CHERWELL DISTRICT COUNCIL
Treasury Management Strategy

Minimum Revenue Provision Policy Statement and Annual Investment Statement

2016-17

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

1.2 Reporting requirements

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

Report 1 - Treasury Strategy including Prudential and Treasury Indicators (This report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision (MRP) policy (how residual capital expenditure is charged to revenue over time)
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

Report 2 - A Mid Year Treasury Management Report (if applicable) – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. However, the Accounts Audit and Risk Committee will receive quarterly update reports.

Report 3 - An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

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

1.3 Treasury Management Strategy for 2016-17

The strategy for 2016-17 covers two main areas:

Treasury management Issues

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

Capital Issues

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

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

1.4 Training

CIPFA's Code of Practice requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receives appropriate training relevant to their needs and fully understands their roles and responsibilities.

The Council's approach is:

- To identify Members who require training;
- To assess the level of training required and procure training from an external organisation with expertise in this area, including the Council's Treasury Advisor, Capita Asset Services; and
- To monitor the ongoing training needs of Members based on legislative, regulatory and best-practice requirements.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Capita Asset Services,Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of 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.

2. Capital Prudential Indicators 2016/17 – 2018/19

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

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £'000	2014/15 Actual	2015/16 Latest Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	32,204	63,808	29.504	12,250	940

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £'000	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	32,204	63,808	29,504	12,250	940
Financed by:					
Capital receipts	-26,469	-19746	-580	-2258	
Capital grants	-389	-457	-375	-375	-375
Reserves funded through Revenue	0	0	0	0	0
Donated asset Contribution	0	0	0	0	0
External Funding	0	-260		0	0
Net financing need for the year	**5,346**	**43,345**	**28,549**	**9,617**	**565**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £0 of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£'000	**2014/15 Actual**	**2015/16 Latest Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
Capital Financing Requirement					
Total CFR	**5,346**	**43,345**	**28,549**	**9,617**	**565**
Movement in CFR	**0**	**48,691**	**-14,796**	**-18,932**	**-9,052**

Movement in CFR represented by					
Net financing need for the year (above)	0	48,691	-14,796	-18,932	-9,052
Less MRP/VRP and other financing movements	0	0	0	0	0
Movement in CFR	**0**	**48,691**	**-14,796**	**-18,932**	**-9,052**

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be either*:*

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

The Council has established a company to which it is providing loans on a commercial basis. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party by the Council.

The Capital Financing Requirement (CFR) will increase by the amount of loans advanced and under the terms of contractual loan agreements are due to be returned in full by 2026, with interest paid as per the contract.

Once funds are returned to the Council, the returned funds are classed as a capital receipt, off-set against the CFR, which will reduce accordingly. As this is a temporary (10 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The outstanding loan/CFR position will be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will commence.

To ensure that any required changes to this approach can be addressed promptly and prudently the Council has adopted a policy providing delegated authority to the Service Director of Resources to defer the charging of MRP in accordance with the Prudential Code and current accounting regulations in the following circumstances:

- There is a separately identifiable project with quantified borrowing costs.
- The period from the projects inception to it becoming operational is significantly in excess of 12 months.
- A business case has been produced incorporating the deferred MRP and capitalised interest which demonstrates that the project is prudent and affordable over its whole life.
- The borrowing and MRP amounts are material, in excess of £250,000 annually.
- The deferred MRP and accumulated interest will be charged to the appropriate revenue account on a prudent basis, once the project is operational.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 Ratio of financing costs to net revenue stream

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

%	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Non-HRA	-1.22	-0.29	3.24	3.36	3.36

The estimates of financing costs include current commitments and the proposals in the budget report.

3 Borrowing

3.1 The council is currently debt free however the capital programme as detailed in section 2 demonstrates that capital resources are diminishing. Future projects may require the need to borrow and for the council to enter into long term debt arrangements.

