Report of the Director
of Policy and Resources

Agenda Item No: 3 (c)
Meeting: 23rd February 2016

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

TREASURY MANAGEMENT STRATEGY 2016/17

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 This report proposes a Treasury Management and Investment Strategy for 2016/17. It does so in the context of the legal framework and the current economic outlook.

1.2 The **investment strategy for 2016/2017** aims to reduce risk by

- Limiting the maximum investment period to twelve months
- Applying a maximum investment limit of £7m or lower for counter-parties (except the council's own bankers £10m)
- Investing in a range of UK financial institutions with a minimum of an adequate credit rating or equivalent and in Money Market Funds.
- And in additional instruments such as Certificates of Deposit.

1.3 The **borrowing strategy for 2016/2017** aims to

- Borrow long-term to support the capital programme
- At the most advantageous time
- With the most appropriate form of loan, normally annuity
- To borrow for shorter periods if cash flow requires or to defer long term borrowing for a period
- To consider debt rescheduling.

1.4 It proposes that for the calculation of the Minimum Revenue Provision the annuity method should be the preferred option.

1.5 The report also describes the new shared service arrangements for the treasury management function from 1 April 2016; and proposes a review of the use of paid advisers.

2. BACKGROUND INFORMATION

THE LEGAL FRAMEWORK

2.1. The Local Government Act 2003 provides the legal framework for local authority capital investment and financing. This is supplemented by codes of professional practice which practitioners are expected to follow. As the recognised accounting body for the public sector CIPFA issued the latest version of the Prudential Code for Capital Finance in 2011; and supplemented this in 2013 with a set of Guidance Notes for Practitioners. CIPFA also introduced a revised Code of Practice for Treasury Management in 2011.

Code of Practice

2.2. CIPFA's revised code of practice for Treasury Management emphasises that risk management is a fundamental part of a Treasury Management Strategy. The code prioritises the security of the investment above the return achieved. It is not possible to invest without any risk but the selection of appropriate criteria for the selection of counterparties, and limits on the size and duration of investments, can minimise risk.

The Prudential Code

2.3. The prudential code provides a framework to ensure for a particular council that:-

- capital expenditure plans are affordable
- all external borrowing and other long-term liabilities are within prudent and sustainable levels
- treasury management decisions are taken in accordance with professional good practice

2.4. Guidance has also been issued by the Department of Communities and Local Government (CLG). This guidance is in accord with that issued by CIPFA in prioritising the security of the investment first, then liquidity and finally the return on the investment.

THE ECONOMIC CONTEXT

The state of the economy

2.5. Since the last report there have been a number of positive signs for the UK and wider economy, however a number of concerns still exist. The UK economy has continued to grow and current forecasts are for continued modest growth.

2.6. Inflation has remained below the government's target throughout the year although much of this is due to the continued depressed price of oil. This is due to the main oil producers in the Middle East and the United States continuing to produce more oil than the demand. It is forecast to rise over time.

2.7. Last year's turbulence In the Eurozone has reduced with an agreement being struck between the Greek Government and its creditors. However the underlying economic problems have not been fully resolved.

Interest Rates

2.8. A key consideration in setting the Treasury Strategy is the forecast interest rate. The Bank of England base rate, a key indicator, has been forecast to rise for the past five years but economic factors have meant it has remained at a historically low 0.5% since 2009.

2.9. The Office for Budgetary Responsibility (OBR) forecasts suggest that interest rates will begin to rise in the first quarter of 2016 by around 0.25%. Opinions differ on this subject with Money Markets and some economists suggest that any interest rate rise is likely to happen later in 2016 or even early 2017 and only in small increments. However, the recent decision by the US Federal Reserve to raise interest rates is taken as a signal that the period of loose monetary policy is coming to an end. **See Appendix A** for details of market forecasts.

THE CURRENT PORTFOLIO POSITION

Investments

2.10. Due to the investment required for the capital programme the council will need to restart long-term borrowing for capital investment from 2015/16 and will also need to refinance debt in subsequent years. The policy established last year, to use borrowing to invest in schemes which generate an appropriate return, will also continue.

2.11. Cash balances change on a daily basis, and when in surplus provide an opportunity for short-term investments which generate interest. The returns are low and therefore cash balances are kept to a minimum consistent with the council's cashflow needs. To date the council has invested on average £19.5m in 2015/16 (£38.8m in 2014/15). The minimum amount invested was £9.4m (£13.2m last year) and the maximum amount invested was £28.4m (£54.5m last year) at interest rates averaging 0.44% compared to base rate 0.5%.

