

## TRAFFORD COUNCIL

**Report to:** Accounts & Audit Committee  
Executive & Council Meetings  
**Date:** 9 February 2016  
17 February 2016  
**Report for:** Decision  
**Report of:** The Executive Member for Finance and Director of Finance

### Report Title

**TREASURY MANAGEMENT STRATEGY 2016/17 – 2018/19**

### Summary

This report outlines the:-

- strategy to be followed during this period for investments and borrowing,
- outlook for interest rates,
- management of associated risks,
- policy to be adopted on Minimum Revenue Provision and
- Prudential Indicators for 2016/17 – 2018/19.

### Recommendations

That the Accounts & Audit Committee & Executive recommend to Council for approval the:

- policy on debt strategy for 2016/17 to 2018/19 as set out in section 3;
- investment strategy for 2016/17 to 2018/19 as set out in section 5;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

### Contact person for access to background papers and further information:

Name: Graham Perkins  
Extension: 4017

Background papers: None

|                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Relationship to Policy Framework / Corporate Priorities | Value for Money                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Financial                                               | The treasury management strategy will aim to maximise investment interest whilst minimising risk to the Council. The Council's debt position will be administered effectively with any new loans taken at rates of interest in-line with the Medium Term Financial Plan provision.                                                                                                                                                                                                            |
| Legal Implications:                                     | Actions being taken are in accordance with legislation, Department of Communities & Local Government (DCLG) Guidance, Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice.                                                                                                                                                                                                                                                   |
| Equality/Diversity Implications                         | Any equality and diversity implications are as set out in this report                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Sustainability Implications                             | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Staffing/E-Government/Asset Management Implications     | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Risk Management Implications                            | The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the treasury management systems and procedures which are independently tested on a regular basis. The Council's in-house treasury management team continually monitor to ensure that the main risks associated with this function of adverse or unforeseen fluctuations in interest rates are avoided and security of capital sums are maintained at all times. |
| Health and Safety Implications                          | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

## **Summary**

This report outlines the expected treasury activities for the forthcoming three years and has been prepared in accordance with the Council's Financial Procedure Rules. Additional treasury management reports are produced during the course of the year reporting actual activity for the preceding year and a mid-year update.

### **Economic situation (Appendix 2)**

The World economic situation continues to remain finely balanced with the US & UK reporting respectable growth figures compared to the other major economies.

During 2015 the main economic headlines were:

- UK reported positive growth throughout 2015 with the economy continuing to be one of the strongest of the developed nations. Unemployment reached 5.2% in October, its lowest level since May 2008;
- The Euro Central Bank commenced a €1.1 trillion programme of quantitative easing and Greece continues to remain an issue;
- US Central bank increased its bank rate from 0.25% to 0.50% in December, the first increase since 2008; and
- China's Government implemented several stimulus measures in order to ensure the economy hit a growth target of 7%, however despite this action a return of 6.9% was achieved, the lowest level in 25 years. Many commentators still have concerns that recent growth figures may have been massaged to hide a more accurate lower growth position. In addition to this, during the Summer months, China's stock market encountered a period of falling prices.
- Japan entered recession for the 4<sup>th</sup> time in 5 years.

### **Debt (Section 3)**

Borrowing interest rates are expected to continue at their historically low levels during the next 12 months before steadily increasing. Any new external borrowing will be taken in order to (a) assist finance the Council's capital Investment programme and (b) commence to address the current underborrowed position, as described at paragraph 3.2 and outlined at paragraph 3.3.

Debt restructuring exercises will only be undertaken in order to produce revenue savings or lower overall treasury risk.

### **Investments (See Section 5 and Appendix 3)**

The primary principles governing the Council's investment criteria remains unchanged from that previously adopted of security of capital first, liquidity of its cash flows and finally yield.

The Council is required to agree the lending criteria, which is primarily determined by credit ratings issued by the 3 major credit rating agencies as detailed at Appendix 3.

### **Prudential Indicators and limits (Section 7 and Appendix 3)**

The Council is required to approve a set of Prudential Indicators and limits which ensure the Council's capital expenditure plans and borrowing remain robust, prudent, affordable and sustainable. These are detailed at Appendix 3 for Member approval.

## 1. Background

1.1 The main treasury management activities are outlined below:

- ensure that adequate cash is available to meet the Council's cash flow requirements;
- manage its long and short term loans;
- invest any temporary surplus monies which become available during the year in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return;
- undertake any long term funding requirements of the Council's capital investment programme with the use of longer term cash flow planning and may involve arranging long or short term loans; and
- on occasion, carry out any debt restructuring exercises on its existing loans in order to meet Council risk or cost objective.

1.2 All transactions undertaken as part of the treasury management operation will comply with all the statutory requirements together with the DCLG Guidance, CIPFA Treasury Management Code of Practice which the Council has adopted. A brief outline of these has been provided at Appendix 1.

1.3 Each year in order to comply with the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code), Members are required to receive, consider, scrutinise and approve, a minimum of three reports annually, which incorporate a variety of policies, estimates and actuals as follows;

- Annual treasury strategy for the year ahead (February i.e. this report).
- Mid-year update report (November).
- Annual report on the activity undertaken compared to the strategy (June).

1.4 The Council uses Capita Asset Services as its treasury management advisors who provide a range of services on all treasury matters from the supply of credit ratings to technical support and this service is subject to regular review.

1.5 Whilst the advisors provide support to the internal treasury management team, the Council recognises that the final decision on all treasury management matters remains with the organisation at all times.

1.6 The Council recognises the importance of ensuring that all Members and staff involved in the treasury management function receive adequate training and are fully equipped to undertake the duties and responsibilities allocated to them by ensuring that;

- Members will continue to have access to training which will be relevant to their needs & responsibilities;
- Officers will attend courses / seminars presented by CIPFA, Advisors and any other suitable professional organisation, in accordance with Council policy on this issue.

1.7 Excluded from this report are the activities carried out by the Council's schools, which operate within a separate criteria as stipulated by the Director of Finance and in accordance with the Council's Financial Procedure Rules.