3.2 The Head of Finance and Procurement will monitor this situation and if and when there is a requirement to borrow outside of the operational and authorised limits as detailed below an updated version of this strategy will be prepared for member approval.

Treasury Indicators: limits to borrowing activity

3.3 The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £'000	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	£15m	£50m	£50m	£50m
Other long term liabilities	£0	£0	£0	£0
Total	**£15m**	**£50m**	**£50m**	**£50m**

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

Authorised limit £'000	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	£20m	£55m	£55m	£55m
Other long term liabilities	£0	£0	£0	£0
Total	**£20m**	**£55m**	**£55m**	**£55m**

3.4 Prospects for interest rates

A more detailed interest rate view and economic commentary is at appendices 5.1 and 5.2 if required

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2016	0.50	2.40	3.70	3.60
Jun 2016	0.75	2.60	3.80	3.70
Sep 2016	0.75	2.70	3.90	3.80
Dec 2016	1.00	2.80	4.00	3.90
Mar 2017	1.00	2.80	4.10	4.00
Jun 2017	1.25	2.90	4.10	4.00
Sep 2017	1.50	3.00	4.20	4.10
Dec 2017	1.50	3.20	4.30	4.20
Mar 2018	1.75	3.30	4.30	4.20
Jun 2018	1.75	3.40	4.40	4.30
Sep 2018	2.00	3.50	4.40	4.30
Dec 2018	2.00	3.50	4.40	4.30
Mar 2019	2.00	3.60	4.50	4.40

Economic Outlook
The slowdown seen in the UK economy in Q3 appears to have been a temporary event, if early Q4 survey measures are correct, with both manufacturing and services PMIs having made gains in October. It is probably too early in the quarter to jump to conclusions but analysts are looking for activity levels to improve in coming months, on the back of high levels of consumer confidence, low unemployment and household spending being aided by falling energy costs and food prices.

Q3 US GDP slowed to an annualised 1.5% (subsequently revised to 2.1%), but consumption looks set to remain strong despite weak retail sales in September. The trade deficit widened in August, pointing to net trade having a negative input on GDP growth, while the drag from slowing inventory accumulation was probably even greater.

Eurozone growth has maintained its steady but slow rate at the start of Q4. However, the positive impact of lower commodity prices and a weaker €uro are set to fade, while inflationary pressures are negligible. As a result, the ECB will consider, and likely approve, further policy stimulus at its December meeting.

Chinese authorities cut interest rates to support the economy. Furthermore, in a sign that policy makers are committed to financial reform, they removed regulatory restrictions on deposit rates, the final step in liberalising interest rates.

The initial reading of Q3 UK GDP confirmed a slowing of growth. Real output eased from 0.7% to 0.5%, but recovery remains driven by the services sector. Recession still holds in the manufacturing sector, as the volatile construction sector contracted, outweighing the expansion of industrial production. The October PMIs, however, suggest that growth will gather pace in Q4. The composite PMI had already picked up in September, after a healthy rise in the manufacturing index and a less robust gain in services offset the decline seen in construction.

Firms' investment intentions do not appear to have been affected by the turmoil seen on the markets in August or uncertainty over the Government's promised EU referendum. Instead, they suggest that annual investment growth will remain strong in the months ahead. September was a better month for the high street, with retail sales rising 1.9% m/m, which pushed overall sales for the quarter to a faster pace of growth than Q2, at 0.9%. This expansion is likely to have been helped by a temporary boost from the Rugby World Cup and the late August Bank Holiday may also have supported sales, but it should be noted that the CBI reported sales balance dropped quite sharply in October. Actual levels of consumer spending have dipped, which is a concern, but strong gains in real earnings should support theongoing strength of the consumer recovery.

Mortgage approvals slipped in September but, with mortgage rates remaining low, this should only prove to be a blip.

