SPECIAL COUNCIL - 24TH FEBRUARY 2016

SUBJECT: **TREASURY MANAGEMENT ANNUAL STRATEGY, CAPITAL FINANCE PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY FOR 2016/2017**

REPORT BY: **ACTING DIRECTOR OF CORPORATE SERVICES & S151 OFFICER**

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1. PURPOSE OF REPORT

1.1 To submit for approval the Authority's Annual Strategy for Treasury Management.

1.2 To submit for approval a dataset of Prudential Indicators relevant to Treasury Management and Capital Finance. The report also cross-references to the report by the Acting Director of Corporate Services & S151 Officer on Revenue and Capital Budgets ["the budget report"] also considered in this meeting.

1.3 To seek approval for the Minimum Revenue Provision (MRP) policy to be adopted by the Authority for 2016/2017.

2. SUMMARY

2.1 The revised (2011) "Code of Practice for Treasury Management in the Public Services" provides that an Annual Strategy be submitted to Members on or before the start of a financial year to outline the activities planned within the parameters of the Treasury Management Policy Statement and the Treasury Management Practices.

2.2 The Local Government Act 2003 (the '2003 Act') also requires the Authority to set out its Treasury Management Strategy for borrowing for the forthcoming year and to prepare an Annual Investment Strategy, which sets out the policies for managing its investments, giving priority to the security and liquidity of those investments.

2.3 Under Section 15 of the '2003 Act', the Welsh Government (WG) issued guidance on local government investments which is incorporated within the report. Definitions of Local Government investments are given in Appendix 1.

2.4 Under the provisions of the Local Government Act 2003, The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 and subsequent amendments [The Capital Regulations], and the CIPFA's "The Prudential Code for Capital Finance in Local Authorities" [the Code], the Authority is obliged to approve and publish a number of indicators relevant to Capital Finance and Treasury Management.

2.5 With effect from 31 March 2008, WG introduced the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 [the "Amendment Regulations"] which requires the Authority to prepare an Annual Minimum Revenue Provision Policy Statement. This report sets out what the Authority needs to do in order to comply with this requirement.

3. LINKS TO STRATEGY

3.1 The report has links to the strategic themes of the Authority, taking into account cross-cutting issues where relevant. It has specific links to the effective and efficient application and use of resources.

4. THE REPORT

4.1 The format of the report is as follows:

Section 5 will deal with Treasury Management, supported by, and cross-referenced to Appendices 1 to 5 attached.
Section 6 discloses the Authority's policy on financial derivatives.
Section 7 and 8 deal with Treasury Management Adviser and training respectively.
Section 9 will consider the Prudential Indicator requirements for Capital Finance, cross-referenced to Appendices 6 to 7 attached.
Section 10 will consider the calculation of the Minimum Revenue Provision, cross-referenced to Appendix 8 attached.
Section 11 will deal with specific treasury management issues relating to the Authority.

5. TREASURY MANAGEMENT

5.1 Interest Rate Prospects - Short-term

5.1.1 The Authority uses Arlingclose Limited as its Treasury Management Adviser and part of their service is to assist the Authority to formulate a view on interest rates.

5.1.2 The Monetary Policy Committee [MPC] decreased Bank Rate in March 2009 to 0.50% as part of the Government's strategy to stimulate the economy. No further changes to the Bank Rate have been made since then.

5.1.3 There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. Consumption will continue to be supported by real wage and disposable income growth. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and household's disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC. Whilst business investment indicators continue to signal strong growth, the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainty surrounding global growth and financial market shocks. Inflationary pressure is likely to remain low in the short-term and a rise in the CPI rate is likely to be towards the end of 2016. China's economy is performing below expectations as growth slows down, thus reducing the demand for commodities. This will affect China's trading partners. The devaluation in the Chinese currency will keep Sterling strong against many other currencies and depress imported inflation. The US continues on an upward path in recovery that has resulted in the Federal Reserve raising interest rates in December 2015 by 0.25%.

5.1.4 As the UK economy is showing signs of positive growth and recovery the first rise in official interest rates is forecasted to be in September 2016 and a slow pace of increases thereafter, with the average for 2016/17 being around 0.75%. It is anticipated that the UK Bank Rate will settle around 2% or 3% in several years' time. Persistently low inflation, the ongoing weakness in the Eurozone economic recovery, and the slowdown in the Chinese economy could result in the Bank of England deferring the interest rate rise, and potentially reduce the Bank Rate to 0.25%. A table showing forecasts of the Bank Rate is included in Appendix 2.

