



Report of the Section 151 Officer

Extraordinary Council – 5 March 2020

Treasury Management Strategy Statement, Prudential/Treasury Indicators, Investment Strategy and Minimum Revenue Provision Policy Statement 2020/21

Purpose:	To recommend the Treasury Management Strategy Statement, Prudential Indicators, Investment Strategy and Minimum Revenue Provision Policy Statement for 2020/21 be approved.
Consultation:	Legal, Finance and Access to Services.
Recommendations:	It is recommended that Council approves 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)
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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 which has been recently revised in 2017. The Council's Treasury Management Strategy will be received and reviewed annually by Council and there will also be an interim year report providing summary of progress against that strategy. 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 the Treasury

Management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting. CIPFA has adopted the following as its definition of treasury management

“The management of the organisation’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”

1.2 CIPFA Prudential Code – Revised 2017

During the preparation of this year’s Treasury management Strategy, CIPFA have recently made some changes to the Code in 2017. They were

- Minor changes to the treasury indicators which were initially developed in 2004
- Clarifying that the definition of ‘Investments’ above includes:-
- Treasury Management investments (as historically included in this Strategy, as well as
- investments made for policy reasons and managed outside of normal treasury management activity.

1.3 The latter change is primarily in response to increasing commercialisation activities undertaken by Local authorities. Examples of investments made for policy reasons and managed outside of normal treasury management activity include:-

- ‘service investments’ held in the course of provision and for the purposes of operational services
- ‘commercial investments’ which are taken mainly for financial reasons. These may be shares and loans in business structures e.g. subsidiaries; investments explicitly taken with the aim of making a financial surplus for the Council; non financial assets such as investment properties held primarily for financial benefit

1.4 Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, the Code requires that these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that robust procedures for the consideration of risk and return are applied to these decisions.

1.5 The Code requires that all investments have an appropriate investment management and risk management framework. This includes making it explicit in any decision making:-

- the powers under which investment is made
- the governance process including arrangements in place to ensure

appropriate due diligence to support decision making

- the extent to which capital invested is placed at risk
- the impact of potential losses on financial sustainability
- the methodology and criteria for assessing performance and monitoring process
- how knowledge and skills in managing such investments is arranged and that these are monitored, reported and highlighted explicitly in the decision making process and due diligence.

1.6 The most significant investments currently held by the Council and managed outside of normal treasury management activity are the Council's Investment Properties, which include various freeholds within the City held for strategic investments and/or income generation. The principles behind this strategy are outlined in the Capital Strategy, a separate report on this agenda

1.7 The Council will need to adhere to this strategy when considering any new proposals for non treasury investments as well as any updates to existing strategies, practices and reporting such as in the Statement of Accounts. It will be recommended that Council adopt the practices for Non Treasury Investments identified in a separate section of the Treasury Investment Strategy below in 8.7.

1.8 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

1.9 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.

1.10 The recommended strategy for 2020/21 is based upon a view on interest rates, having considered leading market forecasts provided by the Council's treasury advisor, Link Asset Services. The overall strategy covers:

- Treasury Limits 2019/20-2023/24
- 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
 - Including non Treasury Investments
 - 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