The overall trade deficit narrowed in August on strong monthly growth in goods and services exports combining with a decline in imports. The gains in goods exports do, however, have to be put in context and are a rebound from the weakness seen in the previous month. If thedeficit were unchanged in September this would leave the overall Q3 deficit considerably higher than that in Q2, at about £11bn, which suggests that there has, at least, been a part reversal of the boost to Q2 growth from net trade. Sterling strength and softer overseas demand will limit export growth and, despite exporters cutting sterling prices to remain competitive, foreign currency export prices have still pushed higher.

Employment rose by 140,000 in the three months to August, pulling the unemployment ratedown to 5.4%. Annualised average weekly earnings growth eased in August but the headline, annualised/three month rate, improved to a healthy 3%. There is little slack left to take up and reductions in unemployment have slowed, while some difficulties in recruiting have fed into earnings growth. Analysts are looking for further labour market improvement and private sector employment intentions remain consistent with healthy jobs growth of around 2%.

Lower fuel costs, on falling oil prices, saw CPI inflation dip into negative territory in September, at -0.1%, and that figure could weaken further in October, with education's contribution to CPI declining and petrol prices falling, as the impact of oil costs continue to feed through. Petrol's negative contribution to CPI inflation will continue to the turn of theyear when oil prices are expected to pick up slightly. In the meantime, inflation will probably average just below zero in Q4. The risks of ingrained low/negative inflation are not seen as significant and households' medium term inflation expectations have flattened, with most indicators now representing steady or slightly upward domestic inflation.

Food inflation will remain weak for a while yet, before picking up in later 2016, and there are upside risks to services inflation as stronger pay growth adds to demand in the sector. The benefits of past sterling strengthening should also start to fade, which should see imported goods inflation increase. While inflation is expected to be stronger in 2016, gains in productivity should ensure that the BoE's 2% target is not threatened for a while yet.
(Capita Asset Services CityWatch Nov 2015)

4. Annual Investment Strategy

4.1 Changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support.

More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process commenced during 2015/16.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology.

4.1 Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy.
Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions.

This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

Using the Capita Asset Services ratings service banks' and building societys' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, Council officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to contiunally assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is encapsulated within the credit methodology provided by the advisors, Capita Asset Services.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in ***Appendix 3*** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

Additions to the Specified and Non-Specified Investments from 2016/17.

Secured Bonds:

These are bonds with banks and building socities where the investment is secured (covered) on the insttitution's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from 'bail-in'. Where the bond issue or collateral upon which the investment is secured has a credit rating, the highest of the issue/collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Unsecured Corporate Bonds:
These will include loans, bonds and commercial paper issued by companies other than banks/building societies and registered providers.
These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. The credit assessment will be made through the credit rating of the bond and the bond issuer as well as other credit metrics such as credit default swaps of the corporate, if available.

Enhanced Money Market Funds and other Pooled Funds:
These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Pooled funds whose value changes with market prices are generally referred to variable net asset value [VNAV] funds) will be considered and evaluated for use for the proportion of the Authority's cash balances which are estimated to be available for longer than 1 year.

The returns from short-dated cash investments with counterparties meeting the Authority's credit criteria is expected to remain very low over the medium term. Enhanced money market funds and bond, equity income and property funds offer enhanced returns over the longer term than is available from short-dated cash investment, but are likely to be more volatile in the short term. These funds allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period (for example property funds may only have one withdrawal date per month or quarter), their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

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

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

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

All other investments are defined as ‘Non Specified’. This category includes investments in the ‘BBB+’ credit rating category, pooled funds without credit ratings and any investment that has a maturity longer than one year or which the Authority intends to holder for a period longer than one year.

Unsecured investments credit rated ‘BBB+’ will be made for shorter periods than unsecured investments with higher credit ratings.