## 2. Economic & Interest Rate forecast

- 2.1 The Worldwide economic situation, continues to remain in a delicate position with only the US & UK reporting respective levels of Gross Domestic Product compared to other countries economies during 2015. Markets are closely following the current economic situation in China and Greece continues to remain an issue.
- 2.2 Further details on the major economic events which occurred during 2015 and forecasts for 2016/17 are outlined at Appendix 2 for reference.
- 2.3 Capita, the Council's external treasury management advisors, produces interest rate forecasts periodically throughout the year and the latest position, up to March 2019 are highlighted in the table below;

| Annual Average | Bank Rate (%) | Investment Rates (%) |              | Borrowing Rates (%) |         |
|----------------|---------------|----------------------|--------------|---------------------|---------|
|                |               | 3 month LIBID        | 1 year LIBID | 5 year              | 25 year |
| 2015/16        | 0.50          | 0.52                 | 1.00         | 2.00                | 3.40    |
| 2016/17        | 0.63          | 0.70                 | 1.15         | 2.25                | 3.55    |
| 2017/18        | 1.13          | 1.20                 | 1.70         | 2.65                | 3.85    |
| 2018/19        | 1.63          | 1.70                 | 2.20         | 3.05                | 4.08    |

- 2.4 The risk to the above forecast will be if the economic recovery from the recession proves to be weaker and slower than currently expected, it is likely rates would remain low for longer.
- 2.5 The Council's advisors have stated that the economic situation and outlook still remains uncertain and as a result of this the Council will therefore continue to take a cautious approach to its treasury strategy during this period.

## 3. Debt Strategy 2016/17 – 2018/19

- 3.1 The Council has the powers to borrow new funds from the Government (Public Works Loan Board, (PWLB) and dedicated Publicly funded companies set up to solely lend funds to the public sector e.g. Salix ), Municipal Bond Agency or the money market providing it is to assist short term cash flow or finance longer term capital investment.
- 3.2 The table below shows the actual current external debt levels, with forward projections, against the underlying capital borrowing need (the Capital Financing Requirement - CFR) highlighting the Council's under-borrowing position. Interest rates are at historically low long term levels and the table includes an assumed take up of new borrowing during the remainder of 2015/16 and 2016/17.

|                                           | 2015/16          | 2016/17          | 2017/18          | 2018/19          |
|-------------------------------------------|------------------|------------------|------------------|------------------|
|                                           | Estimate<br>£000 | Estimate<br>£000 | Estimate<br>£000 | Estimate<br>£000 |
| Debt at 1 April                           | 94,992           | 114,107          | 124,915          | 126,181          |
| Debt maturing                             | (1,770)          | (3,747)          | (2,684)          | (2,578)          |
| New Debt                                  | 20,885           | 14,555           | 3,950            | 0                |
| Debt at 31 March                          | 114,107          | 124,915          | 126,181          | 123,603          |
| Capital Financing Requirement at 31 March | 135,431          | 144,007          | 146,343          | 141,022          |
| Under borrow at 31 March                  | 21,324           | 19,092           | 20,162           | 17,419           |

- 3.3 It can be seen from the above table that the Council is currently maintaining an under-borrowed position arising from decisions taken previously not to finance capital spending from new external loans. Instead cash supporting the Council's reserves, balances and cash flow has been temporarily used to finance this requirement.
- 3.4 The Director of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances within the 2016/17 treasury operations. Any new borrowing undertaken will be to (a) assist finance the Council's capital Investment programme and (b) start to replace funds previously used to finance capital spend (underborrowed position) and will be subject to favourable interest rates, being available permitting this course of action.
- 3.5 The Council holds £56m of Lender's Option Borrower's Option (LOBO) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Currently, £51m, of these loans have options during 2016/17 and although the Director of Finance understands that lenders are unlikely to exercise their option in the current low interest rate environment, there remains a possibility that this could occur. In accordance with the Director of Finance's delegated authority, should an opportunity present itself to repay a LOBO loan at no cost, then this option will be taken and the situation assessed as to whether or not a replacement loan is taken from the PWLB.
- 3.6 In addition to the borrowing undertaken directly, the Council is also responsible for a further £0.8m which is administered by Tameside Borough Council. This follows the conversion in February 2010 of loans previously held on behalf of Manchester International Airport into an equity rated instrument.
- 3.7 As short term borrowing rates will be cheaper than longer term fixed interest rates, there may be potential opportunities in the future to generate revenue savings by switching from long term debt to short term debt. However the cost of premiums incurred, due to early repayment, will also need to be taken into account before any restructuring is undertaken.
- 3.8 The Council retains the flexibility to borrow funds in advance of requirement should market conditions unexpectedly change i.e. anticipate a sharp rise in interest rates, however funds will not be taken purely in order to profit from investment of the extra sums borrowed. This course of action will be done in accordance with the Director of Finance's delegated powers and reported to Members through either the mid-year or annual reporting mechanism.

- 3.9 Any borrowing undertaken in this way by The Director of Finance will be done within the constraints stated below;
- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period is to be taken in this manner and
  - borrowing only up to a maximum 12 months in advance of need.
- 3.10 A breakdown of the Council's expected debt maturity profile as at 31 March 2016 is provided at Appendix 4 for reference which also shows, in accordance with the Code of Practice, the potential first date the lending banks could amend the rate of interest for the market loans.
- 3.11 The Council is required to approve;
- the above debt strategy and
  - as part of the Prudential Indicators and Limits requirement, the limits for external debt in accordance with the Local Government Act 2003, having regard for CIPFA's prudential code before the commencement of each financial year. These limits are detailed at Appendix 3 for Council approval.

