GMCA GREATER MANCHESTER COMBINED AUTHORITY

11

Date: **Greater Manchester Combined Authority – 27 January 2017**
GMCA & AGMA Audit Committee – 20 January 2017

Subject: **TREASURY MANAGEMENT STRATEGY STATEMENT, BORROWING LIMITS AND ANNUAL INVESTMENT STRATEGY 2017/18 - 2019/20**

Report of: **Councillor Kieran Quinn, Portfolio Lead for Investment Strategy & Finance and Richard Paver, GMCA Treasurer**

PURPOSE OF REPORT

To set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2017/18 to 2019/20. At this stage the Strategy covers the existing functions of the GMCA as the scope of additional borrowing powers, as announced in the Autumn Statement, is still unclear.

RECOMMENDATIONS:

The Audit Committee and Authority are asked to approve the proposed Treasury Management Strategy Statement, in particular:

- The Treasury Indicators listed in Appendix A of this report.
- The MRP Strategy outlined in Appendix B.
- The Treasury Management Policy Statement at Appendix C
- The Treasury Management Scheme of Delegation at Appendix D
- The Borrowing Requirements listed in Section 5.
- The Borrowing Strategy outlined in Section 8.
- The Annual Investment Strategy detailed in Section 9.
- Unlimited lending to the Police and Crime Commissioner for Greater Manchester, the Greater Manchester Fire and Rescue Service and the Greater Manchester Waste Disposal Authority in the period until they become part of the GMCA.

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BACKGROUND PAPERS:

None.

TRACKING/PROCESS		
Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?	No	
AGMA Commission	TfGMC	Scrutiny Pool
N/A	N/A	N/A

1. INTRODUCTION

Background

1.1 Treasury management is defined as:

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

Statutory requirements

1.2 The Local Government Act 2003 (the Act) and supporting regulations require the Authority to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

1.3 The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as Section 9 of this report); the Strategy sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.4 The Department of Communities and Local Government (DCLG) issued revised Investment guidance which came into effect from the 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

CIPFA requirements

1.5 The CIPFA Code of Practice on Treasury Management (Revised November 2009) was adopted by this Authority on the 1 April 2011. The Code was revised in November 2011, acknowledging the effect the Localism Bill could have on local authority treasury management. This strategy has been prepared in accordance with the revised November 2011 Code.

1.6 The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities;

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives;

c) Receipt by the Authority of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year;

d) Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;

e) Delegation by the Authority of the role of responsible body for treasury management strategy and practices, budget consideration and approval, monitoring and selection of external service providers to a specific named body. For this Authority the delegated body is the Audit Committee.

Treasury Management Strategy for 2017/18

1.7 The suggested strategy in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury advisor, Capita Asset Services.

The strategy covers:

Section 1:	Introduction
Section 2:	Transitional Arrangements
Section 3:	Treasury Limits
Section 4:	Current Portfolio Position
Section 5:	Borrowing Requirement
Section 6:	Prudential and Treasury Indicators for 2017/18 to 2019/20
Section 7:	Prospects for Interest Rates
Section 8:	Borrowing Strategy
Section 9:	Annual Investment Strategy
Section 10:	MRP Strategy
Section 11:	Recommendations

Appendix A:	List of Prudential and Treasury Indicators for approval
Appendix B:	MRP Strategy
Appendix C:	Treasury Management Policy Statement
Appendix D:	Treasury Management Scheme of Delegation
Appendix E:	The Treasury Management Role of the Section 151 Officer
Appendix F:	Economic Background
Appendix G:	Prospects for Interest Rates
Appendix H:	Glossary of Terms

Balanced Budget Requirement

1.8 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Authority to produce a balanced budget. In particular, Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional to capital expenditure; and
- increases in running costs from new capital projects,

are limited to a level which is affordable within the projected income of the Authority for the foreseeable future.

2. TRANSITIONAL ARRANGEMENTS

2.1 Currently the Combined Authority's Treasury Management functions are operated by Manchester City Council Treasury Management which reports directly to the GMCA Treasurer.

2.2 During the 2017/18 financial year the functions of the Police & Crime Commissioner for Greater Manchester (GMPCC) and the Greater Manchester Fire and Rescue Service (GMFRS) will transfer and become Mayoral functions part of the Greater Manchester Combined Authority. The Greater Manchester Waste Disposal Authority (GMWDA) will transfer in April 2018.

2.3 The combined cash flows of the three consolidated organisations will be taken into account when investing temporary surplus funds or making arrangements to meet borrowing needs.

2.4 The combined treasury management functions of the GMCA will continue to be operated in accordance with the existing GMCA governance arrangements and to comply with the provisions noted in this Strategy document.

2.5 It is not yet confirmed what borrowing powers the GMCA will have next year which, in addition to the Police and Fire debt portfolios, would allow specific components of the future GMCA remit to also transfer. For example the £300m Housing Investment Fund (HIF), a Greater Manchester initiative arranged with the Homes and Communities Agency (HCA) is currently operated on behalf of Greater Manchester by Manchester City Council. The transfer of other functions are subject to ongoing negotiations with Government and will be the subject of an overall “debt ceiling” which will be agreed once the functions to be covered are clear.