Borrowing

2.12. For seven years the council has avoided external borrowing by utilising surplus cash balances. This has enabled the council to avoid paying interest on borrowing and reduce its cash balance so minimising risk. As expected, the council's cash surplus has significantly reduced during 2015/16. Short term borrowing of £10m was required in December to support cash balances and will be required again during the rest of this financial year. Long-term borrowing is likely to restart before the end of 2015/16 in line with the current treasury strategy.

3. OPTIONS FOR CONSIDERATION

3.1. The council has a range of options when determining its ***strategy for investment***. This includes the type of investments it will make, with which institutions and for what term. It must do so within the framework of government legislation which sets limits on the range of investments which can be made, while following the best practice requirements of the Treasury Code of Practice. A key consideration is to determine the portfolio of investments which will be used: to spread risk, maintain liquidity to ensure it can meet obligations to creditors, and maximise return whilst ensuring capital security at all times.

3.2. A similar range of considerations apply to the ***borrowing strategy***. In framing its borrowing policy the council must follow the requirements of the Prudential Code and related guidance issued under the Local Government Act 2003. A key priority is to minimise the cost of borrowing and this will dictate the choice of counterparties, financial instruments and the term of any loan.

4. ANALYSIS OF OPTIONS

INVESTMENT STRATEGY

4.1. **Specified investments**. Following guidance issued under s15 (1) (a) of the Local Government Act 2003 these are investments offering high security and high liquidity. An investment is a specified investment if all of the following apply;

(a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;

(b) the investment is not a long-term investment i.e.it has a maturity of no more than 12 months;
(c) it does not involve the acquisition of share capital or loan capital in any body corporate;
(d) the investment is made with a body or in an investment scheme which has been awarded an adequate credit rating by a credit agency or is made with:

(i) the United Kingdom Government
(ii) a local authority in England or Wales or similar body in Scotland or Northern Ireland
(iii) Parish council or community council.

4.2. **Non-specified investments**. These are any investments which do not meet the criteria for specified investments. They therefore potentially carry additional risk, e.g. lending for periods beyond 12 months or to bodies which are not highly credit rated. In the current financial markets it is recommended that lending beyond twelve months and lending to bodies with low credit ratings is **not** considered.

4.3. **UK Building Societies**. The same requirements in terms of credit ratings should be applied to Building Societies as to Banks before they are included on the council's counterparty list.

4.4. **Money Market Funds (MMF).** MMFs can offer a higher return than typical bank deposits, but fee structures are different. As mutual funds that invest in a portfolio of short term, high quality debt instruments they are considered to be an effective tool to diversify credit risk and interest rate risk, while retaining instant access in the same way as for call accounts.

4.5. **Certificates of Deposit (CD).** These are savings certificates entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks. The term of a CD generally ranges from one month to five years. Many councils make use of the market in certificates of deposit as an alternative to cash deposits. There are several reasons for this. The interest rate offered by CDs is competitive, there is a secondary market for CD's making the investment more liquid than equivalent cash deposits and through the use of CD's it is possible to invest in some financial institutions that are on our counterparty list but do require cash investments of a much larger size than this council has available.

4.6. **Counterparty limits.** The Council's counterparty limits have changed in the period since the last independent review in 2008. Initially these were lowered to reduce the exposure with any one counterparty at a time when cash balances were substantial. As the counterparty list was also reduced there were operational difficulties in managing the portfolio with too few options for placing funds. Limits were therefore raised again. It is proposed that the current limits continue, except for a reduction in the limit for the council's bankers from £14m to £10m as this gives an adequate maximum. Specifically that means:

- A ***maximum limit of £7m*** should apply to the highest rated (short –term F2, P-2 and A-2, combined with long – term A-, A3 and A, ('Strong' or higher grade in Appendix B) ***banks and building societies*. A lower limit of £4m** should apply to institutions with lower ratings (short –term F3, P3, A-3) ('Adequate Grade' in Appendix B).

- Banks within the same ownership group are treated as a single counterparty for the purpose of setting limits. ***The maximum investment for the group is therefore £7m.***

- Only UK financial institutions will be considered but this will include all those institutions which pass the Bank of England Stress tests, and are therefore considered part of the UK financial sector e.g. Santander UK.

- It can be difficult to place relatively small deposits with the larger highly rated banks so the counterparty list is applied as appropriate to the Council's needs.

- It is proposed that for ***District Councils*** the counterparty limit is ***£4m;*** for ***Parish Councils £50k;*** and for all ***other UK local authorities £5m***.

- A maximum investment limit of **£5m** in **Money Market Funds** with the highest credit rating.