5.2 Interest Rate Prospects - Long-term

5.2.1 The general view is that Public Works Loan Board [PWLB] rates are likely to follow an upward trend and increase in the medium-term. The delay in the rise of UK and US interest rates will result in short-term volatility in gilt yields. A forecast of the various periods is shown in Appendix 2.

5.3 External Debt - Capital Borrowings and Borrowing Portfolio Strategy

5.3.1 The difference between current long-term borrowing rates and short-term investment rates has resulted in a “cost of carry” scenario, indicating that it is more advantageous to use internal funding in lieu of borrowing. The cost of carry is likely to remain an issue until the Bank Rate and short term market rates increase in the future. The Authority, having adopted the policy of internal borrowing from the latter half of 2008/09, has an internal borrowing position of £8m (as at 31st March 2015) from which capital expenditure has been funded. Unless the policy is prudent, the Authority will no longer adopt the policy of internal borrowing. It is anticipated that the borrowing requirement of some £9.2m will need to be taken up in 2016/17 for the General Fund to support the capital programme and provision has been made in the budget to fund this level of borrowing. A further £5.0m of 2015/16 borrowing approvals will be carried forward into 2016/17 as no new loans were raised in 2015/16 to support the capital programme.

5.3.2 Therefore the total 2016/17 borrowing requirement will comprise of:

- 2016/17 supported borrowing approvals - £5.0m
- 21st Century Schools LGBI- £4.2m
- 2015/16 supported borrowing approvals- £5.0m

The LGBI borrowing is funded by WG contributions to support the 21st Century Schools capital programme. There is no borrowing requirement in 2016/17 for the HRA WHQS programme as this will be funded from internal reserves and the MRA grant.

5.3.3 Whilst PWLB interest rates have been included in Appendix 2, it is possible that loans may be taken from other sources if interest rates are more advantageous. It is suggested that the target rate for new borrowing be set at 4.50% for a 25 year period loan.

5.3.4 Current PWLB forecasts suggest interest rates are likely to increase throughout 2016/17. In the event that the Authority decides to fund the 2016/17 capital expenditure from internal reserves, the decision to defer borrowing could expose the Authority to rising interest rates thus making it expensive to borrow at a later date. A budget to cover the cost of raising new debt finance will remain in place irrespective of the decision to borrow internally or externally.

5.3.5 Any short-term funding would need to be in line with the ‘Upper Limit for Variable Rates’ as defined in the prudential indicators in Appendix 6 (30% of Net Debt Outstanding) within the CIPFA “Prudential Code for Capital Expenditure in Local Government”.

5.3.6 Officers, in conjunction with the Treasury Management Adviser, will continue to monitor both the prevailing rates and the market forecasts, responding to changes when necessary. The following borrowing sources will be considered by the Authority to fund short-term and long-term borrowing (and in no particular order):

- Internal reserves
- Public Works Loan Board (PWLB) {or its successor}
- Local Authorities
- European Investment Bank (NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB’s specific criteria. The project cost must also be at least €25m)
- Leasing

- Capital market bond investors
- Other commercial and not for profit sources
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- UK Municipal Bonds Agency and other special purpose companies created to enable local authority bond issues

5.3.7 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

5.3.8 The Authority may borrow short-term loans (up to twelve months) to cover unexpected cashflow shortages.

5.3.9 **PWLB Reform-** Members will need to be made aware that HM Treasury, under legislative powers, will abolish the PWLB in order to address the current governance structure. The Authority has been advised that this development will not have any impact on existing PWLB loans held by local authorities or effect new loans being raised. HM Treasury have stressed that local authorities will continue to access the same level of facilities and terms from the new successor body. The benefit of the changes in the governance structure will allow HM Treasury to intervene in policy and rate setting, as well as the possible introduction of frequent daily rate resets (currently done twice a day by the PWLB). A consultation document will be issued in due course and Members will be advised accordingly.

5.3.10 **LGA Bond Agency:** The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to cabinet. At present only English Authorities are allowed to raise funding through this arrangement.