#### **4. Minimum Revenue Provision Strategy**

- 4.1 The Council is required to set aside an amount each year for the repayment of debt (by reducing the CFR), through a revenue charge called the Minimum Revenue Provision (MRP). In addition, the Council is also allowed to undertake voluntary revenue payments (VRP).
- 4.2 During 2015/16 the Council undertook an extensive exercise reviewing how it calculates MRP costs for debt incurred on capital expenditure prior to 2008.
- 4.3 As a result of this review, a change in policy was approved by Council at its January 2016 meeting and there will be no change to this in 2016/17. As part of the Prudential Indicators and Limits requirement Members are requested to approve the MRP statement as detailed at Appendix 3.

#### **5. Investment Strategy**

- 5.1 The Council undertakes investments, from income temporarily available which has been received in advance of spend and from its balances and reserves which it holds. This function is undertaken with regard to the DCLG's Guidance on Local Government Investments together with the revised CIPFA Treasury Management in Public Services Code of Practice.
- 5.2 The primary principle governing the Council's investment criteria is the security of its investments, followed by liquidity whilst ensuring that a reasonable level of return is also achieved. After these main principles, the Council will ensure that it maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections at Appendix 3.
- 5.3 To ensure that investments are only placed with strong creditworthy institutions, a counterparty list is produced and maintained based on credit ratings from two of the three independent rating agencies (Fitch, Moody's and Standard and Poor's) and these must meet the minimum levels required by the Council as shown at Appendix 3.

- 5.4 This approach uses real time credit rating information provided by the Council's advisers Capita and enables an institution to be included on this list, using the latest ratings.
- 5.5 Any institution featuring on the Council's approved list which incurs a negative rating change taking it below the minimum credit criteria required, will immediately be suspended from use and removed from the authorised list.
- 5.6 Whilst investment risk cannot entirely be eliminated, it can be minimised and in order to reduce the risk of an institution defaulting, the Director of Finance recommends to continue with the current practice of institutions only being included on the Council's lending list which have minimum credit rating as follows;
- Short Term – Fitch F1 or equivalent
  - Long Term – Fitch A- or equivalent
- 5.7 A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 5.
- 5.8 Whilst Members are asked to approve this base criteria, the Director of Finance may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered.
- 5.9 The Council's officers further recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor each institution in relation to the economic and political environments in which they operate. For this purpose, the Council will with the assistance of its advisers, monitor market opinions, financial press, equity & credit default swap prices and overlay this information on top of the credit ratings. This additional market information is detailed for Members' reference at Appendix 5.
- 5.10 In addition to the Council's list of high quality investment institutions, further factors will also be used in order to reduce any potential exposure of its investments including time and value limits as explained in more detail at Appendix 3 together with how much in total can be placed in non-UK institutions, Groups and Sectors which is shown in more detail at Appendix 5.
- 5.11 Investments will continue to be placed into three categories as follows;
- Short-term – cash required to meet known cash flow outgoings in the next month, plus a contingency to cover any unexpected transaction over the same period with bank call accounts, money market funds and certificates of deposits being the main methods used for this purpose.
  - Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and enhanced money market funds.
  - Long-term – cash not required to meet any forthcoming cash flow requirements which can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits, government bonds or the Local Authority Property Investment fund, after taking into consideration the forecasted interest rate yield curve.
- 5.12 The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded and will be limited to the Prudential Indicator detailed at Appendix 3.

- 5.13 A breakdown of the Council's investments as at 31 January 2016 is provided for reference at Appendix 6.
- 5.14 The Council is requested to approve;
- the adoption of above Investment strategy and
  - the minimum criteria for providing a list of high quality investment institutions, instruments and limits to be applied are highlighted at Appendix 3.

## 6. Investment Risk Benchmarking

- 6.1 The Code of Practice and DCLG Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to Members and these are explained in more detail in Appendix 5.
- 6.2 These benchmarks are simple guides to maximum risk (not limits) for use with cash deposits and so may be exceeded from time to time, depending on movements in interest rates and institution criteria. The purpose of the benchmark is to assist officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported to Members, with supporting reasons in the Mid-Year or Annual Report. For reference these benchmarks will be;
- Security - each individual year the security benchmark is:

| 1 year investments | 2 year investments | 3 year investments |
|--------------------|--------------------|--------------------|
| <b>0.077%</b>      | <b>0.056%</b>      | <b>0.077%</b>      |

Note - This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

- Liquidity – Weighted Average Life (WAL) - benchmark for 2016/17  
is set at 6 months, with a maximum of 3 years for cash time deposits  
  
Liquid short term deposits - at least £15m are available with a week's notice
- Yield - Internal returns are required to achieve above the 7 day London Interbank Deposit (LIBID) rate.

## 7. Prudential Indicators

- 7.1 A number of prudential indicators have been devised for both the treasury management and capital operations. These are designed to assist managing risk and reducing the impact of an adverse movement in interest rate as well as ensuring that the Council's capital expenditure plans are prudent, affordable and sustainable. These indicators have been set in order that they are not too restrictive thereby impairing the opportunities to reduce costs and reflect the capital programme proposals, included within the main budget report.
- 7.2 Members are requested to approve the Prudential Indicators for Council's treasury management activities as detailed at Appendix 3.

## **8. Recommendations**

That the Accounts & Audit Committee and Executive recommend to Council the key elements of this report for approval which are as follows;-

- policy on debt strategy for 2016/17 to 2018/19 as set out in section 3;
- investment strategy for 2016/17 to 2018/19 as set out in section 5;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), The Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

**Other Options**

This report has been produced in order to comply with Financial Procedure Rules and relevant legislation. It provides a plan of action for the period 2016/17 to 2018/19, which is flexible enough to take account of changes in financial markets.

**Consultation**

Advice has been obtained from Capita, the Council’s external advisors.

**Reasons for Recommendation**

The Financial Procedure Rules, incorporating the requirements of the revised CIPFA Prudential Code and the CIPFA Treasury Management Code requires that the annual strategy report is an essential control over treasury management activities whereby Members approve the parameters under which officers will operate. In addition The Local Government Act 2003 requires that the Council approves an annual borrowing limit (the Authorised Limit) and DCLG Guidance an annual investment strategy (setting out the limits to investment activities) prior to the commencement of each financial year.