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

2. Treasury Limits 2019/20 to 2023/24

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 revenue implications
- 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						
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
	Actual	Probable	Estimate	Estimate	Estimate	Estimate
Capital Expenditure						
GF	53,482	116,920	115,437	112,333	66,478	31,027
HRA	43,029	53,360	52,621	49,020	59,245	60,695
TOTAL	96,511	170,280	168,058	161,353	125,723	91,722
Capital Financing Requirement 31st March						
GF	340,841	411,678	471,469	444,282	443,358	434,592
HRA	151,916	164,768	176,063	174,433	197,230	223,076
Magistrates' Court **	1,300	1,248	1,198	1,150	1,104	1,060
Credit Arrangements*	778	791	519	276	113	0
Total	494,835	578,485	649,249	620,141	641,805	658,728
Authorised limit for external debt	554,023	789,249	798,728	798,728	798,728	798,728
Operational boundary for external debt	554,023	749,249	758,728	758,728	758,728	758,728
Upper limit for fixed interest rate exposure	82.32%/ £456,023	100%/ £789,249	100%/ £798,728	100%/ £798,728	100%/ £798,728	100%/ £798,728
Upper limit for variable rate exposure	17.68%/ £98,000	40%/ £315,700	40%/ £319,491	40%/ £319,491	40%/ £319,491	40%/ £319,491
Upper limit for total principal sums invested for over 364 days	0	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 budgeted on a revenue basis from the acquiring service and do not form part of the borrowing requirement.

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

Maturity structure of fixed rate borrowing during 2020/21-2023/24		
	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 2018/19 %	Revised 2019/20 %	Estimate 2020/21 %	Estimate 2021/22 %	Estimate 2022/23 %	Estimate 2023/24 %
General Fund	6.2	5.78	5.99	6.16	6.28	6.14
HRA	14.77	15.11	15.60	15.23	16.06	17.56

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 by the borrowing requirement informed by the capital programme, however in all likelihood internal balances shall be utilised where appropriate and the actual external borrowing shall be lower.

Comparison of average gross debt and capital financing requirement	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	actual	probable	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Average debt (gross)	515,599	554,209	584,000	584,000	614,000	634,000
Capital Financing Requirement at 31st March	494,835	578,485	649,249	620,141	641,805	658,728
Net Position	-20,764	24,276	65,249	36,141	27,805	24,728

3 . The current portfolio position

3.1 The Council's projected debt portfolio position at 31/3/20 comprises:

	Principal outstanding 31 March 2020 £'000	Average rate of Interest %
Public Works Loan Board (fixed)	444,082	4.21
Money Market	98,000	4.10
Temporary	1,137	0.60
Welsh Govt.	10,970	0
Total	554,189	4.10

3.2 The Council's forecast investment portfolio at 31 March 2020 is as follows:

Managed Investments	Investments 31 March 2020	2019/20 Probable Investment Return	2020/21 Estimated Investment Return
	£'000	%	%
Internally Managed	127,940	0.77	0.77%

4. Prospects for Interest Rates

4.1 The Council's Treasury advisers (Link Asset Services) provided the following interest rate forecast for both short term (bank rate) and long term (PWLb) interest rates as at January 2020. There is a downside risk to these forecasts if economic growth proves to be weaker and slower than currently forecast.

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

4.2 Economic Background

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

4.3 The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

4.4 It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% due to the ongoing uncertainty over Brexit and awaiting the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in

2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

5. The In Year Borrowing Requirement

5.1 The Council will have the following net capital borrowing / repayment requirements for 2019/20 to 2023/24:

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Borrowing and repayment requirements	Actual	Probable	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
To finance new capital expenditure by supported borrowing	6,398	6,429	6,483	6,430	6,430	6,430
To finance new capital expenditure by unsupported borrowing	19,151	39,958	79,930	54,300	33,950	29,800
To replace loans maturing/repaid prematurely/voluntary contributions		1	3,001	365	365	5,365
Less						
Repayments (MRP)	11,533	12,874	14,199	15,975	16,822	16,450
Set aside capital receipts	0	10	10	10	10	10
NET IN YEAR BORROWING /(REPAYMENT) REQUIREMENT	14,016	33,504	75,205	45,110	23,913	25,135
Lease principal payments included within revenue (for information)	194	312	272	242	163	113

5.2 The borrowing requirement above reflects known planned capital expenditure to date as outlined in the “*The Capital Budget and Programme 2019/20 – 2024/25*” elsewhere on this agenda and may or may not be funded in year as opportunities to borrow affordably arise.