5.4 Authorised Limit for External Debt (The Authorised Limit)

5.4.1 As a consequence of 5.3.1 to 5.3.8 above**,** the Authorised Limit will be the upper limit of the Authority's borrowing, based on a realistic assessment of risks. It will be established at a level that will allow the Authority to borrow sums, in excess of those needed for normal capital expenditure purposes in the event that an exceptional situation arises and would allow for take-up of supported borrowing. It is not a limit that the Authority would expect to borrow up to on a regular basis.

5.4.2 The limit will include borrowing and other long-term liabilities such as finance leases, private finance schemes and deferred purchase schemes.

5.5 The Operational Boundary

5.5.1 This is based on the maximum level of external debt anticipated to be outstanding at any time in each year. It will be consistent with the assumptions made in calculating the borrowing requirements of the capital programme, but will also include an estimate of any borrowing for short term purposes, such as temporary shortfalls in incomes or to support active treasury management which would seek to take advantage of beneficial interest rate movements. It also allows for other long-term liabilities such as finance leases, private finance schemes and deferred purchase schemes.

5.5.2 The Operational Boundary should be set at a level which allows some flexibility but should be sufficiently below the Authorised Limit so that any breach of the operational boundary provides an early warning indicator of a potential breach of the Authorised Limit, allowing corrective action to be taken.

5.6 Interest Rate Exposure

5.6.1 The Authority's borrowing policy makes use of both fixed and variable rate opportunities. Whilst fixed-rate borrowing and investment provides certainty with regard to future interest rate fluctuations, the flexibility gained by the use of variable interest rate instruments can aid performance. It allows the Treasury Manager to respond more quickly to changes in the market and to short term fluctuations in cash flow without incurring the penalties that would result from the recall of fixed rate investments.

5.7 Maturity Structure of Borrowing

5.7.1 Whilst the periods of loans are dictated by the interest rates prevalent at the time, it is important to be mindful of the maturity profile of outstanding debt. Large 'peaks' are to be avoided, as it is possible for substantial loans to reach maturity at times when prevailing interest rates are high, and conversely, when interest rates are low, windows of opportunity may be lost.

5.7.2 As a result, it is necessary to determine both an upper and lower limit for borrowings which will mature in any one year.

5.7.3 Over the course of the medium term financial plan and future years, a number of high interest rate PWLB loans will mature resulting in a saving to the Authority as the interest rate on replacement loans are likely to be lower in comparison.

5.7.4 Historically, the Authority has favoured PWLB loans with a twenty five year loan maturity profile, but in the current climate of low interest rates (including Bank Rate); the Authority will also consider shorter dated loans (including local authority borrowing) to fund capital expenditure.

5.7.5 The Authority has £40m of LOBO loans (Lender's Option Borrower's option) of which £20m of these can be "called" within 2016/17. A LOBO is called at its contract review date when the Lender is able to amend the interest rate on the loan at which point the Borrower can accept the new terms or reject and repay the loan. Any LOBOs called will be discussed with the Treasury Management Adviser prior to acceptance of any revised terms. Depending on the advice received, the Authority will consider, in the event of a repayment, the use of its cash investments balances or raising new debt to repay the loan.

5.8 Gross Debt and the Capital Financing Requirement

5.8.1 A further requirement of the revised Prudential Code is to ensure that over the medium term debt will only be for a capital purpose, the Authority will ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

5.9 Debt Rescheduling

5.9.1 Due to the difference in the rates, it is unlikely that there will be many viable opportunities to reschedule loans (General Fund and the HRA) in the foreseeable future. However, should any such opportunities arise; any decision on debt rescheduling will be supported by the appropriate report detailing the options and potential savings from the Authority's Treasury Management Adviser.

5.10 Policy on Borrowing In advance of Need

5.10.1 Whilst the Authority is able to borrow in advance of need, it is a requirement of the Code that any instance of pre-funding must be supported by a clear business case setting out the reasons for such activity.

5.11 Annual Investment Strategy

5.11.1 The CIPFA Code and the Welsh Government Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

5.11.2 Current strategy (2015/16) - At present the Authority lends to financial institutions, corporates and the UK Government using a range of financial instruments to diversify risk. These include unsecured corporate bonds; covered bonds (secured); fixed term deposits; certificate of deposits (CDs); T-Bills; the DMADF (DMO) and call accounts.