2.6 The transitional arrangements mean that the 2017/18 Treasury Management Strategy has initially been drafted and Prudential Indicators set which reflect current GMCA operations, and which take account of confirmed organisational consolidation plans. Once consolidation has progressed it will be necessary to present for approval an updated Treasury Management Statement and Borrowing Limits for 2017/18, and Prudential Indicators for 2017/18 to 2019/20. It is anticipated that this will be at the April meetings but if functions are to transfer earlier then a report may need to go direct to the Combined Authority to cover any interim period before the next Audit Committee.

3. TREASURY LIMITS AND PRUDENTIAL INDICATORS

3.1 It is a statutory duty under Section 3 of the Act and supporting regulations that the Authority determines and keeps under review how much it can afford to borrow. The amount so determined is termed the ‘Affordable Borrowing Limit’. In England the Authorised Limit represents the legislative limit specified in the Act.

3.2 The Authority must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future transport levy levels is acceptable.

3.3 Whilst termed an Affordable Borrowing Limit, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

3.4 The Authorised Limit is one of the Prudential and Treasury indicators recommended by the Code, which the Authority operates for monitoring its treasury operations. The full set of indicators recommended by the Code and used by the Authority is listed below. A note of the purpose of these indicators together with their suggested levels for 2017/18 can be found in Appendix A of this report.

3.5 The Prudential Indicators are:

- Authorised Limit – external debt
- Operational Boundary – external debt

- Actual external debt
- Upper limit for total principal sums invested for over 364 days
- Upper limit for fixed interest rate deposits
- Upper limit for variable interest rate deposits
- Maturity structure of fixed rate borrowing during the year
- Confirmation the Authority has adopted the CIPFA Treasury Management Code

4. CURRENT PORTFOLIO POSITION

4.1 The Authority's forecast treasury portfolio position at 31 March 2017 is:

Table 1		**Principal**		**Av rate**
		£m	£m	%
Fixed rate funding	PWLB	384.9		5.30
	Market	60.0		4.29
	EIB	450.0		4.23
			894.9	4.69
Variable rate funding	PWLB	5.0		3.37
	Market	45.0		4.30
			50.0	4.21
Gross debt			**944.9**	
Temporary Investments	Market		(137.6)	0.28
Net debt			**807.3**	
Capital Financing Requirement				
Gross Debt			944.9	
Internal Borrowing			248.1	
			1,193	

5. BORROWING REQUIREMENT

5.1 The figures detailed in the table below show the funding of the 2016/17 capital programme and are based on information provided by Government. This includes significant cash receipts for schemes such as SEMMS and the Growth Deal. Should these receipts or expenditure profiles be materially different from the levels forecast, the borrowing requirements shown below could alter, in both scale and profile.

Table 2	**2016/17** £'000
Planned Capital Expenditure	223,614
Less;	
Grants Payable in Year	168,802
Grants B/fwd to be applied	35,652
External Contributions	11,500
Capital Receipts - RGF / GPF	5,655
Borrowing Requirement	**2,005**

5.2 If grant conditions cannot be fulfilled, namely that grants have to be utilised in 2016/17, there will be a material risk to the Authority as this would result in the repayment of the grant.

5.3 The potential long-term cash borrowing requirements over the next three years, including borrowing for Metrolink and the Transport Fund Programme, are as follows:

Table 3	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Planned Capital Expenditure	238,869	316,193	239,114
Less;			
Grants Payable in Year	164,114	117,062	110,415
Capital Receipts	10,355	10,355	10,355
External Inc - Capital Schemes	9,450	8,905	6,970
Cash / Deposits held at 1st April	137,595	2,299	8,477
Working Capital / Short Term Cash Movements	(98,195)	(13,523)	(133)
Cash Borrowing Requirement	**25,000**	**200,000**	**110,000**

6. PRUDENTIAL AND TREASURY INDICATORS FOR 2017/18 TO 2019/20

6.1 Prudential and Treasury Indicators (as set out in Appendix A to this report) are relevant for the purpose of setting an integrated treasury management strategy.

6.2 The Authority is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The revised 2009 Code was adopted on the 1 April 2011 and this strategy has been prepared under the revised code of November 2011.

7. PROSPECTS FOR INTEREST RATES

7.1 The Authority has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Appendix G draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following gives the Capita's central view:

Capita Asset Services Bank Rate forecast for financial year ends (March)

- 2017: 0.25%
- 2018: 0.25%
- 2019: 0.25%
- 2020: 0.75%

7.2 There is no certainty to these forecasts. In an attempt to stimulate the economy the Bank of England in August 2016 reduced Base Rate to 0.25%, the first change since 2009. If economic growth begins to slow or weaken more than currently expected it is likely rates will remain lower for longer. Conversely, if growth is stronger than expected the Bank Rate may increase sooner than forecast. A detailed view of the current economic background prepared by Capita is at Appendix F to this report.