5.3 It can be seen from the “*The Capital Budget and Programme 2019/20 – 2024/25*”, that the capital programme is contains a number of major construction programmes requiring material capital funding :

- 21st Century Schools – A programme of major school refurbishment and new school build
- Swansea Bay City Region Deal Schemes - The Swansea City and Waterfront Digital District project (one of the 11 Swansea Bay City Region Projects) plans include a 3,500-seat digital indoor arena at the current LC car park site in the city centre that will accommodate music concerts, touring shows, exhibitions, conferences, gaming tournaments and other events. A digital square featuring digital artworks and

ultrafast internet connection speeds will also be developed outside the arena.

- More Homes and Welsh Housing Quality Standards– A programme of council house refurbishment and new council house building utilising new borrowing powers to invest in new Council housing stock.

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, other local authorities 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 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.

5.7 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.

5.8 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 this shall be recharged directly to the HRA.

6. Borrowing Strategy

6.1 PWLB borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19 following the shock announcement from HMT applying a 100bps premium on PWLB borrowing. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the Authority took advantage of the unprecedented historic low interest rates and undertook £90m of PWLB borrowing in 2018/19. This was extremely well timed ahead of the unexpected increase of 100 bps in PWLB rates which now requires a major rethink of local authority treasury management strategy and

risk management. At time of writing, borrowing rates are higher than investment rates as has been the case since the onset of the financial crisis. Considering this, it has been determined that, cashflow dictating, the borrowing requirement for the capital programme shall be met by internalising the borrowing. However as cashflow/funding requirements evolve in the medium term, if PWLB premium is still in place, that consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities
- Financial institutions
- Municipal Bonds Agency

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but the Section 151 Officer is delegated to identify the most economically advantageous funding option .

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 long term rates are forecast to be higher).

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 short term capital programme with a view to averaging in the remainder of the borrowing requirement as cashflow and interest rates dictate in the medium to long term.

6.3 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 expected 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 envisaged that there will not be any debt rescheduling opportunities in the remainder of 2019/20 or 2020/21 in the current PWLB portfolio, however there may be opportunities to review the Authority's market debt dependent upon counterparty appetite. Opportunities are received from time to time and appraised and considered in line with 7.3. All rescheduling decisions will be reported to the Cabinet Member 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 during the year and advised

to the Cabinet Member for Economy & 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 28th January 2020

8.1.4 It is anticipated that the Council will continue to hold internally managed sums during 2020/21 ensuring a suitable spread of investment risks. The Council has fixed benchmarks against which investment performance will be measured, i.e. the 7 day LIBID rate (internally managed).

8.1.5 Interest Rate Outlook:

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase slowly over the next few months to reach 1.00% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 1.00%
- Q1 2022 1.00%
- Q1 2023 1.25%

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

2019/20	0.75%
2020/21	1.00%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

8.1.6 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.

8.1.7 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 - Link 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 Resources and the S 151 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 Resources

- 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 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 appoint 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.

8.7 Non Treasury Investments

The Council recognises that investment for non-treasury management purposes in other financial assets and property, primarily for financial return, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios. The Council will ensure that all the organisation's investments are covered in its capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments if undertaking such investments. It is recognised that the risk appetite for these activities may differ from that for treasury management. The Capital Strategy Report also on this agenda outlines the strategy for these non treasury investments

8.8 Markets in Financial Instruments Directive II (MIFID II)

The EU Regulation MIFID II came into force in Jan 2018. Pre Jan 2018, this Authority was recognised as a professional investor. The new directive required financial institutions to recognise all investors as retail clients. This ensured maximum protections but also precluded some forms of investments, only available to professional clients. Financial Institutions may elect to opt up clients upon request, if they can demonstrate suitable professional competency and governance frameworks are in place. This Authority has successfully elected to opt up to professional status with all its counterparties and service providers.

