

# BRIDGEND COUNTY BOROUGH COUNCIL

## REPORT TO CABINET

1 SEPTEMBER 2015

### REPORT OF THE CORPORATE DIRECTOR - RESOURCES

#### TREASURY MANAGEMENT ACTIVITIES AND TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2015-16

##### 1. Purpose of Report

1.1 The purpose of the report is to:-

- Comply with the requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2011 Edition (the Code) to produce interim Treasury Management reports,
- Provide a summary of the Treasury Management activities from 1 April 2015 to 30 June 2015,
- Report on the projected Treasury Management and Prudential Indicators for 2015-16.

##### 2. Connection to Corporate Improvement Objectives / Other Corporate Priorities

2.1 The Treasury Management Report is integral to the delivery of the Corporate Improvement Objectives as the allocation of resources determines the extent to which the corporate objectives can be delivered.

##### 3. Background

3.1 The Council's Treasury Management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended, develops the controls and powers within the Act.

3.2 The Council is required to operate the overall treasury function with regard to the Code and this was formally adopted by the Council in February 2012. This includes a requirement for the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. Council approved the TMS 2015-16 on 25 February 2015.

3.3 The Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010, which requires the Council to approve an Investment Strategy prior to the start of each financial year and this is included in the TMS.

3.4 The Council is also required to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council's adoption and implementation of both the Prudential Code and the Code of Practice

for Treasury Management means that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

3.5 This report covers the following areas:

- The Council's treasury position for the period 1 April to 30 June 2015
- Borrowing and Debt Strategy 2015-16
- Borrowing Outturn for the period 1 April to 30 June 2015
- Investment Strategy 2015-16
- Investment Outturn for the period 1 April to 30 June 2015
- Treasury Management and Prudential Indicators 2015-16

#### 4. Current Situation

4.1.1 The treasury position for 1 April to 30 June 2015:

		Principal as at 01-04-15	Average Rate	Principal as at 30-06-15	Average Rate
		£m	%	£m	%
Fixed rate long term funding	PWLB*	77.62	4.70	77.62	4.70
Variable rate long term funding	PWLB*	-	-	-	-
	LOBO**	19.25	4.65	19.25	4.65
<b>Total Long Term External Borrowing***</b>		<b>96.87</b>	<b>4.69</b>	<b>96.87</b>	<b>4.69</b>
Other Long Term Liabilities*** (including PFI)		21.58		23.80	
<b>TOTAL GROSS DEBT</b>		<b>118.45</b>		<b>120.67</b>	
Fixed rate investments		18.00	0.51	31.50	0.40
Variable rate investments		1.50	0.50	6.00	0.45
<b>TOTAL INVESTMENTS****</b>		<b>19.50</b>	<b>0.51</b>	<b>37.50</b>	<b>0.41</b>
<b>TOTAL NET DEBT</b>		<b>98.95</b>		<b>83.17</b>	

\* Public Works Loan Board (PWLB)

\*\* Lender's Option Borrower's Option (LOBO)

\*\*\* Long term borrowing include all instruments with an initial term of 365 days or more and long term liabilities includes the short term element of the liability

\*\*\*\* The investment totals include instant access deposit accounts which are included as "Cash" in the Council's balance sheet in the Statement of Accounts and also investments shown as "Cash Equivalents" in the Council's balance sheet that mature in 1 month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

Fixed rate in the above table includes instruments which are due to mature in the year

4.1.2 The £19.25 million is due to mature in 2054, and relates to Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points (the next trigger date being January 2016) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The current average interest rate for these LOBO's is 4.65% compared to the PWLB Loans average interest rate of 4.70%. The long term liabilities figure of £23.80 million at 30 June 2015 includes £19.17million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg) and a new Long Term Liability of £2.4 million relating to a loan from the WG Central Capital Retained Fund for regeneration works within the Llynfi Valley.

4.1.3 It should be noted that the accounting practice required to be followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures shown in the above table and throughout the report are based on the actual amounts borrowed and invested and so may differ from those in the Statement of Accounts which include accrued interest or are stated at fair value in different instances.

4.1.4 The Council's Treasury Management Advisers are currently Arlingclose and the services provided to the Council include:-

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

## **4.2 Borrowing and Debt Strategy for 2015-16 (Extract from TMS 2015-16)**

### **4.2.1 The Expectation for Interest Rates**

The interest rate views, incorporated in the Council's Treasury Management Strategy for 2015-16, were based upon officers' views supported by a selection of City forecasts provided by Arlingclose, our Treasury Management advisers.