**Key Decision**

This will be a key decision likely to be taken in: February 2016

This is a key decision currently on the Forward Plan: Yes

**Finance Officer Clearance**      *...ID... ..*

**Legal Officer Clearance**      *...HK .....*

**Director of Finance Signature** .....

## STATUTORY FRAMEWORK

### Local Government Act 2003

In accordance with the Local Government Act 2003 (and supporting regulations and guidance) each Council must before the commencement of each financial year, produce a report fulfilling three key requirements as stipulated below;

- The debt strategy in accordance with the CIPFA Code of Practice on Treasury Management (section 3);
- The investment strategy in accordance with the DCLG investment guidance (section 5);
- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix 3).

### CIPFA Code of Practice

The Council's treasury activities are strictly regulated by statutory requirements in conjunction with a professional code of practice (the CIPFA Treasury Management Code of Practice). This Council adopted the Code of Practice on Treasury Management on 24 April 2002 and followed recommended practices by considering an annual Treasury Management Strategy before the commencement of each financial year. These Codes are revised from time to time and the Council complies with any revisions.

CIPFA defines treasury management as *"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions(debt); the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"*.

### Investment Guidance

DCLG issued Investment Guidance in March 2010 and this forms the structure of the Council's policy below:

- The strategic guidelines for decision making on investments, particularly non-specified investments;
- Specified investments that the Council will use. These are high security (no guidelines are given defining what this should consist of and each individual Council is required to state what this should be i.e. high credit ratings), high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time;
- The principles to be used to determine the maximum periods for which funds can be committed.

**MAIN ECONOMIC HEADLINES DURING 2015/16****UK -**

- Annualised Gross Domestic Product (GDP) grew by 2.2% in 2015 and despite this being slower to that reported for 2014 of 2.9%, it is still one of the strongest economies of the developed nations;
- Consumer Price Index (CPI) was around 0% for the majority of 2015, with the latest position showing 0.20% for December 2015;
- Average weekly earnings were 3.0%;
- Monetary Policy Committee (MPC) left both the Bank Rate and Quantative Easing levels unchanged at 0.5% (the lowest level since 1692) and £375bn respectively;
- The level of unemployment benefit claimants fell to 5.2% in October 2015, it's lowest since May 2008 years.

**Eurozone –**

- GDP remains weak at 1.5% with concerns on how the slowdown in both the Chinese and Japanese economies will effect this;
- CPI continued to hover around 0% for 2015 and includes some countries with negative rate (deflation). The latest position for December was unchanged from that reported in November of 0.2%;
- Unemployment rate continues to be a problem at 10.7%;
- Greece continued to be a cause for concern but finally relented to EU demands for a major programme of austerity to be implemented, receiving a third bailout package of €86bn, its banking systems being damaged and holding a surprise general election. Concerns remain as to whether the size of cuts and degree of reforms required can be fully implemented thereby avoiding a Greek exit from the euro.
- European Central Bank in March 2015 commenced a €1.1 trillion programme of quantitative easing buying up high credit quality government and other debt of selected EZ countries which is intended to run to September 2016. Its central policy rate remains at 0.05%.

**US –**

- GDP is currently forecasted to be 2.1% for 2015;
- The Federal Reserve for the first time since 2008, increased the Bank rate in December by 0.25% to 0.50%;
- Unemployment levels fall to 5.0% in November 2015, their lowest levels in 7 years;
- CPI 0.2% in November 2015.

**Other –**

- China's Growth rate for 2015 was 6.9% the lowest level in 25 years. There are market concerns that recent growth figures have been massaged to mask a downturn to a lower growth figure. During the Summer months China's stock market encountered a period of falling prices.

- Japan is causing considerable concern as growth in quarters 2 & 3 shrank by 0.7% & 0.8% respectively pushing it back into recession for the fourth time in five years.

### MAIN ECONOMIC FORECASTS FOR 2016/17

Economic forecasting remains difficult, particularly with many so external influences affecting the UK and currently forecasters are predicting the following average levels of activity;

| Indicator                      | UK                                                     | Eurozone | US    | China |
|--------------------------------|--------------------------------------------------------|----------|-------|-------|
| <b>Growth Domestic Product</b> | 2.5%                                                   | 1.6%     | 2.2%  | 6.6%  |
| <b>Consumer Price Index</b>    | 1.2%                                                   | 0.4%     | 0.9%  | 2.3%  |
| <b>Unemployment Rate</b>       | 5.9%                                                   | 10.6%    | 5.1%  | 4.0%  |
| <b>Bank Rate</b>               | 0.75%<br>(0.25% increase to 0.75% expected Qtr 4 2016) | 0.05%    | 1.30% | 4.00% |

**ELEMENTS FOR COUNCIL APPROVAL**  
**(including Prudential and Treasury Indicators, Minimum Revenue Provision & Investment Criteria)**

In accordance with DCLG Guidance, the CIPFA Prudential Code and the CIPFA Code of Practice on Treasury Management each council is required to set, before the commencement of each financial year, Treasury Management Prudential Indicators and limits, a Minimum Revenue Provision Statement and Investment criteria.

**The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2016/17 – 2018/19 as detailed below.**

**TREASURY PRUDENTIAL INDICATORS AND LIMITS –**

In accordance with the CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the expected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and the Council is required to approve the prudential indicators and limits affecting treasury management performance as shown below;