4.2 Creditworthiness policy

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

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

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

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

Where applicable Money Limit and Time Limit applies to a Bank Group as a whole and not individual Banks within a Group	Colour (and long term rating where applicable)	Money Limit	Time Limit
Banks *	yellow	£15m	5yrs
Banks	purple	£15m	2 yrs
Banks	orange	£15m	1 yr
Banks – part nationalised	blue	£15m	1 yr
Banks	red	£15m	6 mths
Banks	green	£15m	100 days
Banks	No colour	Not to be used	
DMADF	AAA	unlimited	6 months
Local authorities	n/a	£5m per auth	5 yrs
Money market funds	AAA	£10m per fund	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£10m per fund	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£10m per fund	liquid

Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, 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 short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1.
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 weekly. The Council is alerted to changes to ratings of all three agencies through its use of our 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 weekly basis. 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 government support for banks and the credit ratings of that supporting government.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch . The list of countries that qualify using this credit criteria as at the date of this report are shown in ***Appendix 4***. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy

4.4 Investment Strategy

With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock into higher rates of acceptable risk adjusted returns.
The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

In order to diversify an investment portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels for each counterparty will be set to ensure prudent diversification is achieved.

Money Market Funds (MMFs) operating to a Constant Net Asset Value [CNAV] including Enhanced Money Market Funds (EMMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to mitigate operational risk by utilising more than one MMF and Instant Access Deposit Accounts for short term funds.

The Authority will also restrict its exposure to Constant Net Asset Value MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF, as these are funds that are used by investors for liquidity purposes and subject to a high volume of daily trading. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

Investment Funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 0.50%
- 2016/17 1.00%
- 2017/18 1.75%
- 2018/19 2.00%

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

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

2015/16	0.60%
2016/17	1.10%
2017/18	1.85%
2018/19	2.10%

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

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 364 days	£15m	£15m	£15m

For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits in order to benefit from the compounding of interest.

4.4 Icelandic Bank Investments –The council has received repayment of £5.7m of the initial Capital Investment of £6.5m with the remaining capital balance of £730k currently remaining in Iceland. The interest element attributed to the investment made - £738k (as at 31/3/2015) also currently resides in Iceland.

The Council continues to pursue this with the LGA and Bevan Brittan for the transfer of these funds to the UK. It is too early to provide a definitive policy on how any exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earliest opportunity.

4.5 End of year investment report

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

Appendix

1. Interest Rate forecasts
2. Economic background
3. Treasury Management practice - Specified and Non Specified investments and limits
4. Approved countries for investments
5. Treasury Management scheme of delegation and the role of the section 151 officer
6. Glossary

Appendix 1: Interest Rate Forecasts 2016-2019

Capita Asset Services Latest Rate View (December 2015)

	End Q4 2015	End Q1 2016	End Q2 2016	End Q3 2016	End Q4 2016	End Q1 2017	End Q2 2017	End Q3 2017	End Q4 2017	End Q1 2018	End Q2 2018	End Q3 2018	End Q4 2018	End Q1 2019
Bank Rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5 Year PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10 Year PWLB Rate	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25 Year PWLB Rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50 Year PWLB rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

Capital Economics Latest Rate View (December 2015)

	End Q4 2015	End Q1 2016	End Q2 2016	End Q3 2016	End Q4 2016	End Q1 2017	End Q2 2017	End Q3 2017	End Q4 2017
Bank Rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%
5 Year PWLB Rate	2.40%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%
10 Year PWLB Rate	2.80%	3.05%	3.05%	3.05%	3.30%	3.30%	3.55%	3.55%	3.80%
25 Year PWLB Rate	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%
50 Year PWLB rate	3.40%	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%

Appendix 2: Economic Background

UK

The first update on Q3 GDP confirmed quarterly growth of 0.5% but the breakdown showed that household spending has continued to provide the main support for growth, while the drag on performance from net trade was the largest that has ever been seen. Business investment posted a solid quarterly pick up to push annual growth to 6.6%, and survey investment intentions indicate that this healthy growth should continue, at least in the near future. The decline in the manufacturing PMI points to the strength seen in the October survey having been a blip, however, the robust services PMI ensured that the composite measure is consistent with growth accelerating a touch in the final quarter. As noted, household spending has proved resilient, rising 0.8% for a third successive quarter, with retail sales volumes gains equally healthy as consumer confidence remains at elevated levels. The high street battle for business has led to heavy discounting, benefiting consumer purchasing power, but depressing nominal retail sales. The BRC shop price index indicates that annual prices fell at an increased rate. Consumer services nominal spending has been more consistent, as has the housing market. Mortgage approvals rose by an annualised 0.9% in October and, with excess demand, prices are likely to be pushed higher.