5.11.3 The 2016/17 Investment Strategy will continue with the lending approach as set out in the 2015/16 Strategy.

5.11.4 This Strategy (2016/17), in line with the Welsh Government guidance, sets out the Authority's policies for (and in order of priority) the security, liquidity and yield of its investments. It will have regard to credit ratings and determine the periods for which funds may be prudently invested, whilst aiming to achieve, or better a target rate for investments of **0.25%.** Creditworthiness approach, investment periods and the rationale for the target rate are explained in ***Appendix 3.*** The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.11.5 The strategy sets out which investments the Authority may use for the prudent management of its balances during the financial year within the areas of 'specified' and 'non-specified' investments, and provides the appropriate authorisation for the in-house investment team to manage such investments. These are listed in ***Appendix 4.***

5.11.6 The transposition of two European Union directives into UK legislation will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promote the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank.

5.11.7 The increase in risk stemming from European regulations associated with Bank Bail-In, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2016/17. Short-term cash that is required for liquidity management will be deposited with local authorities (secured), Government securities (secured), money market funds (unsecured) and bank and building society investments (unsecured). Up to £50m will be made available for long-term investments.

5.11.8 In view of the ongoing economic recovery, and change in bank regulations, it is recommended that investments (both new and maturing) be placed with the most secure institutions as well as the most secure instruments (subject to liquidity requirements) as detailed in ***Appendix 3***. Currently this would be the Government (Debt Management Account Facility and Treasury Bills and Gilts), other Local Authorities and Public Bodies, such as Police and Fire Authorities, AAA rated covered bonds, Repos, Registered Landlords, AAA Money Market Funds, and highly credit rated banks (subject to the creditworthiness limits referred to in the appendix 3). In light of Statutory and regulatory changes being adopted by the Bank of England and Regulators with respect to Bail-In, it is recommended that the Authority moves away from unsecured lending (where possible and subject to liquidity requirements) to secured investments. Bank bail-in is explored further in Appendix 3.

5.11.9 The Welsh Government maintains that the borrowing of monies for the purposes of investing or on-lending to benefit from differences in interest rates is unlawful. This Authority will not engage in such activity.

5.11.10 Under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004 regulation 12(b), the acquisition of share or loan capital in any body corporate would not be defined as capital expenditure as long as it is an investment for the purposes of the prudent management of the Authority's financial affairs. Due to the high risk of capital loss involved with such instruments, this Authority will not engage in such activity.

5.11.11 A loan or grant to another body for capital expenditure by that body is also deemed by the 2003 Regulations to be capital expenditure by the Authority. This Authority will only engage in such activity with the approval of Council.

5.11.12 In the event that any existing investment appears to be at risk of loss, the Authority will make proper revenue provision of an appropriate amount in accordance with the relevant Accounting Regulations.

5.11.13 At the end of the financial year, the Authority will prepare a report on its investment activity as part of its Annual Treasury Management Strategy Report. This report will be supported throughout the year by quarterly monitoring reports to the Policy & Resources Scrutiny Committee (the responsible body for scrutiny of Treasury Management activities as required by the Code), which will include a review of the current strategy. A report to Council will also be prepared on a half-yearly basis.

5.11.14 It is a fundamental requirement of the Code that officers engaged in Treasury Management follow all Treasury Management policies and procedures and all activities must comply with the Annual Strategy.

5.11.15 The Welsh Government has reservations with regard to borrowing in advance of need on the grounds that more money than is strictly necessary is likely to be put at risk in the investment market. As a result Officers must report any investment made as a result of borrowing in advance and must set out the maximum period for which the funds can be prudently committed. In the event that this Authority decides to take up such borrowing, it is suggested that any deposit made with these funds be limited to a maturity period of up to twelve months and pro-rata to coincide with the profiling of capital expenditure.

6. POLICY ON USE OF FINANCIAL DERIVATIVES

6.1 The Localism Act 2011 includes a general power of competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the Annual Treasury Management Strategy.

6.2 In the absence of any legislative power, the Authority's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall risk management strategy.

7. TREASURY MANAGEMENT ADVISER

7.1 The Authority has appointed Arlingclose Limited as its external Treasury Management Adviser and receives a number of services including specific advice on investment, debt and capital finance issues; counterparty advice; economic forecasts and commentary; workshops, training and seminar events; and technical advice (including accountancy).