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) until 2020/21 when lifetime of asset shall be adopted 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 revised its MRP Policy for 2018/19 in December 2018 in accordance with the main recommendations contained within the guidance issued by the Welsh Government
- 9.6 The major proportion of the MRP chargeable will relate to the historic debt liability (pre 2008/09) that will now be charged at the rate of 2.5%% straight line. (equivalent to amortising over a 40 year asset life). Then other expenditure incurred using 'unsupported borrowing' will under delegated powers be subject to MRP under option 3 which will be charged over a period commensurate with the estimated useful life applicable to the nature of the expenditure or in accordance with the existing capitalisation directive.
- 9.7 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.
- 9.8 Going forward, it is proposed that all GF debt arising from capital expenditure supported by the WG through supported borrowing or the Local Government Borrowing Initiative will be charged MRP at 2.5% straight line (equivalent to being amortised over a 40 year asset life) 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. All HRA debt to be amortised at 2% until 2020/21 when new borrowing shall be amortised over the useful life of the asset.

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 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment (EIA) process ensures that we have paid due regard to the above. We have undertaken an EIA screening which demonstrates there are no equality impact implications arising directly from this report (Appendix H)

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

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

The revised CIPFA Prudential Code for Capital Finance in Local Authorities 2017

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
Appendix H – Equality Impact Assessment

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	In the Code, borrowing refers to external borrowing. Borrowing is defined as both:- <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

	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.
Prudential Code	The Prudential Code is the largely self regulatory framework outlined by CIPFA for managing/monitoring capital investment in local government.
Public Works Loan Board (PWLB)	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.
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></p>

	The risk that the Authority is unable to replace its maturing funding arrangements on 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.
SONIA (sterling overnight index average)	<p>Sterling Overnight Index Average, abbreviated SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market. It is used for overnight funding for trades that occur in off-hours and represents the depth of overnight business in the marketplace.</p> <p>It offers an alternative to LIBOR as a benchmark interest rate for financial transactions.</p>
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</p>

	market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
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. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report**, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their

hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that “domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term”.

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England’s target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market**, growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump’s massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was

singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy \$60bn, whereas it had been reducing its balance sheet by \$50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China. However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although

they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period**. At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

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

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high

tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.**

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and

medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments**. Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority

governments dependent on coalitions which could prove fragile.

- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some \$19trn of corporate debt in major western economies**, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is \$15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

APPENDIX C

Creditworthiness Policy and Investment Criteria

The Council applies the creditworthiness service provided by Link 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	£30M 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	fund managers and In-house 12 months 12 months 6 months 100 days Not for use	£30M with each counterparty/ per agreement

Term deposits – Banks nationalised by highly credit rated sovereign countries	Short-term F1,P1,A1, Long-term AA- Blue Orange Red Green No Colour	fund managers and In-house 12 months 12 months 6 months 100 days Not for use	£30M with each counterparty/ per agreement
Government guarantee on all deposits by high credit rated sovereign countries	Short-term F1,P1,A1, Long-term AA- or UK nationalised banks Blue Orange Red Green No Colour	fund managers and In-house 12 months 12 months 6 months 100 days Not for use	£30M with each counterparty/ per agreement
UK Government supported banking sector	Short-term F1,P1,A1, Long-term AA- or UK nationalised banks Blue Orange Red Green No Colour	fund managers and In-house 12 months 12 months 6 months 100 days Not for use	£30M with each counterparty/ per agreement
UK Government Gilts with maturities in excess of 1 year	AAA	Fund Managers/in house	See 2 below/£25M with each counterparty
Bonds issued by multilateral development banks	AA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	£25M with each counterparty and per agreement
Bonds issued by a financial institution which is guaranteed by the UK government	AA-	In-house on a 'buy-and-hold' basis. Also for use by fund managers	£25M with each counterparty per agreement
Sovereign bond issues (i.e. other than the UK govt)	AAA	In- house Fund Managers	£25M with each counterparty per agreement
Corporate Bonds : [under SI 1010 (W.107)]	AA-	In- house Fund	£25M with each counterparty per agreement