- No limit is proposed on the amount that can be invested with the **Debt Management Office**, but this facility will be used as a last resort as returns are minimal

- It is proposed to retain the ability to invest in certificates of deposit (CD). This will enable the council to invest in a liquid investment at a good interest rate with **existing counterparties** that would not normally be accessible. An investment in CDs in a financial institution would count as a cash investment for counterparty limit purposes. For example an investment of £1m of CDs with a counterparty for which we have a £5m limit would reduce the headroom available for cash investments with that same institution ton £4m.

Credit Risk Assessment

4.7. **Credit ratings.** These are the starting point for determining suitable counterparties. The Bank of England carried out their latest stress test on the major UK Financial Institutions in late 2015. All the tested institutions passed the test.

In line with the bands set out in the Audit Commission paper 'Risk and Return' attached here as **Appendix B,** and in common with practice in other local authorities, investments are made with institutions with an **adequate grade or above**, based on the ratings of two of the three main credit rating agencies (Fitch, Moody's, Standard and Poor's).

4.8. Where an entity has its credit ratings downgraded, by two or more agencies, so that it no longer meets the Council's criteria, no new investments should be made, and any that can be recalled without loss of interest should be. Where two or more rating agencies announce that the entity is on "rating watch negative" or "on review for possible downgrade" a similar policy is applied. An assessment of the likely change in credit rating will then be undertaken and the forecast rating used to determine the counterparty limit. When these warnings are withdrawn new investments can be made after an evaluation of the revised opinion.

4.9. The proposed **criteria for specified investments** are unchanged:

- Short-term deposits with UK banks and building societies, which are rated by at least two of the rating agencies and hold as a minimum an "F3" rating from Fitch, a "P-3" rating from Moody's and an "A-3" rating from Standard and Poor's combined with an adequate long-term rating as set out above.

- Government institutions: In practice this means the Debt Management Office (DMO) and all UK local authorities (as defined by the section 23 of the Local Government Act 2003). Where government bodies offer the same terms as commercial borrowers, the Council should seek to invest first with the government body, due to the reduced risk of default.

- Money Market Funds with the highest credit rating with at least one credit rating agency. That is either rated as AAAMmf with Fitch or rated AAAm with Standards and Poor or rated Aaa-mf with Moody's.

4.10. A list of counterparties which currently meet these criteria is at **Appendix C**. It is proposed to continue with the current policy of only investing directly with UK financial institutions. Money Market Funds' investment portfolios are diverse and may include an element of foreign investments. Each fund has its own credit rating and investments will only take place with those that meet the required standard.

4.11. Changes to credit ratings can occur frequently so that the counterparty list can only be correct at a point in time and urgent decisions on changes may be required. To enable the treasury management strategy to operate effectively it is proposed that authority to make changes to the counterparty list is delegated to the Director of Policy and Resources who will report back to members if this authority is used.

4.12. To supplement government stress tests and credit ratings from the three agencies the council uses generally available market information, quality press, information on government support for banks and sovereign debt ratings, share prices of banks, audited accounts of banks, and brokers. The council continues to be a member of the CIPFA Treasury Management Network which promotes best practice in public sector treasury management through training, sharing peer expertise, and on-line information.

4.13. In summary the **investment strategy for 2016/17** aims to reduce risk by

- Investing for up to twelve months.
- Investing in institutions with adequate credit ratings or with equivalent or greater security (DMO, local authorities)
- Applying a maximum limit of £7m (except the council's bank, £10m and the DMO, unlimited)
- Applying the limit on the banking group not the individual institution
- Only directly investing in UK financial institutions
- At the same time keeping an appropriate maturity profile of investments to minimize exposure to liquidity risk and interest rate risk.
- Increasing its available options with existing counterparties by investing in Certificates of Deposit.

BORROWING STRATEGY

4.14. A key issue is the scale of capital investment the council chooses to make. On past experience the need has been greater than the resource the council can secure through grant and private sector contributions or generate through the sale of surplus assets. If the council wishes to invest more in its assets then there will be a need to borrow. How much it is prudent to borrow depends on the headroom it can create by reducing the direct costs of running services or increasing its income, and the price it has to pay for that borrowing.

4.15. The council's level of debt by the end of March 2016 will be £103.4m. Some of this debt will need to be repaid over the four years as it reaches its term, £14m in total. **The additional borrowing required** for the current capital programme is £21.8m. This gives a combined need for external borrowing of £35.8m over the period as there is no longer a cash surplus to use for internal borrowing.

4.16. **Counterparties**. When it has needed to borrow the council has previously secured loans through the Public Works Loans Board (PWLB), a statutory body operating as an executive agency of HM Treasury. This has been on the basis that Government can borrow more cheaply from the market than an individual local authority. The Infrastructure Bill currently before Parliament proposes the abolition of the PWLB, but alternative arrangements will be made which will continue to provide the opportunity for local authorities to borrow from Government.