The trade deficit did improve in September but widened significantly over Q3, from £3.5bn to £8.5bn. As a result, net trade wiped 1.5% from quarterly GDP growth, its greatest negative impact, which more than reversed the 1.3% it added in Q2. Q3 export volumes growth of 0.9% was dwarfed by the 5.5% seen in imports. While the November manufacturing PMI offers upbeat export orders' indications, other surveys remain weak. There are significant headwinds facing exporters, with Sterling rising by 2.5% since the start of October, on a trade weighted basis. Reducing Sterling prices has helped to reduce the impact on sales but margins cannot be squeezed indefinitely, or indeed further.

Strong employment gains in Q3 pulled the unemployment rate down to 5.3%, the lowest for nine years, though it remains above the all-time low of 4.7% seen in 2005. Underlying the headline figure is a less positive picture as part time work drove the job figure rise and self-employment is picking up once more. Furthermore, the timelier claimant count unemployment measure pushed higher in October. Also less positive was the slowing of annual average earnings growth from 3.2% to 2.0% in September, and output per worker has eased in Q3. However, hourly productivity rose by 0.6% q/q, to back up the near 1% gain in Q2. CPI of -0.1% m/m in October was the joint lowest since the 1960's, but this is likely to be the last month of deflation, as inflation should pick up as the sharp decline in petrol prices, a year ago, drop out of the calculations. More stable oil prices should limit further falls in petrol prices in coming months. Food prices should also add to the pot as the influence of previous falls in agricultural commodity prices and Sterling gains in the supply chain starts to wane. Overall, analysts do not foresee inflation breaching BoE target levels in 2016. Monetary indicators point to the pace of recovery being maintained with annual money growth (M4) rising at 4.5% in October, which would equate to annual real GDP growth of 2%. Lending has also picked up, driven by households, but corporate lending remained weak, with growth having only just sneaked into positive territory. Small and Medium-sized Enterprises' (SME) lending has been stronger than that for larger firms and it has been smaller firms where subdued lending has been problematic, as large firms have the benefit of being able to raise funds through bond issuance. Interest rate expectations have been pushed back further with markets looking as far ahead as the start of Q2 2017 for the first Bank Rate rise.

Eurozone (EZ).

The pace of recovery slowed for a second quarter in Q3, but early indications suggest that Q4 has started well and may see some acceleration in GDP growth. The November composite PMI edged higher to its highest level since May 2011, and is indicative of growth picking back up to 0.4-0.5% q/q. Elsewhere, while the Economic Sentiment Indicator was unchanged from October, that is still consistent with annual growth improving to 2%. There are signs that Italy is finally experiencing an improved pace of recovery, but overall gains across the currency bloc have been held back by a slowing in Spain. Low inflation is continuing to benefit consumer spending with Q3 growth relatively strong, despite a soft month in September. A weighted average of retail and car spending points to total spending growth improving in Q3. There is a more complex picture developing in Q4, with a disconnect between the EC measure of retailer confidence, reflective of stellar annual sales growth of over 3%, and national information for October which has been weak, particularly in Germany and France.
Industry data has been weak, but business surveys are optimistic of potential small gains in industrial growth. September saw a contraction in industrial production, but forward looking manufacturing PMIs are upbeat and point to annualised industrial growth of 2% for the rest of 2015. The service sector is in a healthy position and should underpin performance in the bloc, with services' firms confidence consistent with annual growth of over 2%, and the sector PMI pointing to quarterly output growth of 0.5%. Exports have disappointed given that the €uro has weakened quite markedly and that impact will start to dissipate shortly. The trade surplus did widen in September as exports grew faster than imports. However, there has been a slowing in the former in subsequent months and the three month average annual

USA.