This view, as reported to council in February 2015, was seeing the Bank Rate remaining at 0.50% for the first quarter of the 2015-16 financial year and forecast the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015-16 being around 0.75%.

#### 4.2.2 The Adopted Borrowing Strategy 2015-16

The major objectives to be followed in 2015-16 are:-

- to minimise the revenue costs of debt,
- to manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing
- to effect funding in any one year at the cheapest cost commensurate with future risk,
- to forecast average future interest rates and borrow accordingly,
- to monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movement,
- to reschedule debt if appropriate, in order to take advantage of potential savings as interest rates change, and
- to maximise the use of all capital resources including borrowing, both supported and unsupported, useable capital receipts and grants and contributions.

The Section 151 Officer will take the most appropriate form of borrowing depending on the prevailing interest rates at the time. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy. With short-term interest rates currently much lower than long term rates, it is likely to be more cost effective in the short term to either borrow short term loans or use internal resources. Short term and variable rate loans expose the Council to the risk of short term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates as shown in the treasury management indicators in **Appendix A**.

However, with long term rates forecast to rise in the coming years, any such short term savings will need to be balanced against the potential longer-term costs. The Council's Treasury Management advisers will assist the Council with this 'cost of carry' and breakeven analysis.

#### **4.3 Borrowing Outturn for 1 April to 30 June 2015**

- 4.3.1 The Bank Rate started the financial year at 0.50% and remained at that level from 1 April to 30 June 2015. It is currently expected that it will remain at that level for the remainder of the 2015-16 financial year.
- 4.3.2 The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the Public Works Loan Board at long term fixed rates of interest.
- 4.3.3 No long or short term borrowing has been taken during the period 1 April to 30 June 2015. Market conditions have meant that there has been no loan rescheduling so far this year, however, in conjunction with Arlingclose, the loan portfolio will be reviewed for any potential savings as a result of any loan rescheduling.

#### 4.4 Investment Strategy 2015-16 (Extract from TMS 2015-16)

4.4.1 Both the CIPFA Code and the WG Guidance require the Council 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 Council's objective when investing money is to strike an appropriate balance between risk and return, balancing the risk of incurring losses from defaults against receiving unsuitably low investment income.

The major objectives to be followed in 2015-16 are:-

- To maintain capital security;
- To maintain liquidity so funds are available when expenditure is needed;
- To achieve the yield on investments commensurate with the proper levels of security and liquidity.

4.4.2 The Annual Investment Strategy incorporated in the Council's Treasury Management Strategy 2015-16 includes the credit ratings defined for each category of investments and the liquidity of investments. The Council's investments have historically been placed in short term bank and building society unsecured deposits and local and central government, however, investments may be made with any public or private sector organisations that meet the minimum credit criteria specified in the Investment Strategy. **Appendix B** is an extract from the Investment Strategy included in the TMS 2015-16 and provides more information regarding counterparty limits, investment types and secured and unsecured investments.

4.4.3 As there is increasing (relative) risk from short-term unsecured bank and building society investments, the Council is actively exploring diversification into relatively more secure asset classes during 2015-16. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the *EU Bank Recovery and Resolution Directive* are implemented. As this diversification will represent a substantial change in approach, any new instruments used will be in full consultation with the Council's treasury management advisers and appropriate training will be provided to staff before investments are made in these alternative instruments.

4.4.4 Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. In the current climate, relying mainly on credit ratings is considered to be inappropriate and the Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

4.4.5 A half year review of the Annual Investment Strategy will be undertaken and any changes will be reported to Council.

#### 4.5 Investment Outturn for 1 April to 30 June 2015

4.5.1 On a day to day basis, the Council typically has surplus cash balances arising from the cash flow e.g. timing differences between grants being received and making various payments. These are invested on the market via brokers, direct with the institution or held in deposit accounts. The Council usually invests for a range of periods dependent on cash flow requirements and the interest rates on offer having regard to the Investment Strategy. All investments in the first quarter of 2015-16 were short term i.e. less than 12 months duration and placed in fixed term deposits or deposit accounts. The table below details these investments by counterparty type:

Investment Counterparty Category	Balance 01 April 2015 (A) £m	Investments Raised (B) £m	Investments Repaid (C) £m	Balance 30 June 2015 (A+B-C) £m	Average Balance Apr - June 2015 £m	Average Rate for Apr - June 2015 %
UK Government DMO	-	51.50	50.50	1.00	4.40	0.25
UK Local Authorities	9.00	59.50	46.00	22.50	22.59	0.36
Building Societies	5.00	4.00	5.00	4.00	4.87	0.54
Banks Instant Access Accounts	1.50	11.95	7.45	6.00	5.41	0.45
Banks (Fixed Maturity)	4.00	2.00	2.00	4.00	3.91	0.53
<b>Total</b>	<b>19.50</b>	<b>128.95</b>	<b>110.95</b>	<b>37.50</b>	<b>41.18</b>	<b>0.40</b>

4.5.2 Occasionally, investments are placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only for very short term deposits. The interest rates offered by this facility are lower than some other counterparties but this is commensurate with the high level of security and reduced risk offered. It provides another option when examining potential investments and ensures compliance with the Council's investment objective that security takes priority over yield.

4.5.3 Favourable cash flows have provided positive cash balances for investment and as shown above the balance on investments at 30 June 2015 was £37.50 million. The table below shows a breakdown based on the maturity profile and counterparty type from 30 June 2015.

Counterparty Category	Instant Access Deposit Accounts @ 30-06-15 £m	Deposits Maturing Within 1-3 Months @ 30-06-15 £m	Deposits Maturing Within 4-6 Months @ 30-06-15 £m	Deposits Maturing Within 6-12 Months @ 30-06-15 £m	Total @ 30-06-15 £m
UK Government (DMO)	-	1.00	-	-	1.00
UK Local Authorities	-	17.00	2.00	3.50	22.50
UK Building Societies	-	4.00	-	-	4.00
Banks*	6.00*	4.00	-	-	10.00
<b>Total</b>	<b>6.00</b>	<b>26.00</b>	<b>2.00</b>	<b>3.50</b>	<b>37.50</b>

\* All these are UK registered banks apart from Svenska Handelsbanken which is a Swedish bank incorporated in the EEA and entitled to accept deposits through a branch in the UK and are classed as a UK Bank in the Government's Borrowing Statistical Return

4.5.4 The Council's primary objective for the management of its investment portfolio is to give priority to the security and liquidity of its funds before seeking the best rate of return. As shown above, the majority of its surplus cash has been held as short term investments with UK Local Authorities and banks and building societies of high credit quality. This has therefore resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity.

#### 4.6 Treasury Management and Prudential Indicators 2014-15

4.6.1 The 2011 Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management Indicators within this report, however, the Council has decided to report on all indicators in this report so the Prudential Indicators are also included. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital programme. **Appendix A** details the estimate for 2015-16 set out in the Council's Treasury Management Strategy and also the projected indicators for 2015-16.

#### 5. Effect upon Policy Framework and Procedure Rules

5.1 As required by Financial Procedure Rule 17.3 within the Council's Constitution, all investments and borrowing transactions have been undertaken in accordance with the Treasury Management Strategy Statement 2015-16 approved by Council.

#### 6. Equality Impact Assessment

6.1 There are no equality implications.

#### 7. Financial Implications

7.1 The financial implications are reflected within the report.

## **8. Recommendation**

### **8.1 It is recommended that:**

- Cabinet note the Council's treasury management activities for the period 1 April 2015 to 30 June 2015,
- Cabinet note the projected Treasury Management and Prudential Indicators for 2015-16.

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7 August 2015

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**Background documents:**  
Treasury Management Strategy 2015-16



## APPENDIX A

### 1 TREASURY MANAGEMENT INDICATORS 2015-16

1.1.1 The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks using the following indicators.

The Council needs to set the upper limits to its **Interest Rate Exposure** for the effects of changes in interest rates. There are two treasury management indicators that relate to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums and are set to control the Council's exposure to interest rate risk.

No.		Treasury Management Strategy 2015-16  £m	Projection 31-03-2016  £m
	Total Projected Principal Outstanding on Borrowing 31 March 2016	101.87	<b>96.87</b>
	Total Projected Principal Outstanding on Investments 31 March 2016	8.00	<b>12.00</b>
	<b>Net Principal Outstanding</b>	<b>93.87</b>	<b>84.87</b>
<b>1.</b>	<b>Upper Limit on fixed interest rates (net principal) exposure</b>	140.00	<b>68.12</b>
<b>2.</b>	<b>Upper Limit on variable interest rates (net principal) exposure</b>	50.00	<b>16.75</b>

The Section 151 Officer will manage interest rate exposures between these limits in 2015-16.