4.17. There are, however, alternative sources which include the European Investment Bank and a new local government Bond Agency will become operational shortly. These can offer competitive rates and the council should consider these options too for future borrowing. To support the sector-led development of the UK Municipal Bond Agency (UK MBA), which follows well-established models elsewhere in Europe, this council has previously invested a modest £50,000 in its share capital. This is the limit of the council's commitment and has been made together with 56 other councils and the LGA. There is no commitment to borrow from the agency, but it is hoped that it will provide market competition.

The money market can occasionally provide funds that undercut PWLB levels and this option should be considered in that context.

4.18. **Criteria for borrowing decisions** Council borrowing has previously focussed on fixed interest maturity loans. In the period before the financial crash of 2008 this provided the most cost effective solution. However, the requirement to set aside provision for repayment through an annual MRP charge (Minimum Revenue Provision) generates cash holdings pending the repayment of principal at term. In the context of the recent banking crisis, which is not yet fully resolved, this creates a greater risk of loss of public funds and poor returns on short-term reinvestment of cash balances.

4.19. In future it is proposed that the preferred form of borrowing should be by annuity loan, which spreads the repayment of principal over the life of the loan, rather than setting aside cash each year to apply at term. This also brings a benefit to the revenue budget in terms of lower life-time interest costs. Government guidance also identifies this as particularly attractive in connection with projects promoting regeneration or administrative efficiencies or schemes where revenues will increase over time. The option to borrow using alternative types of loan should be retained where particular circumstances merit it. That includes fixed term loans, variable, and Equal Instalments of Principal (EIP) circumstances.

4.20. In addition there is a further incentive to borrow now to lock in historically low long term interest rates before they begin to rise. However risks and uncertainty remains in the financial markets. Therefore the timing of the decision to borrow long-term and for what period will require judgement.

4.21. The council has the option to secure assets through leasing, although it has not entered new leasing arrangements in recent years as part of its policy to minimise external borrowing while internal cash balances could be used. **Operational leases** were historically the preferred funding method for vehicles, plant and some small items of equipment on value for money grounds. For the past few years the policy has been to use capital receipts to cover the cost of new vehicle purchases, but the leasing option remains subject to a value for money test.

4.22. **Finance Leases**. When International Financial Reporting Standards were introduced some leases that were previously classified as operational were reclassified as Finance Leases. The accounting requirements for these leases are the same as if the council had purchased the asset and financed it from borrowing. There is no obvious benefit to leases of this kind at this time, but the option remains if value for money can be demonstrated.

4.23. **Use of LOBOs and structured debt.** Council policy has been not use these types of financial instruments and it is not proposed to change that policy.

4.24. **Limits on fixed and variable debt.** Use of variable debt is one way of reducing exposure to interest rate risk as rates tend to move in line with money market rates. There is no proposal to change the limits for variable debt, but the option should be considered as part of the wider borrowing and investment strategy.

4.25. **Limits on maturity.** An ideal borrowing strategy aims for an even profile of maturing debt, to minimise exposure to refinancing risk. This will be a guiding principle as the council resumes external borrowing. This can also limit the scale of the debt burden. At the same time the borrowing term should be matched to the likely life of the asset being financed.

4.26. **Debt rescheduling**. Repayment of debt before term through refinancing is an option for spreading the cost of borrowing in a way which is more affordable. This is of particular relevance at a time when revenue budgets are under unprecedented pressure. A premium is charged when repaying debt, which can raise the effective interest rate above the current market rate. This is a complex area and it is proposed that the council explores the benefits of rescheduling its debt. The Council currently does not have paid external advisers offering advice on such matters. It is therefore proposed that the Council review the potential benefits of using paid advisers on treasury matters. This would offer a source of dedicated specialist advice on borrowing and debt management issues.

4.27. **Minimum Revenue Provision (MRP).** Full Council is required to approve an MRP Policy in advance of each financial year. This ensures a prudent revenue provision is made to repay capital spend that is financed by borrowing. Capital expenditure not financed from grants, capital receipts or revenue contributions results in a net increase to the capital financing requirement. It represents an increase in the underlying need to borrow for capital purposes. An MRP provision is required whether or not external borrowing actually occurs. There are four main options for determining the MRP charge and a change is proposed this year.

4.28. The Council is recommended to approve the following statement:

North Lincolnshire Council will make prudent revenue provision for all borrowing. For supported borrowing undertaken before 2007/08 the council uses the CFR method. This is based on the Capital Financing Requirement (CFR), which can be derived from the balance sheet: MRP is equal to 4% of the CFR at the end of the preceding financial year.