8. TREASURY MANAGEMENT TRAINING

8.1 The revised CIPFA Code, adopted by the Authority in January 2012, requires that Local Authorities must ensure that all staff and those Members with responsibility for Treasury Management receive the appropriate training. To this end the following will be observed:

- The contracts for Treasury Consultancy Services include requirements for Member and Officer training to be provided during any year.
- Officers will attend any courses/seminars that are appropriate especially where new regulations are to be discussed.
- Officers will update Members during the financial year by way of seminars/workshops/reports.
- Officers will utilise on line access to the CIPFA Treasury Forum and the CIPFA Technical Information Service.

8.2 Officers will look to schedule Member training for autumn 2016. Further training will be undertaken as and when required.

9. PRUDENTIAL INDICATORS

9.1 Capital Financing Requirement

9.1.1 The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the authority does not associate borrowing with particular items or types of expenditure.

9.1.2 The capital financing requirement is below the authorised borrowing limits in order to allow scope for short-term cash flow borrowing and provision for unforeseen contingencies.

9.1.3 The estimated values of Capital Financing Requirement for the period under review are shown in *Appendix 6* attached.

9.2 Prudential Indicators – "Prudence"

9.2.1 The proposed Prudential Indicators for Treasury Management Strategy, discussed in 5.4, are detailed in *Appendix 5*.

9.3 Prudential Indicators – "Affordability" [*Appendices 6 and 7*]

9.3.1 There is a requirement to analyse and report the capital financing costs, and express those costs as a percentage of the net revenue streams of the Authority.

9.3.2 The estimate of the incremental effect on council tax and housing rents for 2016/17 as a consequence of the proposed capital investment is shown in *Appendix 6*. It should be noted that this is a notional, not an actual, figure.

9.3.3 The General Fund future revenue streams are based upon the content of "the Budget Report".

9.3.4 Future revenue streams for Housing Revenue Account (H.R.A.) have been projected on the basis of 4% inflation (2% inflation and 2% growth) applied to the rental income (using 2015/16 as a base), less an adjustment for estimated reduction in housing stock as a result of the "Right to Buy" sales.

9.4 Capital Expenditure and Funding

9.4.1 The summary Capital Expenditure and funding, as shown in *Appendix 7* of this report has been considered in "the Budget Report".

9.4.2 The Revenue Support Grant (RSG) provided by the Welsh Government (WG) includes an element to off-set the costs of borrowing funds for capital purposes. WG has announced an indicative level of supported borrowings of £4.99m in respect of the 2016/17 financial year, together with General Capital Grant funding of £3.04m.

9.4.3 For calculation purposes, it has been assumed that those two elements of funding support will remain static for 2017/18 and for 2018/19. HRA provisional values for the years 2016-2019 are based on the 2016/17 allocation of the Major Repairs Allowance of £7.35m and assumed to continue at this level for future years.

10. MINIMUM REVENUE PROVISION (MRP)

10.1 In accordance with the Amendment Regulations, rather than applying a defined formula, the Authority is now only required to apply a charge that is 'prudent'. A "prudent" period of time for debt repayment is defined as one which reflects the period over which the associated capital expenditure provides benefits.

10.2 The Amendment Regulations also introduced an additional reporting requirement. Authorities are now required to submit to full Council, for approval, an Annual MRP Statement, setting out the policy to be adopted for the year following.

10.3 A different approach to MRP calculation is now applied depending upon whether the borrowing concerned is "supported" (for which the revenue implications are provided for by WG in the annual revenue settlement) or "unsupported" (also known as "prudential", the revenue effects of which are not provided for in the settlement and authorities must fund from other sources). The options available and the recommended approach for 2016/17, which continues the policy approved by Council for 2015/2016, are detailed in Appendix 8.

11. OTHER LOCAL ISSUES

11.1 The Authority's Banker

11.1.1 The Authority will ensure that its day-to-day banking activity is undertaken with an investment grade bank. If the Authority's Bank is downgraded during the contract period (as specified under the Banking Services Contract) to non-investment grade, reasonable measures will need to be undertaken to mitigate the risk associated with further downgrades, and the risk of losing funds if the Bank was to default.

11.1.2 Reasonable measures will need to include (and not limited to) keeping balances to a minimum; hourly review of bank balances for the Group Accounts and subsequently transferring surplus balances to a Call Account; re-routing material income (maturing investments, grants) to a bank account held outside of the existing bank arrangement; and consideration of contingency banking arrangements with another bank should the risk be severe to the Authority's operational requirements. Cabinet will be kept informed if such risks arise.