1.1.2 A further indicator for Treasury Management measures the **Maturity Structure of Borrowing** and is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk.

No	Maturity structure of fixed rate borrowing during 2015-16	Upper limit	lower limit	Projection 31-03-16
<b>3.</b>	Under 12 months	50%	0%	<b>0.00%</b>
	12 months and within 24 months	25%	0%	<b>0.00%</b>
	24 months and within 5 years	50%	0%	<b>0.00%</b>
	5 years and within 10 years	60%	0%	<b>0.00%</b>
	10 years and above	100%	40%	<b>100.00%</b>

- 1.1.3 The **Upper Limit for Total Principal Sums invested over 364 days** indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		Treasury Management Strategy 2015-16 (Limit) £m	Projection 31-03-16 £m
4.	<b>Upper Limit for Total Principal Sums Invested for more than 364 days</b>	15	3

## 2 PRUDENTIAL INDICATORS 2015-16

The Prudential Indicators are required to be set and approved by Council in accordance with CIPFA's *Prudential Code for Capital Finance in Local Authorities*.

Council is required to formally adopt CIPFA's Treasury Management Code and the revised version of the 2011 code was adopted by Council on 22 February 2012.

### 2.1 Prudential Indicators for Prudence

- 2.1.1 The following Prudential Indicators are based on the Council's capital programme which is subject to change.

The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. The total capital expenditure is funded from capital grants and contributions, capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2015-16 £'000	Projection 31-03-16 £'000
1	<b>Estimates of Capital Expenditure</b> Non – HRA	36,441	38,995
	<b>Total Capital Expenditure</b>	<b>36,441</b>	<b>38,995</b>
	<b>Financed by :-</b>		
	Capital Grants and Contributions	12,575	17,484
	Capital Receipts	9,322	9,519
	Revenue	3,055	3,478
	<b>Net Financing Need for Year</b>	<b>11,489</b>	<b>8,514</b>

The capital expenditure figures have changed from the Treasury Management Strategy 2015-16 as the capital programme approved by Council on 25 February 2015 has been amended to include new approved schemes and to incorporate slippage of schemes identified as part of the capital monitoring and a change in the profile of prudential borrowing. This has resulted in a decrease in the Net Financing Need for 2015-16.

- 2.1.2 The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to finance capital expenditure and forms the basis of the charge to the General Fund under the Prudential Code system.

The process for charging the financing of capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP). The actual MRP charge needs to be prudent and the methodology is detailed in the Council's MRP policy in the TMS 2015-16. The MRP requirement for the PFI Scheme, Innovation Centre and HALO will be equivalent to the write down of the liability for the year and is met from existing budgets.

No.	Prudential indicators For Prudence	Est. Treasury Management Strategy 2015-16	Projection
		2015-16 £'000	2015-16 £'000
<b>2</b>	<b>Capital Financing Requirement (CFR)</b>		
	Opening CFR (1 April 2015) excluding PFI	157,078	154,980
	Opening PFI CFR	19,300	19,300
	Opening Innovation Centre	769	769
	Opening HALO	1,150	962
	<b>Total Opening CFR</b>	<b>178,297</b>	<b>176,011</b>
	Movement in CFR excluding PFI & other liabilities	4,801	2,033
	Movement in PFI CFR	(512)	(512)
	Movement in Innovation Centre CFR	(51)	(51)
	Movement in HALO CFR	(117)	(117)
	<b>Total Movement in CFR</b>	<b>4,121</b>	<b>1,353</b>
	<b>Closing CFR (31 March 2016)</b>	<b>182,418</b>	<b>177,364</b>
	Movement in CFR represented by :-		
	Net Financing Need for Year (above)	11,489	8,514
Minimum and Voluntary Revenue Provisions*	(7,368)	(7,161)	
<b>Total Movement</b>	<b>4,121</b>	<b>1,353</b>	

Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) represent the revenue charge for the repayment of debt and includes MRP for the Public Finance Initiative (PFI), Finance Leases, Innovation Centre and Halo

## 2.2 Limits to Borrowing Activity

- 2.2.1 The Council's long term borrowing at the 30 June 2015 was £96.87 million as detailed in section 4.1.1 the Treasury Position. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows.

