East Devon District Council Treasury Management Strategy 2017/18

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

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1. **Introduction**

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council's risk or cost objectives.

The Council operates its treasury management function with reference to the Chartered Institute of Public Finance & Accounting Guidance laid out in the Code of Practice for Treasury Management in Public Services (CIPFA Code) and the Department for Communities & Local Government (CLG) Guidance on Local Government Investments.

CIPFA defines treasury management as:

> *"The management of the local 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."*

The Council adopts the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. All treasury management matters are undertaken in accordance with the code, which recommends best practice in treasury management, including setting a strategy and reporting requirements.

1.2 Reporting Requirements

Under the CIPFA Code and CLG Guidance the Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and Treasury Indicators and Treasury Strategy

This, the first, and most important report covers:

- the capital plans (including prudential indicators);

- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report

This will update members with the progress of the capital position, amending prudential indicators as necessary, and noting whether any policies require revision.

An annual treasury report

This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

In addition to the above reports, Cabinet will be provided with an overview of treasury return against budget and prediction of likely outturn and year end variance as part of the financial monitoring reports presented to Members throughout the year.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by Cabinet.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital issues

- the capital plans and the prudential indicators; and
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and,
- policy on use of external providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training and Review

The CIPFA Code requires the Strategic Lead Finance (Section 151 Officer) to ensure that all Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny for treasury management. The following training has been undertaken by Members. During October 2015 Capita Asset Services provided a training session tailored towards Members in relation to treasury management. In addition, individual Members are given the opportunity to meet the Council's Treasury team to discuss treasury matters.

The training needs of treasury management officers are periodically reviewed. There is a post with specific responsibility for treasury management within the accountancy team and the Council is committed to ensuring the holder has the relevant qualifications and has access to the training and support required to undertake this role.

In addition, the Council's treasury management team is a member of the South West Treasury Management Benchmarking Group hosted by Capita Asset Services. This group has members from approximately 14 authorities and provides a forum for interpreting Treasury Management data across the area and sharing best practice. The group also allows the opportunity to consider any potential forthcoming treasury management risks, the early identification of which can aid proactive investment management.

The Council maintains an internal audit function through the South West Audit Partnership (SWAP). SWAP undertakes a periodic internal audit review of the treasury management function. In the latest audit by SWAP, which covered the 2015/16 financial year, the treasury management function was given a Substantial Opinion, which is the highest level of assurance available.

Further review is also provided by the external audit team, currently KPMG, who consider the reporting of treasury management data within the financial statements as part of their external audit opinion work.

1.5 Treasury Management Consultants

The Council uses Capita Asset Services, Treasury Solutions as its external treasury management advisors.

The Council 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.

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

2 THE CAPITAL AND PRUDENTIAL INDICATORS 2015/16 – 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirmation of the capital expenditure plans.

These indicators help show the effect of the financing and borrowing strategy that the Council plans to adopt over the next three financial years.

The Prudential Code and the indicators set, support the system of capital investment in the authority. They are set with regard to:

- Service objectives – strategic planning for the authority
- Stewardship of assets – asset management planning
- Value for money – option appraisal
- Prudence and sustainability – external borrowing implications
- Affordability – implications for council tax and housing rents
- Practicality – achievability of the forward plan

The indicators also act as an early warning system, to flag up if the Council decides to set capital programmes without the necessary finances to fund them.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 1 shows both actual capital expenditure incurred in 2015/16 and estimates for the years 2016/17 to 2019/20.

Table 1. Total Capital Expenditure to be incurred (Actual and Estimated)

	Actual	**Per 17/18 Estimates**			
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**
General Fund	5,064	*10,901	7,996	5,678	1,342
HRA	479	2,953	625	625	625
Sub Total	**5,543**	**13,854**	**8,621**	**6,303**	**1,967**
Major Repairs	4,764	5,150	4,466	4,466	4,466
Total	**10,307**	**19,004**	**13,087**	**10,769**	**6,433**

*This includes the estimated £6m for the refuse contract fleet.