Market interest rate expectations have picked up as a December rate rise becomes ever more likely, but thereafter they suggest a slow path of tightening. However, with accelerating wage growth and core inflation there is a risk that rate hikes could occur more rapidly than anticipated. US dollar strength is a function of the relative prospects for monetary policy elsewhere, with the UK position looking more towards a later hike, while in Europe and Japan the likelihood of tightening remain as distant as ever. Despite these developments US equities have recovered the losses posted in late summer.

Asia.

The Chinese economy continues to underperform and threatens to miss the authorities' growth target for the year. Debate about the economy is now focussing on whether it can be turned around in 2016. Some argue that the slowdown is due to the slump in investment, responding to increased overcapacity and debt levels, which would suggest that the troubles in the economy may prove more long term.

(Capita Asset CityWatch December 2015)

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2016. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The uncertainty over when UK interest rates will be raised has weighed on the market, generating some volatility over the past month. However, the increasing view is that it will happen later rather than sooner, possibly as late as April 2017.
This was reflected by the decline in the £/US$ exchange rate and gilt yields falling from mid-month to month-end.
The decline in gilt yields has seen the spread of US Treasury yields over gilts widen with the US Federal Reserve seemingly all but assured to tighten policy in December.
With the ECB set to offer further support to the Eurozone economy in December, Sterling strengthened against the €uro on the divergence in policy. However, the weaker interest rate expectations in the UK, compared to the US, saw £/$ slip below the $1.50 level for the first time since late April.
UK equities on the FTSE 100 have, once more, underperformed those on other frontline bourses during the month. However, the more UK centric FTSE 250, which better reflects the perceived fortunes of the domestic economy, has performed rather better. Escalating inflation, could push the Bank to react rather earlier.

Appendix 3: Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management

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)

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	Green	In-house
Term deposits – banks and building societies	Short-term F1, Long-term A, ,Viability BB+	Fund Manager

Term deposits with nationalised banks and banks and building societies

Where applicable limits are per Bank Group and not individual Banks within a Group	**Minimum Credit Criteria**	**Use**	**Max £**	**Max. maturity period**
UK part nationalised banks	Green	In-house	**£15m**	**364 days**
UK part nationalised banks	UK sovereign rating or Short-term F1, Long term A ,Viability BB+	Fund Manager	**Max 15% of fund**	**364 days**

Collateralised deposit	UK sovereign rating	In-house and Fund Managers
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Green	In-house and Fund Manager
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	Fund Manager
UK Government Gilts	UK sovereign rating	In house buy and hold and Fund Manager
Bonds issued by multilateral development banks	AA-	In house buy and hold and Fund Manager
Bond issuance by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating	In house buy and hold and Fund Manager
Collateralised deposit	UK sovereign rating	In-house and Fund Managers
Sovereign bond issues (other than the UK govt)	AA-	In house buy and hold and Fund Manager
Treasury Bills	UK sovereign rating	In house and Fund Manager
Corporate Bonds – Secured (i.e. with collateral or other cover)	A	In house buy and hold and Fund Manager
Corporate Bonds - unsecured	AA-	In house buy and hold and Fund Manager
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	AAA	In-house
2. Money Market Funds 3. Instant Access Deposit Accounts	AAA AAA	In-house In-house
4. Enhanced Money Market Funds	AA	In-house
5. Pooled Funds such those investing in sovereign bonds, corporate bonds, property funds, equity funds	AA-	In-house

Accounting treatment of investments.
The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: A maximum of 40% will be held in aggregate in non-specified investment