Because the Council has an integrated Treasury Management Strategy there is no association between individual loans and particular types of expenditure. Therefore, the Capital Financing Requirement and actual external borrowing can be very different.

The **Gross Debt** position (Borrowing and Long Term Liabilities) is shown below:

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy	Projection 31-3-16
	<b>Gross Debt 31 March</b>	<b>2015-16 Est. £'000</b>	<b>£'000</b>
<b>3</b>	External Borrowing	101,867	96,867
	Long Term Liabilities (including PFI)	20,539	23,251
	<b>Total Gross Debt</b>	<b>122,406</b>	<b>120,118</b>

2.2.2 Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, debt will only be for a capital purpose. The Council needs to ensure that external debt does not, except in the short term, exceed the Capital Financing Requirement for 2015-16. The table below shows that the Council is on target to comply with this requirement.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy	Projection 31-03-16
		<b>2015-16 £'000</b>	<b>£'000</b>
<b>4</b>	<b>Gross Debt &amp; the CFR</b>		
	Total Gross Debt	122,406	120,118
	Closing CFR (31 March 2016)	<b>182,418</b>	<b>177,364</b>

2.2.3 A further two Prudential Indicators control the Council's overall level of debt to support Capital Expenditure. These are detailed below and confirms that the Council is well within the limit set :-

- The **Authorised Limit** for External Debt – this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term. It needs to be set and approved by Members.
- The **Operational Boundary** for External Debt – this is not an actual limit and actual borrowing could vary around this boundary during the

year. It is based on the probable external debt during the course of the year.

No.	Prudential indicators For Prudence	Treasury Management Strategy 2015-16 £m	Projection 31-03-16 £m
<b>5</b>	<b>Authorised limit for external debt -</b>		
	Borrowing	140	
	Other long term liabilities	30	
	<b>Total</b>	<b>170</b>	
<b>6</b>	<b>Operational Boundary</b>		
	Borrowing	105	
	Other long term liabilities	25	
	<b>Total</b>	<b>130</b>	
	<b>Borrowing</b>		<b>97</b>
	<b>Other long term liabilities</b>		<b>23</b>
	<b>Total</b>		<b>120</b>

## 2.3 Prudential Indicators for Affordability

2.3.1 The Prudential Code Indicators Numbered 1 to 6 above in section 2.1 and 2.2 cover the overall controls on borrowing and financing of capital expenditure within the Council. The second suite of indicators detailed below assesses the affordability of capital investment plans and the impact of capital decisions on the Council's overall finances.

The indicator the **Ratio of Financing Costs to Net Revenue Stream** demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by the Assembly in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on Treasury Management activities and the Minimum Revenue Provision charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers.

No.	Prudential Indicators for Affordability	Estimate Treasury Management Strategy 2015-16	Projection 2015-16
7.	<b>Ratio of Financing Costs to Net Revenue Stream</b>		
	<b>Ratio</b>	5.05%	<b>4.97%</b>

2.3.2 The indicator of the **Incremental Impact of Capital Investment Decisions on Council Tax** identifies the estimate of the incremental impact to the Council Tax from the capital expenditure proposals, particularly changes in borrowing requirements that have occurred since the Capital Programme was approved for the year. This is a purely notional calculation designed to show the effect of changes in capital investment decisions.

No.	Incremental Impact of Capital Investment Decisions on Council Tax	Estimate Treasury Management Strategy  2015-16	Projection  2015-16
8.	Increase in Band D Council Tax as per Capital Programme	£ 3.91	£ <b>3.87</b>

