option 3 as adapted by paragraphs 23 and 24 of the guidance.

APPENDIX G

Active Internal Credit UK Counterparty List (as at 1 February 2017)

Institution	Country	Bank/BS	Fitch Ratings		
			S Term	Support	L Term
Bank of Scotland	UK	Bank	F1	5	A+
Barclays	UK	Bank	F1	5	A
Close Brothers	UK	Bank	F1	5	A
Coventry Building Society	UK	BS	F1	5	A
Goldman Sachs International Bank	UK	Bank	F1		A
HSBC	UK	Bank	F1+	1	AA-
Leeds Building Society	UK	BS	F1	5	A-
Lloyds	UK	Bank	F1	5	A+
Nationwide	UK	BS	F1	5	A
Santander	UK	Bank	F1	2	A
Sumitomo Mitsui Banking Corporation	UK	Bank	F1	1	A
UBS Ltd	UK	Bank	F1	1	A+
Yorkshire Building Society	UK	BS	F1	5	A-
Debt Management Office	UK				
Local Authorities	UK				