8. BORROWING STRATEGY

8.1 The Authority's borrowing strategy should utilise the annual provision it is required to make to reduce debt, in the form of its Minimum Revenue Provision (MRP). This means that the most prudent strategy now is to seek to borrow in the medium term with maturities that match the estimated MRP that is generated in that period, thus avoiding an accumulation of cash on the Balance Sheet that would need to be invested (at a net cost and investment risk to the Authority). This does not preclude short term borrowing, which may be required to support cash flow or to take advantage of the yield curve.

8.2 For example the current estimates of MRP provision for the next five years are as follows:

Year	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
MRP	27,095	28,924	30,924	32,817	37,439

Borrowing Options

8.3 The Authority's borrowing strategy will seek to utilise internal borrowing if feasible, as forgoing investment income at historically low rates can provide value for money. However as the overall forecast is for long term borrowing rates to increase over the next few years, consideration must also be given to weighing the short term advantage of internal borrowing against potential long term costs. This is if the opportunity is missed for taking loans at longer term rates where the rates are expected to be higher in future years.

8.4 After this, new borrowing will be considered in the forms noted below. At the time of the borrowing requirement the options will be evaluated alongside their availability and an assessment made regarding which option will provide value for money. The options described below are not presented in a hierarchical order. At the point of seeking to arrange borrowing all options will be reviewed.

i Public Works Loan Board (PWLB)

PWLB borrowing is available for between 1 and 50 year maturities on various bases. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt, and allow the Authority to align maturities to MRP.

In the March 2012 Budget, the Chancellor announced the availability of a PWLB 'Certainty Rate' for local authorities, which could be accessed upon the submission of data around borrowing plans for individual authorities. The Authority submitted its return in April 2014. The certainty rate allows a local authority to borrow from the PWLB at 0.20% below their published rates. The current arrangement is available until March 2017.

The Authority may also seek to use the PWLB's 'Project Rate', which allows certain local authorities to borrow from the PWLB at 0.40% below their published rates. The CA was allocated £88m in 2013 which is yet to be drawn down. This facility expires in March 2017 unless the Government permits a further extension. The Government are also currently consulting with local authorities regarding the potential introduction of a PWLB Infrastructure Rate which will be based at gilts plus 60.

These reductions, alongside the flexibility the PWLB provides in terms of loan structures and maturity dates, together with the current lack of availability of market debt options, suggests that should long term borrowing be required, PWLB borrowing might provide the best value for money.

The Capita Asset Services forecast for the PWLB Certainty Rate is as follows:

Table 3	**Mar 17**	**Jun 17**	**Sep 17**	**Dec 17**	**Mar 18**	**Mar 19**	**Mar 20**
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.75%
5 yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.80%	2.00%
10 yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.50%	2.70%
25 yr PWLB rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.20%	3.40%
50 yr PWLB rate	2.70%	2.70%	2.70%	2.80%	2.80%	3.00%	3.20%

A more detailed Capita forecast is included in Appendix G to this report.

ii European Investment Bank (EIB)

During 2011/12 the Authority agreed £450m of funding from the European Investment Bank (EIB) and this loan facility was taken in tranches up to December 2015. A further loan of £150m was agreed in December 2012. This facility was due to expire in December 2015, but negotiations were agreed with the EIB to extend the facility for a further 24 months.

Rates can be forward fixed for borrowing from the EIB and this will continue to be considered as a primary borrowing source if the arrangement represents better value for money. There has not been any advice from the EIB that post Brexit arrangements will change.

The EIB's rates for borrowing are generally favourable compared to PWLB, allowing for existing planned future borrowing from PWLB to be replaced by cheaper funding from the EIB. The EIB appraises its funding plans against individual schemes, particularly around growth and employment and energy efficiency, and any monies borrowed are part of the Authority's overall pooled borrowing.

iii Third Party Loans

These are loans from third parties that are offered at lower than market rates, for example, Salix Finance Ltd is offering loans to the public sector at 0% to be used specifically to improve their energy efficiency and reduce carbon emissions.

iv Housing Investment Funding

Currently operated on behalf of Greater Manchester by Manchester City Council, but this should novate if GMCA borrowing powers for housing are confirmed.

v Municipal Bond Agency

The Municipal Bond Agency has now been established to offer loans to local authorities. A first bond has yet to be issued and it is hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Authority is a shareholder in the Bonds Agency and may make use of this new source of borrowing as and when appropriate. The Authority will have a particular interest when the Agency starts to issue shorter dated bonds, and act as a facilitator of inter-authority medium term loans. Prior approval will be sought from the Authority If it is considered accessing the Municipal Bond Agency will offer the most prudent form of funding.

vi Market Loans including inter-Local Authority advances

Both short and long term loans are often available in the inter Local Authority market in addition to offers from the general market.

8.5 These types of borrowing will need to be evaluated alongside their availability, particularly whilst there is a very limited availability of traditional market loans. The traditional market loans available tend to be LOBOs and they are not currently offered at competitive rates of interest. LOBOs provide the lender with future options to increase the interest rate, whilst the local authority has the option to repay if the increase in the rate is unacceptable to them.