For all new borrowing under the Prudential system the Council will make provision over the estimated life of the asset for which the borrowing is undertaken. Previously this has been calculated on the equal instalment method. From 2015/16 it is proposed to use the annuity method in line with the preferred form of future borrowing.

4.29. **Prudential indicators.** The Prudential Code sets out prudential indicators that must be used, and factors that must be taken into account to show that the council is fulfilling the aims of the code. The indicators are not intended to be comparative with other local authorities and the Code does not include suggested limits or ratios. They are designed to support and record local decision-making in a manner that is publicly accountable.

The proposed indicators are set out at **Appendix D** and in the Capital Report elsewhere on this agenda. They set limits on the maximum level of borrowing which may be made in the financial year, but can be revised by council if necessary at a later date. The limits have been set so as to allow borrowing to meet the needs of the capital programme, with an allowance for contingencies should adverse factors affect normal cash flow. They also set parameters for the maturity structure of debt and the mix of fixed and variable debt.

4.30. The Prudential Code requires the Director of Policy and Resources to monitor all prudential indicators. Regular monitoring is undertaken in-year. Significant variation in the estimates used to calculate these prudential indicators would trigger a report to the Director of Policy and Resources, which would lead to further investigation and action as appropriate.

4.31. Internal monitoring underpins reporting to Council, Cabinet and the Audit Committee. Reports go to the special meeting of Council to set the council tax (strategy approval); on the closure of accounts in June (end of year review); and mid-year. Cabinet receives treasury monitoring information as part of the budget review reports during the year. These are generally in June (outturn), September and January. The Audit Committee receives reports at its quarterly meetings.

4.32. The proposed **borrowing strategy for 2016/2017** is therefore:

- To plan to borrow for capital purposes
- To aim to borrow long-term to support the cost of the capital programme
- To borrow for cash flow purposes or to avoid long-term borrowing for a period should this be necessary
- To borrow for capital investment at a time most advantageous on cost. The Council will not normally borrow more than or in advance of its needs. Any decision to borrow in advance will be considered carefully to ensure value for money and that the Council can ensure security of such funds
- That the preferred method of borrowing should be by annuity loan, reserving the option to take an alternative approach where circumstances merit it (fixed interest, variable interest, maturity or EIP); from the most appropriate counterparty and best value for money
- To consider debt rescheduling.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1. Financial

The financial implications of this report are reflected in the 2016/20 financial plan and capital programme presented elsewhere on this agenda.

5.2 Staffing

From 1 April 2016 North and North East Lincolnshire Councils will operate a shared service for a range of corporate support functions. This includes the Accountancy Shared Service of which the treasury and capital function is a part. The pooling of expertise will strengthen the resilience by creating a team of three. It will be responsible for implementing the treasury strategies of both councils, but it will continue to manage each council's finances separately. Over time it is proposed that some alignment of Treasury Strategies will be required.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1. **Statutory**
Statutory and best practice requirements are taken into account when framing the Treasury Management Strategy.

6.2 Risk
Managing risk is key to the treasury strategy and is addressed in the body of the report. It runs through all the elements of the strategy.

The Council recognises the growing complexity of treasury management and the refocusing of the council to deliver its ambitions for the area. This includes making best use of its powers to support the regeneration of the area; to increase prosperity; and make its communities safer, stronger and more self-sufficient. A proposal is made to explore the benefit of procuring the services of paid advisers on treasury matters.

The service will continue to invest in treasury staff through appropriate training to ensure they have the skills and knowledge to meet the demands of the job.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1. Consultation not required. No known conflicts of interest.

8. RECOMMENDATIONS

8.1. That council approve

a) The Treasury Management Investment and Borrowing Strategy for 2016/17

b) The prudential indicators for 2016/19 at Appendix D

c) The revised policy on the Minimum Revenue Provision

d) The consideration of debt rescheduling

e) The list of approved financial institutions at **Appendix C;** and delegates to the Director of Policy and Resources the authority to make changes to the list as necessary, within the guidelines set by the Treasury Strategy. Any changes to be reported back to Council, Cabinet and Audit Committee as part of the regular reporting process.

f) And endorse the proposal to review whether benefit would result from procuring the services of paid advisers.