These figures show the Council's capital programme net of any grants or contributions received from third parties. The total capital expenditure also includes that related to major repairs, which for accounting purposes is shown within the HRA. The above financing need excludes other long term liabilities, such leasing arrangements which already include borrowing instruments.

The Council's Capital Programme is funded from various sources:

- Use of capital receipts (sale proceeds from assets)
- Contributions from revenue budgets
- Capital grants e.g. Environment Agency Grants, Disabled Facility Grant
- Contributions from other parties e.g. Devon County Council

Table 2 below summarises the above capital expenditure plans per the budget and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2. Financing of Capital Expenditure					
	Actual	**Per 2017/18 Estimates**			
Capital expenditure	**2015/16 £000**	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Non-HRA	5,064	10,901	7,996	5,678	1,342
HRA	5,243	8,103	5,091	5,091	5,091
Total	**10,307**	**19,004**	**13,087**	**10,769**	**6,433**
Financed by:					
Capital receipts	(1,166)	(1,473)	(625)	(1,625)	(7,571)
Grants	(1,312)	(3,968)	(3,095)	(2,780)	(2,697)
Reserves	(1,539)	(934)	(1,478)	2,462	4,125
Revenue contributions to capital funding	(4,840)	(5,479)	(4,466)	(4,466)	(4,650)
Repayment of loans linked to a specific capital receipt	0	0	0	0	4,360
Internal borrowing	0	(7,150)	0	0	0
Net financing need for the year	**1,450**	**0**	**3,423**	**4,360**	**0**

Any planned expenditure in excess of the above funding streams is known as an unfunded balance which can be met from reserves or borrowing. The Capital Reserve at the 2015/16 year end stood at £2.405m.

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility within the lease payment and so the Council is not required to separately borrow for these schemes. As at the end of 2015/16 the Council will have no such schemes within the CFR.

In summary the CFR represents the Council's underlying need to borrow for capital purposes less any principal already repaid.

Table 3 shows both the actual CFR for 2015/16 and the estimates for 2016/17 to 2019/20. The Council is asked to approve these projections.

Table 3. Capital Financing Requirement (CFR)					
	Actual	**Per 17/18 Estimates**			
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**
General Fund	2,037	1,612	4,912	5,720	1,228
Housing Revenue Account	83,398	81,908	80,597	79,010	77,093
Totals	**85,435**	**83,520**	**85,509**	**84,730**	**78,321**
Movement in CFR	**(436)**	**(1,915)**	**1,989**	**(779)**	**(6,409)**
Movement in CFR Represented by					
Net Financing need for the year	1,450	0	3,423	4,360	0
Less MRP* and other financing movements	(1,886)	(1,915)	(1,434)	** (5,139)	*** (6,409)
	(436)	**(1,915)**	**1,989**	**(779)**	**(6,409)**

* MRP – Minimum Revenue Provision

** This includes the repayment of temporary borrowing in 2017/18

*** This includes the repayment of the short-term office relocation loan.

2.3 Current Portfolio Position of Gross Debt

Table 4 shows the Council's gross debt for 2015/16 and the estimated debt balance at each year end from 2016/17 to 2019/20. This includes the potential short-term cash flow borrowing.

Table 4. Total Borrowing Outstanding					
	Actual	**Per 17/18 Estimates**			
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**
Borrowing					
General Fund	2,037	1,962	7,262	8,080	3,598
Housing Revenue Account	83,398	81,908	80,597	79,010	77,093
Total Borrowing	**85,435**	**83,870**	**87,859**	**87,090**	**80,691**

2.4 Gross Debt v Capital Financing Requirement (CFR)

A comparison of the Council's Gross Debt to CFR is required by the Prudential Code, with explanations of any variances, to ensure that over the medium term the council only borrows to fund its capital programme. This is shown in Table 5.