Sensitivity of the forecast

8.7 In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Authority officers, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecast, adopting the following responses to a change of sentiment:

- ***If it were felt that there was a significant risk of a sharp FALL in long and short term rates,*** e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed.
- ***If it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that current forecast,*** perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, the portfolio position will be re-appraised. The likely action will be that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

External v. Internal borrowing

8.8 The next financial year is again expected to be one of very low Bank Rate. This provides a continuation of the window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.

8.9 Over the next three years, investment rates are expected to be significantly below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by limiting new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt. This is referred to as internal borrowing and maximises short term savings.

8.10 However, short term savings from avoiding new long term external borrowing in 2017/18 will also be weighed against the potential for incurring additional long term extra costs by delaying new external borrowing until later years when longer term rates are forecast to be significantly higher. Consideration will also be given to forward fixing rates whilst rates are favourable.

8.11 Against this background caution will be adopted within 2017/18 treasury operations. The Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

Policy on borrowing in advance of need

8.12 Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds.

With regard to the transition to a Combined Authority with wider functions, consideration should be given to borrowing in advance of need to support other parts of Greater Manchester with a borrowing requirement as the Combined Authority may be able to achieve lower interest rates on any such debt.

In determining whether borrowing is undertaken in advance of need the Authority will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt profile which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- consider the impact of borrowing in advance temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them; and
- consider the interests and funding needs of GM-wide bodies ahead of them formally becoming part of the GMCA.

Debt rescheduling

8.13 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt has been compounded since the Comprehensive Spending Review of October 2010 by a considerable further widening of the difference between new borrowing and repayment rates. This has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

8.14 As short term borrowing rates will be considerably cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of the premiums incurred, their short term nature, and the likely cost of refinancing those short term loans once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Authority's maturity profile as in recent years there has been a skew towards longer dated PWLB.

8.15 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined in Section 8 of this report;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility)

8.16 The Authority will also consider running down investment balances to repay debt early as short term rates on investments are likely to be lower than rates paid on current debt.

8.17 All rescheduling will be reported to the Authority, as part of the normal revenue monitoring, although it is considered unlikely that there will be any opportunities to reschedule debt during the 2017/18 financial year.

9. ANNUAL INVESTMENT STRATEGY

Introduction

9.1 The Authority will have regard to the DCLG's Guidance on Local Government Investments (the Guidance) and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Authority's investment priorities are:

- the security of capital; and
- the liquidity of its investments

9.2 The Authority will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity. The risk appetite of the Authority is low in order to give priority to security of its investments.

9.3 The borrowing of monies by an Authority purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

9.4 These principles would be important in normal circumstances, but the Icelandic banks crisis, and the financial difficulties faced by UK and international banks that followed, have placed security of investments at the forefront of Treasury Management investment policy.

Changes to Credit Rating Methodology

9.5 Through much of the financial crisis the main rating agencies (Fitch, Moody's and Standard & Poor's) provided some institutions with a ratings 'uplift' due to implied levels of sovereign support (government backing should an institution fail). In response to the evolving regulatory regime and the declining probability of government support, the rating agencies are removing these 'uplifts'. The result of this is that some institutions ratings have been downgraded by up to two notches.

9.6 The rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the removal of the implied level of sovereign support that were built into ratings throughout the financial crisis. The removal of sovereign support is taking place now that the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis. As a result of these rating agency changes, the credit element of Capita's future methodology focuses solely on the Short and Long Term ratings of an institution, and officers believe that the Authority should follow the same methodology.

9.7 The key change to the regulatory framework in respect of banks is the introduction of the European Union's Banking Recovery and Resolution Directive (BRRD). In response to the banking crisis some Governments used taxpayer funds to support banks in danger of failing. In future BRRD will require 'bail-in' to be applied in such a scenario. In the UK this means that after shareholders' equity, depositors' funds comprising balances over c£85k (linked to the value of the Euro) will be used to support a bank at risk. The £85k threshold is not available to Local Authorities and therefore all their bank deposits will be at risk of bail-in. This increases the risk to the Authority of holding unsecured cash deposits with banks and building societies.

Investment Policy

9.8 As previously, the Authority will not just utilise ratings as the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps'[1] and overlay that information on top of the credit ratings.

9.9 Investment in banks and building societies are now exposed to bail-in risk as described above and rather than increase investment in banks and building societies in practice lower limits for investment in banks and building societies have been adopted in 2016/17. This is apart from the limit with Barclays bank; Barclays is the Authority's main banker and is the investment destination of last resort for the close of daily trading. These revised limits are interim operational changes and to preserve flexibility should circumstances change the overall investment limits approved for banks and building societies for 2016/17 will be maintained in 2017/18.

9.10 The investment constraint brought by bail-in risk means the Authority needs to continue to identify ways that it can broaden and diversify its basis for lending. During 2016/17 after the reduced level of bank deposits, the strategy saw a significant proportion of the Authority's investments placed with the Government (via the DMO) or with other Local Authorities. In the financial year 2016/17 to December 2016 an average of c.93% of the investment portfolio was with the DMO and other Local Authorities. This highlights the relatively low rate of credit risk that the Authority takes when investing.