DIRECTOR OF POLICY AND RESOURCES

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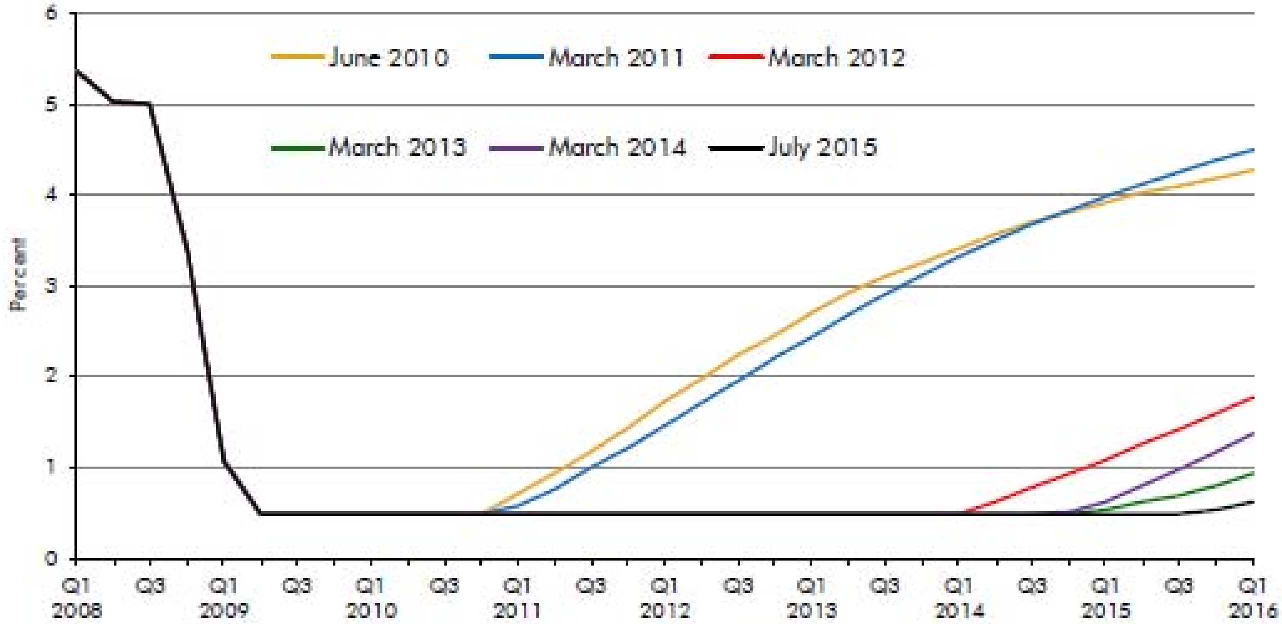
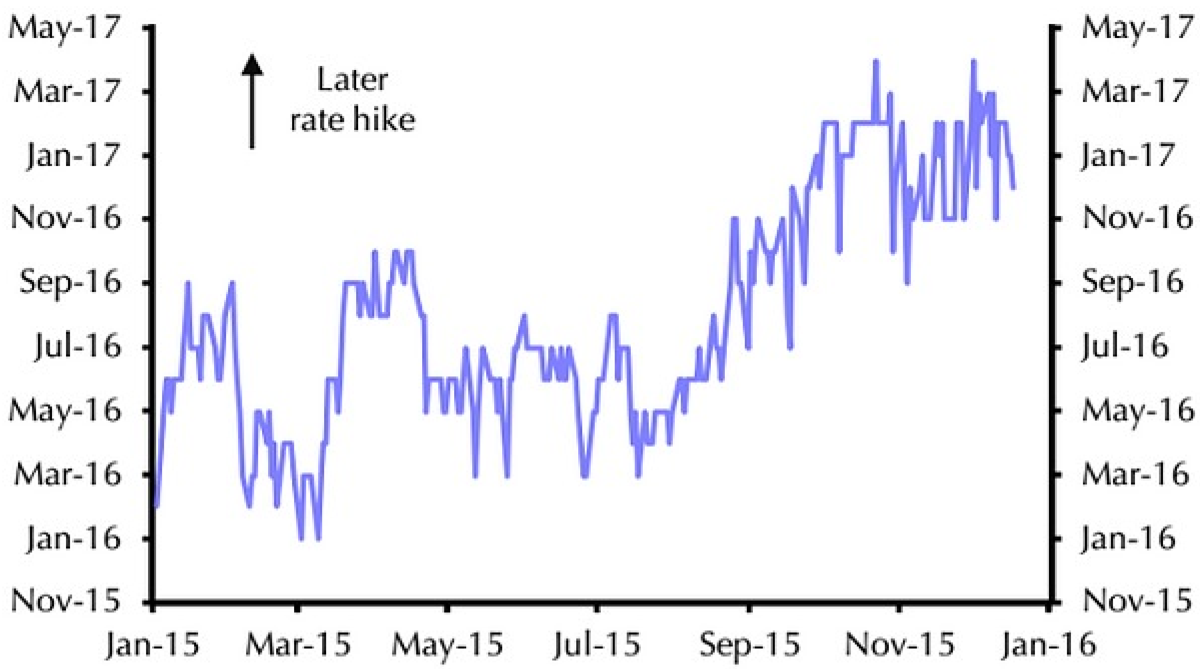
Background Papers used in the preparation of this report
CIPFA Treasury Management in the Public Services: Code of Practice 2011
CIPFA The Prudential Code Second Edition 2011
DCLG Guidance
Local Government Act 2003