|                                                                                                                                                                                                                                                                                                                                                                                                                            | 2015/16<br>estimate<br>£m | 2016/17<br>estimate<br>£m | 2017/18<br>estimate<br>£m | 2018/19<br>estimate<br>£m |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| <b>Upper Limits – Fixed interest rate exposure</b>                                                                                                                                                                                                                                                                                                                                                                         | 2.7                       | 3.1                       | 3.0                       | 2.7                       |
| <b>Upper Limits – Variable interest rate exposure</b>                                                                                                                                                                                                                                                                                                                                                                      | 3.2                       | 3.3                       | 3.3                       | 3.5                       |
| <b>Upper Interest Limits</b> – identifies the maximum limit for both fixed and variable interest rates exposure based upon the Council's debt position net of investments (debt interest payable less investment interest receivable).                                                                                                                                                                                     |                           |                           |                           |                           |
| <b>Authorised Limit for External debt</b>                                                                                                                                                                                                                                                                                                                                                                                  |                           |                           |                           |                           |
| -External debt (01.04)                                                                                                                                                                                                                                                                                                                                                                                                     | 140.0                     | 146.0                     | 144.0                     | 143.0                     |
| -Other long term Liabilities (PFI)                                                                                                                                                                                                                                                                                                                                                                                         | 6.0                       | 5.8                       | 5.6                       | 5.4                       |
| <b>Total</b>                                                                                                                                                                                                                                                                                                                                                                                                               | <b>146.0</b>              | <b>151.8</b>              | <b>149.6</b>              | <b>148.4</b>              |
| <b>Authorised external debt limit</b> - maximum level of external debt that the authority will require to cover all known potential requirements and includes headroom to cover the risk of short-term cash flow variations that could lead to a need for temporary borrowing. This limit needs to be set or revised by Council and is the statutory limit determined under section 3(1) of the Local Government Act 2003. |                           |                           |                           |                           |

|                                                                                                                                                                                                                                                                                                                                                                                                          | 2015/16<br>estimate<br>£m | 2016/17<br>estimate<br>£m | 2017/18<br>estimate<br>£m | 2018/19<br>estimate<br>£m |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| <b>Operational Boundary for External debt</b>                                                                                                                                                                                                                                                                                                                                                            |                           |                           |                           |                           |
| -External debt (01.04)                                                                                                                                                                                                                                                                                                                                                                                   | 125.0                     | 130.0                     | 130.0                     | 128.0                     |
| -Other long term Liabilities (PFI)                                                                                                                                                                                                                                                                                                                                                                       | 6.0                       | 5.8                       | 5.6                       | 5.4                       |
| <b>Total</b>                                                                                                                                                                                                                                                                                                                                                                                             | <b>131.0</b>              | <b>135.8</b>              | <b>135.6</b>              | <b>133.4</b>              |
| <b>Operational boundary</b> - calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year excluding any temporary borrowing and is not a limit.                                                                                                                                                             |                           |                           |                           |                           |
| <b>Upper limit for sums invested over 364 days</b>                                                                                                                                                                                                                                                                                                                                                       | <b>70</b>                 | <b>100</b>                | <b>100</b>                | <b>100</b>                |
| <b>Upper Limit for sums invested for over 364 days</b> – these limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment. Included within this limit are Manchester Airport Shares which at 31 March 2015 were independently valued at £41.0m and the Church Commissioners Local Authorities Property Investment Fund investment of £5m. |                           |                           |                           |                           |
| <b>Gross debt and Capital Financing Requirement</b>                                                                                                                                                                                                                                                                                                                                                      |                           |                           |                           |                           |
| -External debt (01.04)                                                                                                                                                                                                                                                                                                                                                                                   | 125.0                     | 130.0                     | 130.0                     | 128.0                     |
| -Other long term Liabilities (PFI)                                                                                                                                                                                                                                                                                                                                                                       | 6.0                       | 5.8                       | 5.6                       | 5.4                       |
| Gross debt                                                                                                                                                                                                                                                                                                                                                                                               | 131.0                     | 135.8                     | 135.6                     | 133.4                     |
| -C.F.R.                                                                                                                                                                                                                                                                                                                                                                                                  | 135.4                     | 144.0                     | 146.3                     | 141.0                     |
| <b>Excess C.F.R.</b>                                                                                                                                                                                                                                                                                                                                                                                     | <b>4.4</b>                | <b>8.2</b>                | <b>10.7</b>               | <b>7.6</b>                |
| <b>Gross Debt and the Capital Financing Requirement</b> – this indicator reflects that over the medium term, debt will only be for capital purposes. The Director of Finance will ensure that all external debt does not exceed the capital financing requirement with any exceptions being reported to Council.                                                                                         |                           |                           |                           |                           |
| <b>Maturity structure of borrowing – 2016/17 to 2018/19</b>                                                                                                                                                                                                                                                                                                                                              | <b>Lower limit %</b>      |                           | <b>Upper limit %</b>      |                           |
| Under 12 months                                                                                                                                                                                                                                                                                                                                                                                          | 0                         |                           | 70                        |                           |
| 12 months to 2 years                                                                                                                                                                                                                                                                                                                                                                                     | 0                         |                           | 30                        |                           |
| 2 years to 5 years                                                                                                                                                                                                                                                                                                                                                                                       | 0                         |                           | 30                        |                           |
| 5 years to 10 years                                                                                                                                                                                                                                                                                                                                                                                      | 0                         |                           | 30                        |                           |
| 10 years to 20 years                                                                                                                                                                                                                                                                                                                                                                                     | 0                         |                           | 30                        |                           |

| <b>Maturity structure of borrowing – 2016/17 to 2018/19 (cont.)</b>                                                                                                                                                                                                                                | <b>Lower limit %</b> | <b>Upper limit %</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| 20 years to 30 years                                                                                                                                                                                                                                                                               | 0                    | 30                   |
| 30 years to 40 years                                                                                                                                                                                                                                                                               | 0                    | 30                   |
| 40 years and above                                                                                                                                                                                                                                                                                 | 0                    | 35                   |
| <p><b>Maturity Structure of Borrowing</b> – these gross limits are set to reduce the Council’s exposure to large sums falling due for refinancing and this indicator reflects the next date on which the lending bank can amend the interest rate for the Lender Option Borrower Option loans.</p> |                      |                      |

All the treasury prudential indicators and limits are monitored on a regular basis. If the situation arises that any of these appear that they will be breached for a sustained period, then this will be reported to Council at the earliest opportunity.