		Managers	
Gilt Funds and Bond Funds	AA-	In- house Fund Managers	£15M per agreement
Money Market Funds	AAA	In- house Fund Managers	£25M per agreement
Property/alternative asset funds	AA-	Fund managers	£20M per agreement
Floating Rate Notes	AA-	Fund managers	per agreement
Treasury Bills	N/A	Fund Managers	per agreement
Local authority mortgage guarantee scheme	Short-term F1,P1,A1	In-house	£25m with each counterparty

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	£25M
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	Long-term AA- Blue Orange	Fund managers/ in-house	See 2 and 3 below 12 months 12 months	per agreement/£ 25m with each counterparty
Certificates of deposits issued by banks and building societies covered by UK government guarantee	Long-term AA- Blue Orange	Fund managers/in house	See 2 and 3 below 12 months 12 months	per agreement/£ 25m with each counterparty
UK Government Gilts	-	Fund	See 2 and	per

		Managers/in house	3 below/5 years	agreement /£25M
Treasury Bills	-	Fund Managers/in house	See 2 and 3 below/5 years	per agreement /£25M
Term deposits – banks and building societies (with maturities in excess of 1 year)	Long-term AA- Blue Orange	In-house	5 years 12 months 12 months	£25M with each counterparty
Certificates of deposits issued by banks and building societies	Long-term AA- Blue Orange	fund managers/in-house	10 years 12 months 12 months	per agreement /£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	AA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	5 years 10 years	£25M with each counterparty and per agreement
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 per agreement
Sovereign bond issues (i.e. other than the UK govt)	AAA	In- house Fund Managers	5 years 10 years	£25M with each counterparty per agreement
Corporate Bonds : [under SI 1010 (W.107)]	Long-term AA-	In- house Fund Managers	5 years 10years	£25M with each counterparty per agreement
Gilt Funds and Bond Funds	Long-term AA-	In- house Fund Managers	5 years 10years	£15M per agreement
Money Market Funds	AAA	In- house	n/a	£25M

		Fund Managers	n/a	per agreement
Property/alternative asset funds	-	Fund managers	n/a	£20M per agreement
Floating Rate Notes	Long-term AA-	Fund managers	10 years	per agreement
Treasury Bills	N/A	Fund Managers	10 years	per agreement
Local authority mortgage guarantee scheme	Short-term F1,P1,A1 Long-term AA-,	In-house	10 years	£25m with each counterparty

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

Countries with approved Credit ratings as at Jan 2020 (NB subject to change and no overseas investments st this time)

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- U.K.
- Hong Kong

AA-

- Belgium
- Qatar

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

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 31 January 2020
subject to change)**

Institution	Country	Bank/BS	Fitch Ratings	Support	S Term
			L Term		
Abbey National Treasury Services PLC	UK	Bank	A	1	F1
Bank of Scotland PLC	UK	Bank	A+	5	F1
Barclays Bank PLC	UK	Bank	A+	5	F1
Close Brothers Ltd	UK	Bank	A	5	F1
Goldman Sachs International Bank	UK	Bank	A	1	F1
HSBC Bank PLC	UK	Bank	AA-	1	F1+
Lloyds Bank Corporate Markets Plc)	UK	Bank	A	1	F1
Santander UK PLC	UK	Bank	A+	2	F1
Standard Chartered Bank	UK	Bank	A+	5	F1
Sumitomo Mitsui Banking Corporation Europe Ltd	UK	Bank	A	1	F1
UBS Ltd.	UK	Bank	AA-	1	F1+
Coventry Building Society	UK	BS	A	5	F1
Leeds Building Society	UK	BS	A-	5	F1
Nationwide Building Society	UK	BS	A	5	F1
Skipton Building Society	UK	BS	A-	5	F1
Yorkshire Building Society	UK	BS	A-	5	F1
Debt Management Office	UK				
Local Authorities	UK				

APPENDIX H

Please ensure that you refer to the '[Screening Form Guidance](#)' while completing this form. If you would like further guidance please contact your support officer in the Access to Services team (see guidance for details).