Table 5. Gross Debt v Capital Financing Requirement					
	Actual	**Per 17/18 Estimates**			
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**
Gross Debt	85,435	83,870	87,859	87,090	80,691
Total CFR	85,435	83,520	85,509	84,730	78,321
Sub total	**0**	**350**	**2,350**	**2,360**	**2,370**
Cash Flow Borrowing	0	350	2,350	2,360	2,370
Variance	**0**	**0**	**0**	**0**	**0**

The cash flow borrowing above represents the maximum bank overdraft plus an estimate of potential short term funding to cover year end requirements. The strategy is managed to avoid such short term, and it is unlikely that this borrowing will need to be called upon but it has been included here to reflect a potential 'worse case' scenario. This table clearly demonstrates that the borrowing undertaken is only to fund the Council's capital programme.

2.5 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement*:*

For all unsupported borrowing (including finance leases) the MRP policy will be:

- Asset life (Annuity) Method; – MRP is the principal element for the year of the annuity, required to repay over the asset life, the amount of capital expenditure financed by borrowing (option 3).

This option provides for a reduction in the borrowing need over approximately the asset’s life. The use of this option by EDDC is consistent with the prior year, and is recognised by CIPFA as being the most popular option in practice.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made. In practice a loan repayment scheme has been defined based on the business plan, with a balance being struck between repaying as soon as possible and allowing the HRA to generate sufficient surpluses as a cushion against uncertainties and to carry out improvements to stock.

Repayments included for finance leases are applied as MRP.

2.6 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council’s overall finances.

The Council is asked to approve the following indicators:

2.6.1 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Table 6 shows how this indicator is calculated. A positive figure indicates external debt.

Table 6. Basis of Calculation for Ratio of Financing Costs to Net Revenue Stream				
General Fund (GF):				
Financing costs Minimum Revenue Provision Plus Interest charged on loans and Finance Leases Less Interest earned on investments	÷	**Budget requirement** Revenue Support Grant + Council Tax	=	**The ratio of financing costs to net revenue stream (General Fund)** as a %
Housing Revenue Account (HRA):				
Financing costs Voluntary Revenue Provision Plus Interest charged on loans and Finance Leases Less Interest earned on investments	÷	**Budget requirement** Council house tenants income +/- Contribution to or from HRA reserves	=	**The ratio of financing costs to net revenue stream (HRA)** as a %

Table 7 shows both the actual ratio of financing costs to net revenue stream for 2015/16 and the estimates for 2016/17 to 2019/20.

Table 7. Ratio of Financing Costs to Net Revenue Stream					
	Actual	**Per 17/18 Estimates**			
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	%	**%**	**%**	**%**	**%**
General Fund	(1.60)	(3.07)	(2.97)	(2.88)	(4.21)
HRA	20.89	23.40	22.60	23.82	24.67

The estimates of financing costs include current commitments and the proposals in the budget report.

The General Fund ratio reflects the estimation that a higher level of investment income is received compared to that paid out in borrowing. These ratios do not include the impact of financing ‘political’ investments such as associated with Beer CLT, as the latter are cost neutral to the Council and therefore do not impact tax payers.

The HRA ratio changes are as a result of the principal associated with the HRA self financing loans becoming due.

2.6.2 Incremental Impact of Capital Investment Decisions on Council Tax and Average Weekly Housing Rents

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council’s existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as some aspects of Government support, which are not published over a three year period.

Table 8 shows the incremental impact of capital investment decisions proposed in the budget report. Only the financing costs associated with the General Fund capital loans are included within the calculation of impact on annual council tax, and only the financing costs associated with HRA capital loans are included within the calculation of the impact on average weekly housing rent. These figures have been adjusted in the same way as those in Table 7, as explained above.

Table 8. Incremental Impact of New Capital Investment Decisions on Council Tax and Weekly Housing Rents					
	Actual	**Per 17/18 Estimates**			
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£	**£**	**£**	**£**	**£**
Band D Annual Council Tax	1.30	1.28	1.05	2.11	1.46
Average Weekly Housing Rent	16.34	18.47	17.63	18.89	20.36

The indicator takes into account the Council Tax base of 57,477 (2016: 56,404) and housing stock of 4,188 (2016: 4,211) for 2017/18.

3 Borrowing

The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the annual investment strategy.