Maturities of ANY period

Where applicable limits are per Bank Group and not individual Banks within a Group	*** Minimum Credit Criteria**	**Use**	**Max % of fund**	**Max. maturity period**
Commercial paper issuance covered by a specific UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	270 days
Commercial paper other	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	270 days
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	2 years
	*** Minimum Credit Criteria**	**Use**	**Max % of fund**	**Max. maturity period**
Bonds – Secured (i.e. with collateral or other cover)	Short-term F1, Long-term A, Viability BB+	In- house and Fund Manager	15%	2 years
Bonds – Unsecured	Short-term F1, Long-term AA-, Viability BB+	In- house and Fund Manager	15%	2 years
Term Deposits with Banks and Building Societies which meet the Specified Investments criteria	Purple	In- house and Fund Manager	15%	2 years
Term Deposits with Banks and Building Societies which fall in the Non- Specified Investments criteria	Green	In- house and Fund Manager	15%	100 days

Term Deposits with Local Authorities	-	In- house and Fund Manager	10%	2 years
Gilts	UK Sovereign rating	In- house and Fund Manager	25%	10 years
Bonds issued by multilateral development banks	Short-term F1, Long-term AA, Viability BB+	In- house and Fund Manager	15%	5 years
Money Market Funds (MMF) operating on Constant Net Asset Value (CNAV) basis if not credit rated – up to value of 10% of total investment portfolio per MMF	Short-term F1, Long-term AA+, Viability BB	In- house and Fund Manager	20%	-
Instant Access Deposit Account Enhanced Money Market Funds - up to value of 10% of total investment portfolio per MMF	Short-term F1, Long-term AA+, Viability BB Short-term F1, Long-term AA+, Viability BB	In- house In- house and Fund Manager	40% 40%	- -
Pooled Funds such those investing in sovereign bonds, corporate bonds, property funds, equity funds	Short-term F1, Long-term AA-, Viability BB+	In- house and Fund Manager	15%	2 years
Investment in Share Capital of a wholly owned and /or subsidiary company of the Council	As Required	In- house	As Required	As Required

Appendix 4: Approved countries for investments

Based on lowest available rating

AAA

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

AA+

- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- Belgium
- France

AA-

- Saudi Arabia

Appendix 5: Treasury management scheme of delegation

6.1 Full council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

6.2 Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

6.3 Accounts Audit & Risk Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

6.4 Role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

Appendix 6: Glossary

Asset Class Limits	Limit on the amount of the total portfolio that can be invested an asset class for example credit rated Banks, Money Market Funds unrated Building Societies
Asset Life	The length of the useful life of an asset e.g. a school
Borrowing / Investment Portfolio	A list of loans or investments held by the Council.
Borrowing Requirement	The amount that the Council needs to borrow to finance capital expenditure and manage debt.
Callable deposit	Funds placed with a financial institution without a fixed maturity date (i.e. the money can be 'called' or withdrawn at any time).
Capitalisation direction	Government approval to use capital resources to fund revenue expenditure.
Cash deposits	Funds placed with a financial institution with a fixed maturity date and interest rate.
Certificates of deposits	(CD). CDs evidence fixed maturity time deposits with issuing banks or other deposit-taking institutions. Maturities range from less than a week to five years. They are normally negotiable and enjoy a liquid secondary market. They state the (1) amount deposited, (2) rate of interest, and (3) minimum period for which the deposit should be maintained without incurring early withdrawal penalties.
CIPFA Code of Practice on Treasury Management	A code of practice issued by CIPFA detailing best practice for managing the treasury management function.
Collaterised Deposit	Term deposits with UK institutions where such deposits are secured against a collateral pool comprised of loans made to UK local authorities.
Counterparty	Banks, Building Societies and other financial institutions that the Council transacts with for borrowing and lending.
Credit Arrangements	Methods of financing such as the use of finance leases
Credit Ratings	A scoring system used by credit rating agencies such as Fitch, Moody's and Standard and Poor's to indicate the creditworthiness and other factors of a Governments, banks, building societies and other financial institutions.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office	An agency of the HM Treasury and its responsibilities include debt and cash management for the UK