Chart 2.8: Successive projections for Bank Rate

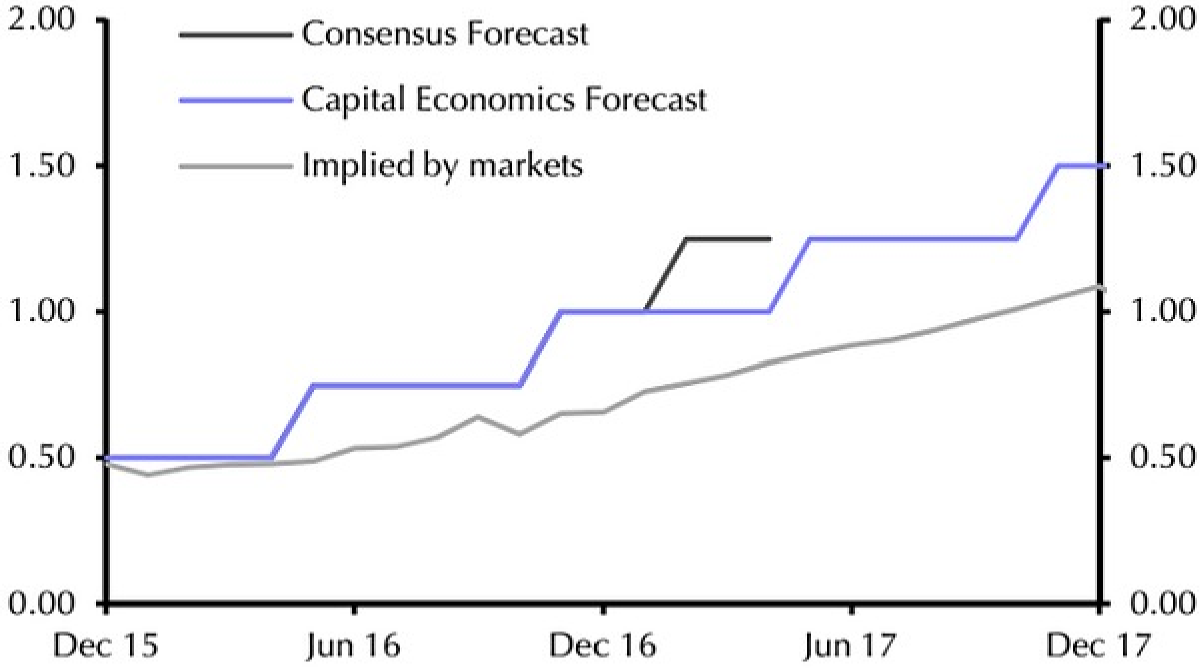


Source: Bank of England, OBR

Market expectation for the first rise in the Bank Rate



Sources – Bloomberg, Capital Economics



Sources – Bloomberg, Capital Economics

CREDIT RISK-Credit Ratings **Appendix B**

Audit Commission grading (for the purpose of standardisation)[1]	Fitch		Moody's		Standard and Poor's	
	Long term	Short term	Long term	Short term	Long term	Short term
Extremely strong grade	AAA	F1+	Aaa	P-1	AAA	A-1+
Very strong grade	AA+	F1+	Aa1	P-1	AA+	A-1+
	AA	F1+	Aa2	P-1	AA	A-1+
	AA-	F1+	Aa3	P-1	AA-	A-1+
Strong, but susceptible to adverse conditions grade (strong grade)	A+	F1+ F1	A1	P-1	A+	A-1+ A-1
	A	F1	A2	P-1 P-2	A	A-1+
	A-	F1 F2	A3	P-1 P-2	A	A-1+ A-2
Adequate grade	BBB+	F2	Baa1	P-2	BBB+	A-2
	BBB	F2 F3	Baa2	P-2 P-3	BBB	A-2 A-3
	BBB-	F3	Baa3	P-3	BBB-	A-3
Speculative grade	BB+	B	Ba1	Not prime (NP)	BB+	B-1
	BB	B	Ba2	NP	BB	B-2
	BB-	B	Ba3	NP	BB-	B-3
Very speculative grade	B+	B	B1	NP	B+	-
	B	B	B2	NP	B	-
	B-	B	B3	NP	B-	-
Vulnerable grade	CCC	C	Caa1	NP	CCC+	C
	CCC	C	Caa2	NP	CCC	C
	CCC	C	Caa3	NP	CCC-	C
	CC	C	-	NP	CC	C
	C	C	Ca	NP	C	C
Defaulting grade	D	D	C	NP	D	D