9.11 For 2017/18 investment the Authority will consider trading in Treasury Bills, Certificates of Deposit, Covered Bonds and Money Market Funds. In addition to diversification of the investment portfolio each of these options offer the Authority benefits which are noted in sections 9.24 to 9.31 below. Treasury Bills, Certificates of Deposit and Covered Bonds require the Authority to have specific custodian and broker facilities. This provision has been opened in 2016/17, however work is continuing to open further access points to markets. Officers are also working to

[1] A credit default swap is a financial instrument that effectively provides the holder insurance against a loan defaulting. The CDS spread is the difference between the price at which providers are willing to sell the swap, and the price at which buyers are willing to buy. A relatively high spread may suggest that the loan is more likely to default.

ensure they are in a position to monitor these new markets to identify opportunities for benefit.

9.12 It should be noted that, whilst seeking to broaden the investment base, officers will seek to limit the level of risk taken by the Authority. It is not expected that the measures considered above will have a significant impact on the rates of return the Authority currently achieves.

Specified and Non-Specified Investments

9.13 Investment instruments identified for use in the financial year are listed below, and are all specified investments. Any proposals to use other non-specified investments will be reported to Members for approval.

9.14 Specified investments are sterling denominated, with maturities up to a maximum of one year and meet the minimum 'high' rating criteria where applicable. Further details about some of the specified investments below can be found in later paragraphs within Section 9.

Table 4	Minimum 'High' Credit Criteria	Use
Term deposits – banks and building societies*	See Para 9.32.	In-house
Term deposits – other Local Authorities	High security. Only one or two local authorities credit-rated	In-house
Debt Management Agency Deposit Facility	UK Government backed	In-house
Certificates of deposit issued by banks and building societies covered by UK Government guarantees	UK Government explicit guarantee	In-house
Money Market Funds (MMFs)	AAA_M	In-house
Non-UK Banks/ Building Societies	Domiciled in a country which has a minimum sovereign Long Term rating of AAA	In-house
Treasury Bills	UK Government backed	In-house
Covered Bonds	AAA	In-house

* Banks & Building Societies

The Authority will keep the investment balance below or at the maximum limit based on the institutions credit rating as detailed in paragraph 9.20. If this limit is breached, for example due to significant late receipts, the Treasurer will be notified as soon as possible after the breach, along with the reasons for it. Please note this relates to specific investments and not balances held within the Authority's bank accounts, including the general bank account. The balance will be kept to the maximum investment limit of the institution as detailed in paragraph 9.20, with any breaches reported to the Treasurer.

Creditworthiness policy

9.15 The Authority applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modeling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody's and Standard &

Poor's. Capita supplement the credit ratings of counterparties with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to provide early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

9.16 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. This classification is called durational banding.

9.17 The Authority has regard to Capita's approach to assessing creditworthiness when selecting counterparties. It will not apply the approach of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

9.18 In summary therefore the Authority will approach assessment of creditworthiness by using the Capita counterparty list as a starting point, and then applying as an overlay its own counterparty limits and durations. All credit ratings will be monitored on a daily basis and re-assessed weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of Credit Ratings, the Authority will be advised of information in Credit Default Swap against the iTraxx benchmark[2] and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Authority's lending list.

9.19 Sole reliance will not be placed on the use of this external service. In addition the Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support. The Authority will assess investments only against the criteria listed above, and will not seek to evaluate an organisation's ethical policies when making these assessments.

Investment Limits

9.20 As advised by Capita Asset Services, the Authority's treasury advisors, the financial investment limits of banks and building societies are linked to their short and long-term ratings (Fitch or equivalent) as follows:

Banks & Building Societies

<u>Long Term</u> <u>Amount</u>

[2] The Markit iTraxx Senior Financials Index is a composite of the 25 most liquid financial entities in Europe. The index is calculated through an averaging process by the Markit Group and is used as the benchmark level of CDS spreads on Capita Asset Services' Credit List.

Fitch AA+ and above	£20 million
Fitch AA/AA-	£15 million
Fitch A+/A	£15 million
Fitch A-	£10 million
Fitch BBB+	£10 million

The Authority will only utilise those institutions that have a short term rating of F2 or higher, (Fitch or equivalent).

UK Government (includes Debt Management Office)	£200 million
Other GM Wide bodies	Unlimited
Manchester City Council	£50 million
Other Local Authorities	£20 million

9.21 It may be prudent, depending on circumstances, to temporarily increase the limits shown above as in the current economic environment, it is increasingly difficult for officers to place funds. Moreover the transitional arrangements necessary for organisations transferring to the GMCA may require these limits to be reviewed. If this is the case officers will seek approval from the Treasurer for such an increase and approval may be granted at the Treasurer's discretion. Any increase in the limits will be reported to Members as part of the normal treasury management reporting process.

Country Limits

9.22 The Authority has determined that it will only use approved counterparties from countries that meet the Authority's criteria based on the creditworthiness policy described in paragraph 9.6. The list of countries that qualify using this credit criteria as at 4th January 2017 are shown below:

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- USA

9.23 Every country on this list is rated AAA by two or more of the three main rating agencies. This list will be added to, or deducted from should ratings change. The Council will only invest outside the UK with institutions of the highest credit rating AAA, who are therefore higher rated and less risky to utilise than the UK.