Section 1
What service area and directorate are you from?
Service Area: Finance & Service Centre
Directorate: Resources

Q1(a) WHAT ARE YOU SCREENING FOR RELEVANCE?

Service/ Function Proposal	Policy/ Procedure	Project	Strategy	Plan	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**(b) Please name and describe below
TREASURY MANAGEMENT STRATEGY, PRUDENTIAL INDICATORS,
INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY
STATEMENT 2019/20**

Q2(a) WHAT DOES Q1a RELATE TO?

Direct front line service delivery	Indirect front line service delivery	Indirect back room service delivery
<input type="checkbox"/> (H)	<input type="checkbox"/> (M)	<input checked="" type="checkbox"/> (L)

(b) DO YOUR CUSTOMERS/CLIENTS ACCESS THIS SERVICE...?

Because they internal need to	Because they want to	Because it is automatically provided to everyone in Swansea	On an basis i.e. Staff
<input type="checkbox"/> (H)	<input type="checkbox"/> (M)	<input type="checkbox"/> (M)	<input checked="" type="checkbox"/> (L)

Q3 WHAT IS THE POTENTIAL IMPACT ON THE FOLLOWING...

	High Impact	Medium Impact	Low Impact	Don't know
	(H)	(M)	(L)	(H)
Age	→ <input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Disability	→ <input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Gender reassignment	→ <input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Marriage & civil partnership	→ <input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Pregnancy and maternity	<input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
Race	<input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
Religion or (non-)belief	<input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
Sex	→ <input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
Sexual Orientation	→ <input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
Welsh Language	→ <input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
Poverty/social exclusion	→ <input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
Carers	→ <input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
Community cohesion	→ <input type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>

Q4 Have you / will you undertake any public consultation and engagement relating to the initiative?

- Yes ✓ No (If no, you need to consider whether you should be undertaking consultation and engagement – please see the guidance)

If yes, please provide details below

Q5(a) HOW VISIBLE IS THIS SERVICE/FUNCTION/POLICY/PROCEDURE/ PROJECT/ STRATEGY TO THE GENERAL PUBLIC?

High visibility to general public

(H)

Medium visibility to general public

(M)

Low visibility to general public

✓ (L)

(b) WHAT IS THE POTENTIAL RISK TO THE COUNCIL'S REPUTATION? (Consider the following impacts – legal, financial, political, media, public perception etc...)

High risk to reputation

(H)

Medium risk to reputation

✓ (M)

Low risk to reputation

(L)

Q6 Will this initiative have an impact (however minor) on any other Council service?

- ✓ Yes No **If yes, please provide details below**
 The cost of capital for all capital projects undertaken by the Authority is informed by the TM strategy

Q7 HOW DID YOU SCORE? Please tick the relevant box below – NOTE: Q3 counts as a single H, M or L (and one H / M outscores any n° of Ls)

MOSTLY H and/or M → HIGH PRIORITY → EIA to be completed

Please go to Section

MOSTLY L → **LOW PRIORITY / NOT RELEVANT** → **✓ Do not complete EIA**
Please go to Q8 followed by Section 2

Q8 If after completing the EIA screening process you determine that this service/function/policy/project is not relevant for an EIA you must provide adequate explanation below.

This is a back office function which although important has little or no direct impact on the groups identified in Q3

Section 2

Please send this completed form to the Access to Services Team for agreement before obtaining email approval from your Head of Service.

Screening form completed by:	
Name: Jeff Dong	
Location: 1.4.1c civic centre	
Telephone Number: 6934	
	Date: 31/1/20
Approval by Head of Service:	
Name: Ben Smith	
Position: S 151 Officer	
	Date: 31/1/20

Please return the completed form to accesstoservices@swansea.gov.uk