## APPENDIX B

**Table 1: Approved Counterparties 2015-16 (Extract from TMS 2015-16)**

Credit Rating	Banks (including building societies) Unsecured	Banks (including building societies) Secured	Government	Corporates	Registered Providers
<b>UK Central Government</b>	N/A	N/A	£ Unlimited	N/A	N/A
			50 Years		
<b>UK Local Authorities *</b>	N/A	N/A	£15,000,000	N/A	N/A
			10 Years		
<b>AAA</b>	£3,000,000	£4,000,000	£4,000,000	£2,000,000	£2,000,000
	5 Years	20 Years	50 Years	20 Years	20 Years
<b>AA+</b>	£3,000,000	£4,000,000	£4,000,000	£2,000,000	£2,000,000
	5 Years	10 Years	25 Years	10 Years	10 Years
<b>AA</b>	£3,000,000	£4,000,000	£4,000,000	£2,000,000	£2,000,000
	4 Years	5 Years	15 Years	5 Years	10 Years
<b>AA-</b>	£3,000,000	£4,000,000	£4,000,000	£2,000,000	£2,000,000
	3 Years	4 Years	10 Years	4 Years	10 Years
<b>A+</b>	£3,000,000	£4,000,000	£2,000,000	£2,000,000	£2,000,000
	2 Years	3 Years	5 Years	3 Years	5 Years
<b>A</b>	£3,000,000	£4,000,000	£2,000,000	£2,000,000	£2,000,000
	13 Months	2 Years	5 Years	2 Years	5 Years
<b>A-</b>	£3,000,000	£4,000,000	£2,000,000	£2,000,000	£2,000,000
	6 Months	13 Months	5 Years	13 Months	5 Years
<b>BBB+</b>	£1,000,000	£2,000,000	£1,000,000	£1,000,000	£1,000,000
	100 Days	6 Months	2 Years	6 Months	2 Years
<b>BBB or BBB-</b>	£1,000,000	£2,000,000	N/A	N/A	N/A
	Next day only	100 Days			
<b>None</b>	£1,000,000	N/A	£2,000,000	N/A	£2,000,000
	6 Months		25 Years		5 Years
<b>Pooled Funds</b>	£4,000,000				
	Per Fund				

\* excluding parish and community councils

**Approved Counterparties:** The Council may invest with any of the counterparty types shown above in table 1 above, subject to the cash limits (per counterparty) and the time limits shown. **These must be read in conjunction with the notes immediately below the table and the combined secured and unsecured investments in any one bank must not exceed the cash limit for secured investments:**

**Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Council's current account bank.

**Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

**The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.**

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

**Registered Providers:** Loans and bonds issued by, guaranteed by, or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Welsh Government and, as providers of public services, they retain a high likelihood of receiving government support if needed.

**Money Market Funds (type of pooled fund):** These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Money Market Funds that offer same-day liquidity and aim for a constant net asset value may be used as an alternative to instant access bank accounts. To date the Council has not used money market funds.



**Other Pooled Funds:** The Council may consider using pooled bond, equity and property funds whose value changes with market prices and/or have a notice period will be used for longer investment periods as they offer enhanced returns over the longer term, and are potentially more volatile in the shorter term. To date the Council has not used any pooled funds but if it did their performance and continued suitability in meeting the Council's investment objectives would be monitored regularly.

**Specified Investments:** This is an investment which offers high security and high liquidity. It is a low risk investment where the possibility of loss of principal or investment income is negligible and satisfies the conditions below as defined by *WG Investment Guidance*:-

- denominated in pound sterling,
- contractually committed to be paid within 12 months of arrangement (364 days),
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority,
  - a UK parish or community council or
  - body or investment scheme of "high credit quality"

The Council's defines "**high credit quality**" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation.

**Non-specified Investments:** Any investment that does not fall into the criteria detailed above under the Specified definition. The Council does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to:

- long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement,
- those that are defined as capital expenditure by legislation, such as shares in money market funds and other pooled fund, and
- investments with bodies and schemes not meeting the definition on high credit quality .

All investments longer than 364 days will be made with a cautious approach to cash flow requirements and will only be entered into with prior advice from the Council's Treasury Management Advisers.

The WG Guidance requires the Council's Investment Strategy to set an overall limit for non-specified investments which is currently set at £25m. Table 2 below shows the non-specified categories and the relevant limits – the total of the individual limits exceed £25m, however at any one point in time a maximum of **£25m** of investments

could be in one of the following non-specified categories with the following category limits:

**Table 2: Non-Specified Investment Limits**

	<b>Category Total Cash limit</b>
Total long-term investments	£15m
Total Money Market Funds and other pooled funds	£10m
Total investments without credit ratings or rated below A-	£ 6m
Total investments with institutions domiciled in foreign countries rated below AA+	£ 3m

**Investment Limits:**

The combined values of specified and non-specified investments with any one organisation are subject to the investment limits detailed below in Table 3, the approved counterparties and limits shown in Table 1 above and also the non-specified limits in Table 2 above. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

**Table 3: Investments Limits**

	<b>Cash limit</b>
Any single organisation, except the UK Central and Local Government	£4m
UK Central Government	unlimited
UK Local Authorities	£15m
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country
Registered Providers	£5m in total
Unsecured investments with Building Societies	£5m in total