Money Market Funds

9.24 The removal of the implied levels of sovereign support that were built into ratings throughout the financial crisis has impact on bank and building society ratings across the world. Rating downgrades can limit the number of counterparties available to the Authority. To provide flexibility for the investment of surplus funds the Authority will use Money Market Funds when appropriate as an alternative specified investment.

9.25 Money Market funds are investment instruments that invest in a variety of institutions, therefore diversifying the investment risk. The funds are managed by a Fund Manager and they have objectives to preserve capital, provide daily liquidity and a competitive yield. The majority of money market funds invest both inside and outside the UK.

9.26 Money Market funds are rated through a separate process to bank deposits. This looks at the average maturity of the underlying investments in the fund as well as the credit quality of those investments. It is proposed that the Authority will only use Money Market Funds where the institutions hold the highest AAA credit rating. Furthermore where the Money Market Funds invest outside the UK the countries concerned must be on the list of approved counterparties noted in paragraph 9.22.

Treasury Bills

9.27 These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is relatively low, although there is potential risk to value arising from an adverse movement in interest rates unless they are held to maturity.

9.28 Weekly tenders are held for Treasury Bills so the Authority could invest funds on a regular basis, based on projected cash flow information. This would provide a spread of maturity dates and reduce the volume of investments maturing at the same time.

9.29 There is a large secondary market for Treasury Bills so it is possible to trade them in earlier than the maturity date if required; and also purchase them in the secondary market. It is anticipated however that in the majority of cases the Authority will hold to maturity to avoid any potential capital loss from selling before maturity. The Authority will only sell the Treasury Bills early if it can demonstrate value for money in doing so.

Certificates of Deposit

9.30 These are short dated marketable securities issued by financial institutions, and as such counterparty risk is low. The instruments have flexible maturity dates, so it is possible to trade them in early if necessary, however there is a potential risk to capital if they are traded ahead of maturity and there is an adverse movement in interest rates. Certificates of Deposit are given the same priority as fixed deposits if a bank was to default. The Authority would only deal with Certificates of Deposit that are issued by banks which meet the credit criteria.

Covered Bonds

9.31 Covered Bonds are debt instruments secured by assets such as mortgage loans. They are issued by banks and other non-financial institutions. The loans remain on the issuing institutions Balance Sheet and investors have a preferential claim in the event of the issuing institution defaulting. All issuing institutions are required to hold sufficient assets to cover the claims of all covered bondholders. The Authority would only deal with bonds that are issued by banks which meet the credit criteria, or AAA rated institutions, (e.g. insurance companies).

Non-UK Banks/ Building societies

9.32 The Authority will only invest outside the UK with institutions of the highest credit rating AAA, who are therefore higher rated and less risky to utilise than the UK. The countries that qualify at 4th January 2017 are listed at paragraph 9.22.

Liquidity

9.33 Giving due consideration to the Authority's level of balances over the next year, the need for liquidity, its spending commitments and provisioning for contingencies, it is considered very unlikely that the Authority will have cash balances to invest other than on a temporary basis. For this reason, no cash will be held on term deposit maturities in excess of 1 year.

Investment Strategy to be followed in-house

9.34 Capita's view of forecast Bank Rate is at Section 8. The current economic outlook viewed by Capita is that the structure of market interest rates and government debt yields have several key treasury management implications:

- The Bank of England interpreted confidence indicators following the referendum vote for Brexit as anticipating a sharp slowdown in the UK economy. In 2016 the Monetary Policy Committee attempted to counter this expectation with a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals;

- Capita's view is that Bank Rate will remain unchanged at 0.25% until a first increase to 0.50% in quarter 2, 2019 with a rise to 0.75% by March 2020. Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in August 2016, with huge volatility during 2016 as a whole. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling;

- Forecasting as far ahead as 2019 is difficult as there are many potential economic factors which could impact on the UK economy. There are also political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on forecasts;

- Investment returns are likely to remain relatively low during 2017/18 and beyond;

- In the Eurozone, the ECB commenced, in March 2015, its €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017;

- These measures have struggled to make a significant impact in boosting Eurozone economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Forward indications are that economic growth in the EU is likely to continue at moderate levels.

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

9.35 The Authority will avoid locking into longer term deals while investment rates are at historically low levels, this is unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by the Authority.

9.36 For 2017/18 it is suggested that the Authority should budget for an investment return of 0.25% on investments placed during the financial year. For cash flow generated balances, the Authority will seek to utilise its business reserve accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of year Investment Report

9.37 At the end of the financial year, the Authority will receive a report on its investment activity as part of its Annual Treasury Report.