**MINIMUM REVENUE PROVISION - (no change from the policy approved January 2016 by Council)**

In accordance with DCLG Guidance, the Council shall determine for the current financial year, an amount of minimum revenue provision that it considers to be prudent and submit an MRP Statement setting out its policy for its annual MRP to Council for approval. The following MRP Statement has been prepared in accordance with the Council’s accounting procedures and is recommended for approval:

- Capital expenditure incurred before 1 April 2008 financed by Supported Borrowing: MRP will be calculated on a straight line basis over the expected average useful life of the assets (50yrs);
- Capital expenditure incurred after 1 April 2008 financed by Prudential Borrowing: MRP will be based on the estimated life of the assets once operational charged on a straight line basis or annuity basis in accordance with the Guidance;
- PFI schemes and leases shown on the balance sheet: MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure this final bullet payment can still be made in 2028/29
- For expenditure that does not create an asset, or following the use of a Capitalisation Direction: provision will be made over a period not exceeding 20 years, in accordance with Guidance.
- In instances where the Council incurs borrowing and a third party is obliged to repay the principal (serviced debt arrangements): the Council will not charge MRP to the revenue account. An example of such an instance can be demonstrated when the Council participated in the national Local Authority Mortgage Scheme using the cash backed option with Lloyds bank. This involved the Council placing a five year deposit totalling £1m, in 2013/14, with the bank matching the five year life of the indemnities. This deposit provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The C.F.R.will increase by the amount of the total indemnity. The deposit is due to be returned in full at maturity and once received will be classed as a capital receipt, and the CFR will reduce

accordingly. As this is a temporary (five years) 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.

## **INVESTMENT CRITERIA – (recommended changes as highlighted)**

### **Counterparty Selection**

The minimum criteria for providing a list of high quality investment counterparties is highlighted in the categories 1 to 4 below and are to be applied for both Specified (maximum period 1Year) and Non-specified investments (maximum period 3 Years). Category 5 & 6 applies only to The Church Commissioners Local Authorities Property Investment fund and Greater Manchester Pension fund respectively;

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>Fitch (or equivalent) – Long Term</b> | <b>Maximum Group Limit</b> | <b>Maximum Time Limit</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|----------------------------|---------------------------|
| <b>Category 1 –</b><br>All UK or Non UK banks with their subsidiaries which meet the necessary ratings or has a parent bank guarantee in place and building societies domiciled in a non-UK country which has a minimum Sovereign long term rating of AA- and individual credit rating issued by Fitch, Moody's and Standard and Poor's of: <ul style="list-style-type: none"> <li>• Short Term – Fitch F1 or equivalent</li> <li>• Long Term – Fitch A- or equivalent</li> </ul> This amendment is reflective that the rating agencies have concluded their reassessment of their ratings under their revised methodologies. This action has generated more certainty over underlying ratings thereby allowing the Council to become more prescriptive in the limits it applies. Importantly there is no change to the minimum credit rating required. | AA to AAA                                | £20m                       | 3yrs                      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | A+ to AA-                                | £10m                       | 1Yr                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | A- to A                                  | £5m                        | 1yr                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Current limit                            |                            |                           |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | AA to AAA                                | £20m                       | 3yrs                      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | A- to AA-                                | £5m                        | 1yr                       |
| <b>Category 2 –</b><br>UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | -                                        | £20m                       | 1yr                       |
| <b>Category 3 –</b><br>The Council's own banker for transactional purposes if the bank falls below the above criteria.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | -                                        | n/a                        | 1day                      |
| <b>Category 4 –</b> <ul style="list-style-type: none"> <li>• Money Market Funds – must be AAA credit rated</li> <li>• Enhanced Money Market Funds – must be AAA credit rated</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | -                                        | £20m                       | 3yrs                      |

|                                                                                                                                                                                                                                          |   |      |       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|------|-------|
| <ul style="list-style-type: none"> <li>• UK Government (including treasury bills, gilts and the DMO)</li> <li>• Local Authorities</li> <li>• Supranational Institutions</li> <li>• Corporate bonds (Manchester Airport Group)</li> </ul> |   |      |       |
| <b>Category 5 –</b><br><ul style="list-style-type: none"> <li>• Local Authority Property Investment fund</li> </ul>                                                                                                                      | - | £10m | 10yrs |
| <b>Category 6 –</b><br><ul style="list-style-type: none"> <li>• Greater Manchester Pension Fund</li> </ul>                                                                                                                               | - | £50m | 3yrs  |

### Specified and Non Specified Investments – (recommended changes as highlighted)

In accordance with the Code of Practice, the Council is required to set a criteria which identifies its investments between Specified and Non Specified investments and these are classified as follows;

- Specified investments are high security and high liquidity investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. All investments can be held under this definition,
- Non specified investments are any other type of investment not defined as specified above. A maximum of £70m is permitted to be held in this classification as detailed in Appendix 3, Prudential Indicator (5) Upper limit for sums invested over 364 days and
- Local Authority Mortgage Scheme. Under this scheme, which is designed for first time buyers to be able purchase a property in the area, the Council is required to place funds of £3m with Lloyds bank for a period of 5 years to match the 5 year life of the indemnity. This is classified as being a service investment, rather than a treasury management investment and is therefore outside of the specified / non specified categories.

### Instruments & Maximum period

All Investments will be undertaken in Sterling in the form of Term Deposits, Money Market Funds, Treasury Bills, Gilts or Certificates of Deposits unless otherwise stated below.