	Government
Debt Rescheduling	Refinancing loans on different terms and rates to the original loan.
Financial instrument	Document (such as a bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
Fitch Ratings	A credit rating agency.
Forward commitment	Written agreement by a lender to advance a loan on a future date at a specified interest rate. It automatically expires if not exercised by the potential borrower.
Gilts **Instant Access Deposit A/cs**	Also known as Gilt-edged Securities. UK central Government debt. It may be dated (redeemable) or undated. Undated gilts are perpetual debt, paying a fixed periodic coupon but having no final redemption date. Gilt yields are conventionally quoted in the UK markets on a semi-annual basis. Deposit account at AA+ (minimum) rated bank where funds are immediately available without notice, accumulating interest on a day by day basis. Specifically used for short term cash accumulation
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
Lender Option Borrower Option (LOBO)	Loans that have a fixed rate for a specified number of years then can be varied by the lender at agreed intervals for the remaining life of the loan.
Limits for external debt	A Prudential Indicator prescribed by the Prudential Code sets limits on the total amount of debt the Council could afford.
Liquidity	Access to cash that is readily available.
Lowest Common Denominator	Whereby rating agencies provide credit ratings of institutions and the lowest rating is applied to determine whether they meet the criteria to be on the Council's lending list.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Maturity Structure of Borrowings	A profile of the Council's loan portfolio in order of the date in which they expire and require repayment.
Minimum Revenue Provision	The minimum amount, which must be charged to an authority's revenue account each year for the prudent repayment of debt.

Money Market Funds	Open ended collective investment fund that invests in highly-liquid short-term financial instruments (with maturities typically 90 days to less than one year).
Moody's	A credit rating agency.
Non Specified Investments	Investments deemed to have a greater potential of risk, such as investments for longer than one year or with institutions that do not have credit ratings, like some Building Societies. Limits must be set on the amounts that may be held in such investments at any one time during
Portfolio	A number of different assets, liabilities, or assets and liabilities together, considered as a whole. For example, a diversified investment portfolio. An investor in such a portfolio might hold a number of different investment assets within the portfolio, with the objectives of growing the total value of the portfolio and limiting the risk of losses.
Prudential Borrowing	Borrowing undertaken by the Council that does not attract government support to help meet financing costs.
Prudential Code for Capital Finance in Local Authorities	The capital finance system is based on the Prudential Code developed by CIPFA. The key feature of the system is that local authorities should determine the level of their capital investment and how much they borrow to finance that investment based on their own assessment of what they can afford.
Prudential Indicators	The key objectives of the Prudential Code are to ensure that the capital investment plans are affordable, sustainable and prudent. As part of this framework, the Prudential Code sets out several indicators that must be used to demonstrate this.
Public Works Loan Board (PWLB)	A central government agency which provides loans to local authorities and other prescribed institutions at interest rates slightly higher than those at which the Government itself can borrow.
Credit Rated	Institutions that possess a credit rating from a credit rating agency such as Fitch, Moody's or Standard and Poors.
Risk Control	Putting in place processes to control exposures to events.
Security	Placing cash in highly rated institutions.
Sovereign debt rating	Assessment of the international rating agencies of the likelihood that a particular country will default on its loans.
Specified Investments	Investments that offer high security and liquidity. They

	must have a maturity of no longer than 364 days.
Standard and Poors	A credit rating agency.
Supranational Institutions	Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank
UK Government Investments	Debt Management Office (DMO) deposits and bonds (gilts) for which maturity date at time of purchase is less than 365 days away
Yield	The rate of return on the current market value of an asset or liability, usually expressed as a percentage per annum. For example, today's yield to maturity of a bond measures the total return to an investor in the bond, reflecting both the interest income over the life of the bond and any capital gain (or loss) from today's market value to the redemption amount payable at maturity.