11.2 Policy on Apportioning Interest to the HRA

11.2.1 On 1st April 2015 the HRA exited the subsidy mechanism by way of the HRA buyout process. As a result, the Authority will operate a single consolidated pool of debt that will hold all debt (new and old loans), and annually recharge the HRA the interest payable on all loans using the average rate of interest as a recharge rate.

12. EQUALITIES IMPLICATIONS

12.1 There are no potential equalities implications of this report and its recommendations on groups or individuals who fall under the categories identified in Section 6 of the Council's Strategic Equality Plan. There is no requirement for an Equalities Impact Assessment Questionnaire to be completed for this report.

13. FINANCIAL IMPLICATIONS

13.1 The Treasury Management Strategy for 2016/17 as outlined in this report, if approved by Members, is likely to generate estimated interest of £583k and this has been reflected in the budget report for 2016/17. A provision has also been made to cover the estimated costs of the supported borrowing requirements for 2016/17.

13.2 The number of credit warnings and downgrades have significantly reduced and the UK economic recovery is gaining momentum (but will be constrained by the weak recovery in the Eurozone and China, and deflation). Whilst financial markets have stabilised, a slowed down in the recovery of global economies is likely to create further volatility in the bond markets which will have a consequence on PWLB rates. If the UK economy continues to grow, and if inflation hits the 2% target level along with the unemployment rate falling (below 7% target), the Bank of England will consider raising the Bank rate from the current level of 0.50%. Whilst inflation continues to remain a risk, any incremental rise in the Bank Rate will be slow and eventually settling between 2 and 3% in the long-term.

14. PERSONNEL IMPLICATIONS

14.1 There are no personnel implications.

15. CONSULTATION

15.1 No external consultation is required for the purposes of the report. However, advice has been sought from the Authority's current Treasury Management Adviser.

16. RECOMMENDATIONS

16.1 That the Annual Strategy for Treasury Management 2016/17 be approved.

16.2 That the strategy be reviewed quarterly within the Treasury Management monitoring reports presented to Policy & Resources Scrutiny Committee and any changes recommended be referred to Cabinet, in the first instance, and to Council for a decision. The Authority will also prepare a half-yearly report on Treasury Management activities.

16.3 That the Prudential Indicators for Treasury Management be approved as per Appendix 5.

16.4 That the Prudential Indicators for Capital Financing be approved as per Appendices 6 & 7.

16.5 That Members approve the use of Option 2 (for supported borrowing) and Option 3 Equal Instalment Method (for unsupported borrowing) for MRP purposes for 2016/17.

16.6 The continuation of the 2015/16 investment strategy and the lending to financial institutions and corporates in accordance with the minimum credit rating criteria disclosed within this report.

16.7 That the Authority borrows £14.20m for the General Fund to support the 2016/17 capital programme.

16.8 That the Authority continues to adopt the investment grade scale as a minimum credit rating criteria as a means to assess the credit worthiness of suitable counterparties when placing investments.

16.9 That the Authority adopts the monetary and investment duration limits as set in Appendix 3 of the report.

17. REASONS FOR THE RECOMMENDATIONS

17.1 The Annual Strategy report is a requirement of the CIPFA “Code of Practice for Treasury Management in the Public Services”.

17.2 The Investment Strategy is a requirement of the Local Government Act 2003.

17.3 To comply with the legislative framework and requirements as indicated in paragraph 1.2.

18. STATUTORY POWER

18.1 Local Government Acts 1972.

Authors: N Akhtar – Group Accountant- Group Accountant -Treasury Management & Capital
Consultees: C. Burns –Interim Chief Executive
N. Scammell – Acting Director of Corporate Services & S151 Officer
S. Harris - Interim Head of Corporate Finance
A. Southcombe – Finance Manager, Corporate Finance
Cllr Barbara Jones - Deputy Leader & Cabinet Member for Corporate Services

Appendices:

Appendix 1	Local Government Investments - Definitions
Appendix 2	Interest Rates – Forecasts/Indicative
Appendix 3	Credit Policy, Investment Ratings, Periods and Targets
Appendix 4	Investments to be used and “in house” authorisations
Appendix 5	Treasury Management Strategy Indicators
Appendix 6	Prudential Indicators – Capital Finance
Appendix 7	Capital Expenditure and Funding
Appendix 8	MRP Policy & Options