### Specified Investments

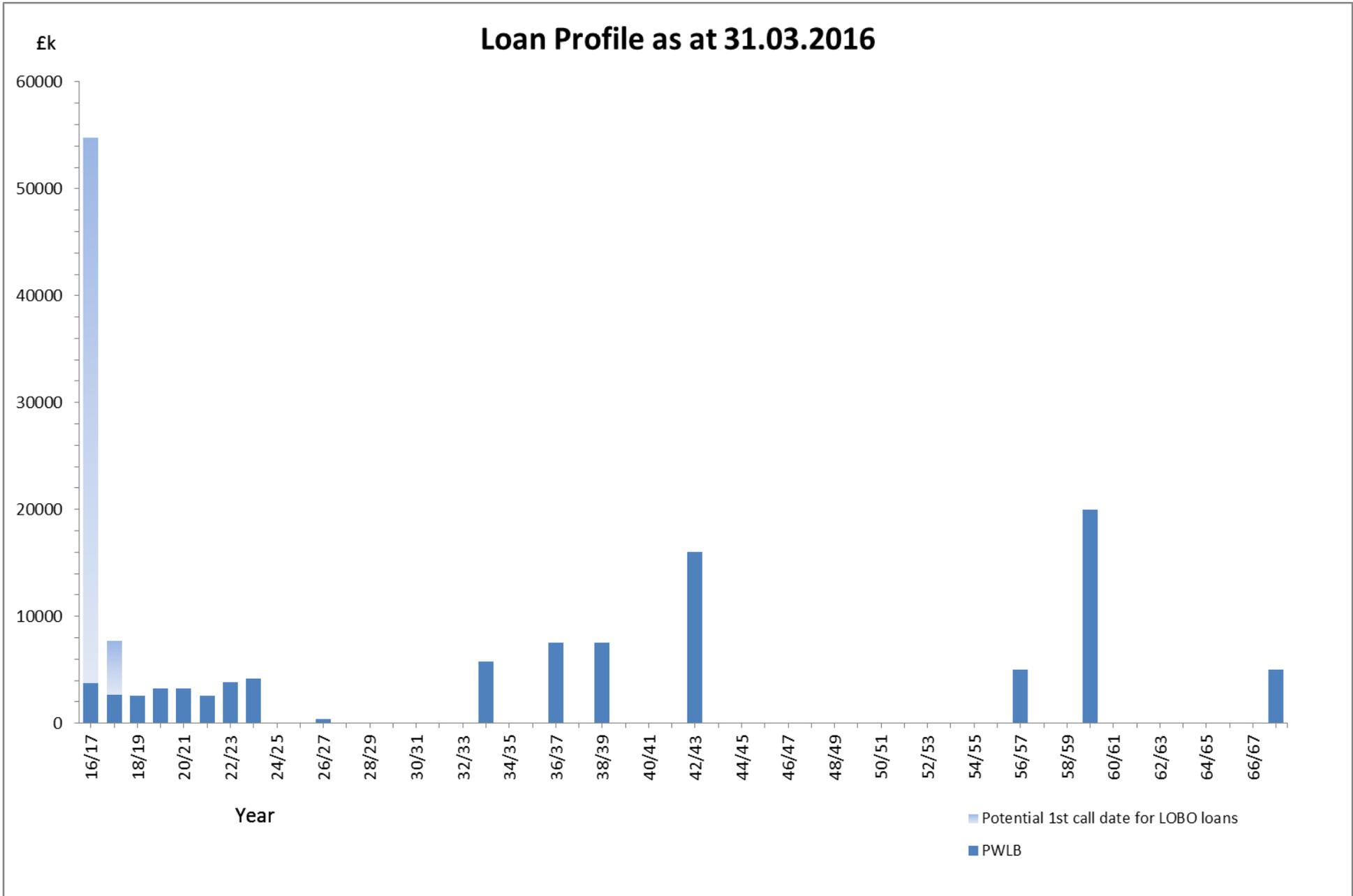
| Investment                                                                                | Maximum Maturity |
|-------------------------------------------------------------------------------------------|------------------|
| <b>The UK Government</b> including Local Authorities and Debt Management Office.          | 1 Year           |
| <b>Supranational bonds</b> of less than one year duration (e.g. European Investment Bank) | 1 Year           |

|                                                                                                                                                                       |        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>Pooled investment vehicles</b> that have been awarded a AAA credit rating by Fitch, a credit rating agency, such as money market funds                             | 1 Year |
| <b>An institution</b> that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society. | 1 Year |

### Non-Specified Investments

| <b>Investment</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>Maximum Maturity</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| <p><b>Multilateral development bank bonds</b> - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).</p> <p>The security of interest and principal on maturity is on a par with the Government and so are very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p> | 3 Years                 |
| <p><b>Gilt edged securities</b> with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>                                                                                                                                                                                                                                                                    | 3 Years                 |
| <p><b>The Council's own bank</b> if it fails to meet the basic credit criteria with balances being kept to a minimum.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 1 Day                   |
| <p><b>UK Banks which have significant Government holdings</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 1 Year                  |
| <p><b>Any bank or building society</b> which meets the minimum long term credit criteria detailed in Appendix 3, for deposits with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment).</p>                                                                                                                                                                                                                                                                                                                                     | 3 Years                 |
| <p><b>The UK Government</b> including Local Authorities and Debt Management Office.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 3 Years                 |
| <p><b>Any non-rated subsidiary</b> of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to being guaranteed from the parent company and is included for clarity and transparency purposes.</p>                                                                                                                                                                                                                                                                                              | 3 Years                 |
| <p><b>Share capital or loan capital</b> in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £41m as reported in the 2014/15 statement of accounts. It is not envisaged that this type of investment will be undertaken in the future.</p>                                                                                                  | Unspecified             |

|                                                                                                                                                                                                                                                           |                      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| <p><b>Manchester Airport Group</b> – This is in response to the restructuring of the airports existing debt and is included for clarity and transparency purposes only.</p>                                                                               | <p>Term of loans</p> |
| <p><b>Church Commissioners Local Authorities Property Investment Fund</b> - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.</p> | <p>10 Years</p>      |



**INVESTMENT CREDIT AND INSTITUTION RISK MANAGEMENT**

The Council receives credit rating advice from its treasury management advisers, as and when ratings change and institutions are checked promptly to ensure it complies with the Council's criteria. The criteria used are such that any minor downgrading should not affect the full receipt of the principal and interest. Any institution failing to meet the criteria, or those on the minimum criteria placed on negative credit watch, will be removed from the list immediately, and if required new institutions which meet the criteria will be added to the list.