Currently all project borrowing is undertaken via the Public Works Loan Board (PWLB), however officers review alternative sources of borrowing and select those offering the lowest cost to the Council at the time the funding is required.

3.1 General Fund

The Council's General Fund (GF) currently has one annuity loan associated with the delivery of services. This is in relation to recycling and refuse and it will have a remaining capital balance of £0.266m as at the end of 2016/17. The annual debt repayment for this loan is £0.072m (including interest of £0.011m for 2016/17). This loan is at a fixed rate of interest and includes an annual repayment of both principal and interest, which due to its nature vary each year depending on the loan balance.

During 2015/16 the Council borrowed £1.45m from PWLB to finance a loan issued to Leisure East Devon (LED) to fund the leisure centre enhancement programme. In effect this loan should not cost EDDC anything as LED is responsible for covering the principal and interest repayments. A further facility of £0.4m was available to be drawn down by LED, and this was drawn down in December 2016 on similar terms to the previous advances. Although it had been planned to take out a loan from PWLB to cover this additional cash flow, it has been financed by internal disinvestment instead.

During 2016/17, the GF repaid the maturity loan of £0.305m from PWLB. The Council had previously loaned the same amount onto Beer Community Land Trust Limited at the same rates as those charged to EDDC by PWLB. Also, during 2016/17, Beer Community Land Trust repaid the Council £0.015m, leaving £0.290m outstanding. A refinancing agreement for this amount has been put in place so that Beer Community Land Trust continues to be responsible for interest on and repayments on this lower amount. Having repaid the PWLB loan, the Council now finances this cash flow by internal disinvestment.

In practice the borrowing strategy is dependent on the amount and timing of expenditure, given the market conditions at the time, and the capital financing requirement is likely to be funded via a combination of external fund disinvestment, and/or loans from PWLB.

3.2 Housing Revenue Account (HRA)

As at 31 December 2016 the HRA had 23 PWLB Loans totalling just over £83.4m. Of these, 22 are maturity loans (principal repayable at the end of the loan) varying in remaining duration from 1 - 22 years taken out under the Government's self financing regime. The 23rd loan is an annuity loan (repaying principal each year) which was taken out in March 2011 for 17 new build properties. It is expected that the 2017/18 year-end position on these loans will be £80.6m.

The remaining capital balance on the 22 maturity PWLB loans will total £81.3m at the end of this financial year. The interest payments associated with these loans is £2.5m during this financial year.

The loan repayments have been profiled in line with the business plan, whereby the HRA generates resources to be able to repay the principal, with a balance being struck between repaying as soon as possible and allowing the HRA to generate sufficient surpluses as a cushion against uncertainties and enabling it to carry out improvements to stock.

The HRA annuity loan will have an outstanding capital balance of £0.619m at the end of this financial year. During 2016/17 £0.039m was paid out against this loan which included interest of £0.006m. This loan is at a fixed rate of interest and includes an annual repayment of both principal and interest, which due to its nature vary each year depending on the loan balance.

The estimated effect of these Capital loans is a decrease of £0.23 in the proportion of the Council's Band D tax level used for capital financing costs. This decreases from £1.28 in 2016/17 to £1.05 in 2017/18, (Table 8).

The actual effect of financing these loans on average weekly rents was £16.34 in 2015/16, (£14.24 in 2014/15), (Table 8).

3.3 Cash Flow or Temporary Borrowing

In addition to borrowing for capital purposes, the Council also borrows in the short-term to meet day to day shortages in its call account. This borrowing requirement is inherent within the operation of this account and is normally covered overnight via the call account overdraft and cleared the next day.

In some instances, particularly around the year end, the overdraft may not provide a sufficient short-term buffer, and in these instances the Council can borrow via the market at fixed rates for a fixed term of less than 3 months.

At the end of 2015/16 there was no requirement for short-term borrowing over the year end, and currently there is no indication that such borrowing will be required at the end of 2016/17.