Policy on the use of External Service Providers

9.38 The Authority uses Capita Asset Services as external treasury management advisors and has access to another provider who is an approved supplier should a second opinion or additional work be required. The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

9.39 The Authority recognises there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. It will ensure the terms of the Advisor's appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

Scheme of delegation

9.40 Appendix D describes the responsibilities of member groups and officers in relation to treasury management.

Role of the Section 151 Officer

9.41 Appendix E notes the definition of the role of the Treasurer in relation to treasury management.

10. MINIMUM REVENUE PROVISION (MRP) STRATEGY

10.1 Appendix B contains the Authority's policy for spreading capital expenditure charges to revenue through the annual MRP charge, noting the change to the policy in relation to the use of capital receipts to mitigate the risk associated with grant repayment if conditions are not met.

11. RECOMMENDATIONS

11.1 Please see page 1 of the report for the list of recommendations.

Appendix A

List of Prudential and Treasury Indicators for approval

Please note last years approved figures are shown in brackets.

Prudential Indicators	**2017/18**	**2018/19**	**2019/20**
	£m	£m	£m
Capital Expenditure	238.9	316.2	239.1
Ratio of Gross Financing Costs to Net Revenue Stream	40%	42%	45%
Capital Financing Requirements as at 31 March	1,232.4	1,306.8	1,464.8
Incremental Impact of Capital Investments on Levy	0	0	3.5
Gross debt to CFR	78%	88%	85%

Treasury management indicators	**2017/18**		**2018/19**		**2019/20**
	£m	*£m*	£m	*£m*	£m
Authorised Limit for external debt -					
borrowing	1,625.9	*(1,249.9)*	1,614.6	*(1,242.9)*	1,599.8
other long term liabilities	0	*(0)*	0	*(0)*	0
TOTAL	1,625.9	*(1,249.9)*	1,614.6	*(1,242.9)*	1,599.8
Operational Boundary for external debt -	£m	*£m*	£m	*£m*	£m
borrowing	1,308.9	*(1,060.4)*	1,511.3	*(1,203.4)*	1,597.8
other long term liabilities	0	*(0)*	0	*(0)*	0
TOTAL	1,308.9	*(1,060.4)*	1,511.3	*(1,203.4)*	1,597.8
	£m	*£m*	£m	*£m*	£m
Actual external debt	962.9	*(964.9)*	1151.6	*(1,157.9)*	1246.8
Upper limit for fixed interest rate exposure Net borrowing at fixed rates as a % of total net borrowing	149%	*(146%)*	138%	*(149%)*	133%
Upper limit for variable rate exposure Net borrowing at Variable rates as a % of total net borrowing	8%	*(11%)*	24%	*(8%)*	31%
	£m	*£m*	£m	*£m*	£m
Upper limit for total principal sums invested for over 364 days	0	*(0)*	0	*(0)*	0

Maturity structure of new fixed rate borrowing during 2017/18	Upper Limit		Lower limit	
under 12 months	30%	(30%)	0%	(0%)
12 months and within 24 months	40%	(40%)	0%	(0%)
24 months and within 5 years	35%	(35%)	0%	(0%)
5 years and within 10 years	40%	(40%)	0%	(0%)
10 years and above	90%	(90%)	55%	(55%)
Authority has adopted CIPFA's Code of Practice for Treasury Management in the Public Services	Yes			

Definitions and Purpose of the Treasury Management noted in the table above (Indicators are as recommended by the CIPFA Prudential Code)

Authorised Limit - external debt

The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Authorised Limit.

Operational Boundary - external debt

The local authority will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Operational Boundary

Both the Authorised Limit and the Operational Boundary need to be consistent with the authority's plans for capital expenditure and financing; and with its treasury management policy statement and practices. The Operational Boundary should be based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario. Risk analysis and risk management strategies should be taken into account.

The Operational Boundary should equate to the maximum level of external debt projected by this estimate. Thus, the Operational Boundary links directly to the authority's plans for capital expenditure; its estimates of capital financing requirement; and its estimate of cash flow requirements for the year for all purposes. The Operational Boundary is a key management tool for in-year monitoring.

It will probably not be significant if the Operational Boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would be significant and should lead to further investigation and action as appropriate. Thus, both the Operational Boundary and the Authorised Limit will be based on the authority's plans. The authority will need to assure itself that these plans are affordable and prudent. The Authorised Limit will in addition need to provide headroom over and above the Operational Boundary sufficient for example for unusual cash movements.

Actual external debt

After the year end, the closing balance for actual gross borrowing plus (separately), other long-term liabilities is obtained directly from the local authority's Balance Sheet. This prudential indicator is referred to as Actual External Debt.

The prudential indicator for Actual External Debt considers a single point in time and hence is only directly comparable to the Authorised Limit and Operational Boundary at that point in time. Actual debt during the year can be compared.

Upper limit for total principal sums invested for over 364 days

The authority will set an upper limit for each forward financial year period for the maturing of investments made for a period longer than 364 days. This indicator is referred to as the prudential limit for Principal Sums Invested for periods longer than 364 days.

The purpose of this indicator is so the authority can contain its exposure to the possibility of loss that might arise as a result of its having to seek early repayment or redemption of principal sums invested.

Upper limit for fixed interest rate exposure

The authority will set for the forthcoming financial year and the following two financial years upper limits to its exposures to the effects of changes in interest rates. These indicators will relate to both fixed and variable interest rates. They may relate to either the authority's net interest on, or to its net principal sum outstanding on its borrowing/investments.