| Classification | Description                                                                                  | Credit Rating Agency                                |                                              |                                                |
|----------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------|------------------------------------------------|
|                |                                                                                              | Fitch<br>(Minimum)                                  | Moody's<br>(Minimum)                         | Standard & Poors<br>(Minimum)                  |
| Short Term     | Ensures that an institution is able to meet its financial obligations within 12 months       | F1<br><br>(Range <b>F1+</b> ,<br><b>F2 A to D</b> ) | P1<br><br>(Range <b>P1</b> to<br><b>P3</b> ) | A1<br><br>(Range <b>A-1</b> ,<br>to <b>C</b> ) |
| Long Term      | Ensures that an institution is able to meet its financial obligations greater than 12 months | A-<br><br>(Range <b>AAA</b><br>to <b>D</b> )        | A3<br><br>(Range <b>AAA</b><br>to <b>C</b> ) | A-<br><br>(Range <b>AAA</b><br>to <b>CC</b> )  |

**Investment Institution information.**

Whilst the Council's Investment institutions list is prepared primarily using credit rating information, full regard will also be given to other available information on the credit quality of each institutions in which it invests. The information below will continue to be considered when undertaking investments;

- Credit default swaps - CDS created in 1997 and are a financial instrument for swapping the risk of debt default. Essentially the owner of the position would enter into an agreement with a third party who would receive a payment in return for protection against a particular credit event – such as default. Whilst absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.
- Equity prices – like CDS prices, equities are sensitive to a wide array of factors and a decline in share price may not necessarily signal that the institution in question is in difficulty.
- Interest rates being paid - If an institution is offering an interest rate which is out of line with the rest of the market this could indicate that the investment is likely to carry a high risk.
- Information provided by management advisors – this is may include some information detailed above together with weekly investment market updates.
- Market & Financial Press information – information obtained from the money market brokers used by the Council in respect of interest rates & institutions will also be considered.

No investment will be made with an institution if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

### Investment Limits

In order to safeguard the Council's investments and in addition to the information shown at Appendix 3, due care will be taken to consider country, group and sector exposure as follows;

- **Country** – this will be chosen by the credit rating of the Sovereign state as shown at Appendix 3 and no more than 40% of the Council's total investments will be directly placed with non-UK counterparties at any time;
- **Group** – this will apply where a number of financial institutions are under one ownership (e.g. Royal Bank of Scotland / Nat West) and the Group limit will be the same as the individual limit for any one institution within that group;
- **Sector** limits will be monitored regularly for appropriateness.

### Investment Risk benchmarking

Security and liquidity benchmarks are central to the approved treasury strategy through the institution selection criteria and proposed benchmarks for these are set out below.

**Security** - A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table below shows average defaults for differing periods of investment grade products for each Fitch/Moody's and Standard and Poors long term rating category over the period 1981 to 2014.

| Long term rating | Average 1 yr default | Average 2 yr default | Average 3 yr default | Average 4 yr default | Average 5 yr default |
|------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>AAA</b>       | <b>0.000%</b>        | <b>0.014%</b>        | <b>0.051%</b>        | <b>0.099%</b>        | <b>0.165%</b>        |
| <b>AA</b>        | <b>0.027%</b>        | <b>0.056%</b>        | <b>0.077%</b>        | <b>0.140%</b>        | <b>0.205%</b>        |
| <b>A</b>         | <b>0.077%</b>        | <b>0.215%</b>        | <b>0.367%</b>        | <b>0.517%</b>        | <b>0.699%</b>        |
| <b>BBB</b>       | <b>0.235%</b>        | <b>0.685%</b>        | <b>1.191%</b>        | <b>1.788%</b>        | <b>2.422%</b>        |
| <b>BB</b>        | <b>1.219%</b>        | <b>3.242%</b>        | <b>5.341%</b>        | <b>7.311%</b>        | <b>9.139%</b>        |
| <b>B</b>         | <b>4.062%</b>        | <b>8.822%</b>        | <b>12.716%</b>       | <b>16.245%</b>       | <b>19.155%</b>       |
| <b>C</b>         | <b>24.031%</b>       | <b>31.915%</b>       | <b>37.727%</b>       | <b>41.538%</b>       | <b>45.215%</b>       |

The Council's minimum long term rating criteria is currently "A", meaning the average expectation of default for a one year investment in an institution with a "A" long term rating would be 0.077% of the total investment (e.g. for a £1m investment the average loss would be £770). This is only an average as any specific institution loss is likely to be higher.

**Liquidity** – The CIPFA Treasury Management Code of Practice defines this as *“having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of its business/service objectives”*.

The availability of liquidity and the period of risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio (shorter WAL would generally represent less risk).

## INVESTMENT &amp; EXTERNAL DEBT POSITION AS AT 31.01.2016

|                                            | Principal<br>£m | Average Rate<br>% |
|--------------------------------------------|-----------------|-------------------|
| <b>DEBT</b>                                |                 |                   |
| <b>Fixed rate:</b>                         |                 |                   |
| - PWLB                                     | 37.2            | 6.97              |
| - Market                                   | 5.0             | 4.41              |
| <b>Sub-total</b>                           | <b>42.2</b>     | <b>6.67</b>       |
|                                            |                 |                   |
| <b>Variable rate:</b>                      |                 |                   |
| - PWLB                                     | 0.0             | 0.0               |
| - Market                                   | 51.0            | 5.52              |
| <b>Sub-total</b>                           | <b>51.0</b>     | <b>5.52</b>       |
| <b>Total debt</b>                          | <b>93.2</b>     | <b>6.04</b>       |
|                                            |                 |                   |
| <b>INVESTMENTS</b>                         |                 |                   |
| - Fixed rate                               | (69.5)          | 0.90              |
| - Variable rate                            | (33.6)          | 1.03              |
|                                            |                 |                   |
| <b>Total Investments</b>                   | <b>(103.1)</b>  | <b>0.95</b>       |
|                                            |                 |                   |
| <b>NET ACTUAL DEBT /<br/>(INVESTMENTS)</b> | <b>(9.9)</b>    |                   |