Source: Audit Commission adaptation of information from Fitch, Moody's and Standard and Poor's

COUNTERPARTY LIST — APPENDIX C

BANKS	**Fitch**		**Moody's**		**Standard & Poor's**		**Counterparty Limit**
	ST	**LT**	**ST**	**LT**	**ST**	**LT**	**£m**
United Kingdom							
Barclays Bank	F1	A	P-1	A2	A-2	A-	£10m
HSBC Bank	F1+	AA-	P-1	Aa2	A-1+	AA-	£7m
Santander UK	F1	A	P-1	A1	A-1	A	£7m
Standard Chartered Bank	F1	A+	P-1	Aa2	A-1	A+	£7m
Lloyds Banking Group							£7m
Bank of Scotland	F1	A+	P-1	A1	A-1	A	
Lloyds Bank	F1	A+	P-1	A1	A-1	A	
RBS Group							£4m
National Westminster Bank	F2	BBB+	P-2	A3	A-2	BBB+	
Royal Bank of Scotland	F2	BBB+	P-2	A3	A-2	BBB+	

BUILDING SOCIETIES	**Fitch**		**Moody's**		**Standard & Poor's**		**Counterparty Limit**
	ST	**LT**	**ST**	**LT**	**ST**	**LT**	**£m**
Nationwide	F1	A	P-1	A1	A-1	A	£7m
Coventry	F1	A	P-1	A2			£7m
Leeds	F1	A-	P-1	A2			£7m
Yorkshire	F1	A-	P-2	A3			£4m
Principality	F2	BBB+	P-3	Baa3			£4m
Skipton	F2	BBB+	P-2	Baa2			£4m
GOVERNMENT INSTITUTIONS							
Debt Management Office							Unlimited
Local authorities							
Parish Councils							£0.05m
District Council's							£4m
All Other LA's							£5m
Fire Authorities							£5m
Police authorities							£5m

MONEY MARKET FUND	**Fitch**	**Moody's**	**Standard & Poor's**	**Counterparty Limit**
Funds rated by at least one agency as:	AAAmmf	Aaa-mf	AAAm	£5m

NOTE: Credit Ratings correct at 6 January 2016.

Prudential Indicators for 2016/17 to 2019/20 Appendix D

Adoption of the CIPFA Code of Practice

The first prudential indicator is that the Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Service. It was adopted by the Council in October 2002, and as subsequently revised in 2011.

Authorised Limit

The Council is asked to approve authorised limits for its total external debt gross of investments for the next three financial years.

Authorised limit for external debt	**2016/2017**	**2017/18**	**2018/19**
	£'000	**£'000**	**£'000**
Borrowing	257,000	254,000	247,000
Other Long Term Liabilities	5,000	5,000	5,000
TOTAL	262,000	259,000	252,000

These authorised limits are consistent with the Council's current commitments and capital strategy. They represent the worst case scenario.

Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement, debt repayments and estimates of cashflow requirements.

Operational Boundary

The proposed operational boundary for external debt is based on similar estimates to the authorised limit. It reflects the maximum external debt projected by the estimates but reflects a prudent and not worst case position. In practice this limit is unlikely to be breached.

Operational boundary	**2016/2017**	**2017/18**	**2018/19**
	£'000	**£'000**	**£'000**
Borrowing	205,000	202,000	196,000
Other Long Term Liabilities	2,000	2,000	2,000
TOTAL	207,000	204,000	198,000

Actual External Debt

The prudential indicator for actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt will reflect the actual position at one point in time. This prudential indicator will be the closing balance for actual gross borrowing plus other long term liabilities taken directly from the balance sheet. Actual external debt at 31 March 2015 was £105.8m (£107.8m 31 March 2014).

Interest Rate Exposure

The Council must set an upper limit on its fixed interest rate exposures and an upper limit on its variable rate exposures. No change is proposed to current limits.

	2016/2017	**2017/18**	**2018/19**
	%	**%**	**%**
Upper limit for fixed rate exposure	100	100	100
Upper limit for variable rate exposure	20	20	20

Maturity Structure of Borrowing

The Council must set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. No changes are proposed to current limits.

Maturity structure of borrowing	**Upper Limit**	**Lower Limit**
Under 12 months	20%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	90%	25%

Total principal sums invested for periods longer than 365 days

The Council does not plan to invest, for periods longer than 365 days.