Upper limit for variable interest rate exposure

This indicator is as described and calculated above for Fixed Interest Rate Exposures, but substitutes 'variable rates' for 'fixed rates'.

Maturity structure of new fixed rate borrowing

The authority will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. These indicators are referred to as the Upper and Lower limits respectively for the Maturity Structure of Borrowing.

Has the Authority adopted the CIPFA Treasury Management Code?

This prudential indicator in respect of treasury management is to confirm that the local authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, and a recognition of the preexisting structure of the authority's borrowing and investment portfolios.

Appendix B

Minimum Revenue Policy Strategy

The Authority is required to make provision for repayment of an element of the accumulate capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.

CLG regulations have been issued, which require the full Authority to approve an annual MRP statement. This will need to be approved in advance of each year. Whilst the regulations revoke current MRP requirements, authorities are allowed to replace the existing regulations, so long as there is a prudent provision.

Based on the regulations, the Authority is recommended to approve the following MRP statement for application in 2015-16 and future years:

- For capital expenditure incurred on non Metrolink and non Transport Delivery Programme schemes, MRP will continue to be calculated at 4% of the previous year end's Capital Adjustment Account, using the former CLG regulations 28 and 29.
- For capital expenditure incurred on the Metrolink and Transport Delivery Programme schemes, MRP will be calculated on an annuity basis and deferred until the year after the asset has been commissioned into use.
- If capital receipts have been used to repay borrowing during the year then the value of the MRP which would otherwise have been set aside will be reduced by the amounts which have instead been repaid using capital receipts.
- If the conditions of a capital grant state that it can be used in the same way as a capital receipt the Authority may choose to use these capital grants to repay borrowing and therefore reduce the value of MRP.

The new regulation provides that the MRP Statement can be revised by the Authority at any stage. It is possible that such a revision will be necessary once the detailed funding of Metrolink 3a and the Transport Delivery Programme has been finalised.

With regards to the use of capital receipts the right to use capital receipts to repay borrowing is given in the Capital Finance and Accounting Regulations (para 23). The Authority proposes that each year it may apply a portion of capital receipts to redeem debt. It will calculate the amount that it considers to be a prudent overall provision for the repayment of debt, and it will fund this repayment partly from revenue and partly from capital receipts. Since this approach would not reduce the overall amount of funding being set aside to redeem debt, the Authority is satisfied that this would result in a prudent MRP provision.

It is envisaged that in normal circumstances capital grants which are useable for the same purposes as capital receipts might be used to repay debt in so far as they might otherwise have to be repaid to central government.

Appendix C

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as:
   The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Authority will invest its monies prudently, considering security first, liquidity second, and yield last, carefully considering its investment counterparties. It will similarly borrow monies prudently and consistent with the Authority's service objectives.

Appendix D

Treasury Management Scheme of Delegation

i Full Authority

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

ii Responsible body – Audit Committee

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

iii Body with responsibility for scrutiny - Audit Committee

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

iv Treasurer

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

Appendix E

The treasury management role of the Section 151 officer

The S151 (responsible) Officer

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

Economic Background as at January 2017 – Capita Treasury Solutions Limited

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The Monetary Policy Committee, (MPC), meeting of 4th August was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2, 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3, i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority.

The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools.

The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative Cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the Dollar, and 8% down against the Euro (as at the MPC meeting date – 15.12.16).

This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. House prices have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth.

The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%.

Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the presidential election in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an

unusually large, (for a developed economy), percentage of the working population not actively seeking employment.
Trump's election has had a profound effect on the bond market and bond yields rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office.

However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn.

These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ:

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.

- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.

- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%.

  These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.

- **French presidential election;** first round 13 April; second round 7 May 2017.

- **French National Assembly election June 2017.**

- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.

- The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated.

This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets.

While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the Dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017, a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50.
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members, view - not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

Appendix G

Prospects for Interest Rates

The data below shows a variety of forecasts published by a number of institutions. They include those of Capita and Capital Economics (an independent forecasting consultancy). The forecast within this strategy statement has been drawn from these diverse sources and officers'own views. Please Note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Capita Asset Services Interest Rate View	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate - The rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Certificate of Deposits - Short dated marketable securities issued by financial institutions, and as such counterparty risk is low.

Counterparty - One of the opposing parties involved in a borrowing or investment transaction.

Covered Bonds - Debt instruments secured by assets such as mortgage loans. These loans remain on the issuer's balance sheet and investors have a preferential claim in the event of the issuing institution defaulting.

Credit Rating - A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount - Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon - High/Low interest rate.

LIBID (London Interbank Bid Rate) - This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) - This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

Liquidity - The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO (Lender Option Borrower Option) - This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market - The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - An illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Authority vulnerable to current interest rates in that year.

Monetary Policy Committee - The independent body that determines Bank Rate.

Money Market Funds - Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

Operational Boundary - This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium - Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Authority to ‘have regard to‘ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government’s Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more than one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Treasury Bills - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period.
Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan.
A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.