3.4 Treasury Indicators: Limits to Borrowing activity

As part of the CIPFA code for Treasury Management it is recommended that the Council is informed of the anticipated borrowing limits required for the forthcoming financial year.

In addition to loans mentioned earlier, the Council will still need to make use of short term borrowing to meet day to day cash flow shortfalls.

The limits on the level of borrowings are stated below at 3.5 and 3.6.

3.5 The Operational Boundary for External Debt

This is the limit which external debt is not normally expected to exceed. This is the prudent level of external debt that the Council estimates will be required during any one year in terms of its capital financing and cash flow requirements. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. The Council is asked to approve these limits and to delegate authority to the Section 151 Officer to be allowed to exceed these agreed limits if necessary, and report back to Cabinet, immediately after the event.

Table 9 shows both the actual operational boundary for external debt for 2015/16 and the estimates for 2016/17 to 2019/20. The operational boundary for any particular year has to be the higher of the opening and closing positions during that year.

Table 9. Operational Boundary for External Debt (Estimated)

	Actual	Per 17/18 Estimates			
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**
Borrowing - General Fund	2,037	2,037	7,262	8,080	8,080
Other LTL's* - General Fund	361	0	0	0	0
General Fund Total	**2,398**	**2,037**	**7,262**	**8,080**	**8,080**
Borrowing - HRA	84,426	83,398	81,908	80,597	79,010
Other LTL's* - HRA	0	0	0	0	0
HRA Total	**84,426**	**83,398**	**81,908**	**80,597**	**79,010**
Overall Total	**86,824**	**85,435**	**89,170**	**88,677**	**87,090**

*LTL's – Long Term Liabilities, e.g. Finance lease costs.

3.6 The Authorised Limit for External Debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

There is also a statutory limit determined under section 3 (1) of the Local Government Act 2003. In this case the Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The authorised limit is based on the Council's estimate of the most likely and prudent requirement for external debt (borrowing) during the year (the operational boundary) plus additional headroom for unanticipated cash movements, including those due to slippage.

For the General Fund the headroom is set at £3.0m.

For the HRA a debt cap of £87.844m set by the Government as the authorised limit has been used.

External debt is the sum of both debt to fund capital items, and short term borrowings to meet day to day cash flow variations.

In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt and to delegate authority to the Section 151 Officer (Strategic Lead Finance), to operate within the total limit for any individual year.

It is the duty of the Section 151 Officer to ensure that the authorised limits are consistent with the Council's current and future capital requirements. These limits should take account of risk management strategies, with regard to capital schemes and all future cash flow predictions, including the headroom referred to above for unexpected cash movements.

Table 10 shows the actual external debt for 2015/16 and the Authorised Limit for external debt for 2016/17 to 2019/20, based on estimates for capital expenditure and financing. The Council is asked to approve the following authorised limits:

Table 10. Authorised Limit for External debt (Estimated)					
	Actual	**Per 17/18 Estimates**			
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**
Borrowing - General Fund	2,037	5,037	10,262	11,080	11,080
Other LTL's* - General Fund	361	0	0	0	0
General Fund Total	**2,398**	**5,037**	**10,262**	**11,080**	**11,080**
Borrowing - HRA	84,426	87,844	87,844	87,844	87,844
Other LTL's* - HRA	0	0	0	0	0
HRA Total	**84,426**	**87,844**	**87,844**	**87,844**	**87,844**
Overall Total	**86,824**	**92,881**	**98,106**	**98,924**	**98,924**

*LTL’s – Long Term Liabilities, e.g. Finance lease costs.

The Council’s actual external debt at 31 March 2016 was £86.82m (General Fund £2.40m and HRA £84.42m).

3.7 Prospects for Interest Rates

The Council has appointed Capita Asset Services as its treasury advisor and part of its service is to assist the Council to formulate a view on interest rates.

Appendix 1 provides the full detail of Capita’s interest rate forecast and central view.

The key point to note being that the bank rate is currently forecast to remain at 0.25% until the quarter to June 2019 when it is forecast to increase to 0.50%, with a further increase to 0.75% in the quarter to December 2019.

3.8 Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs and improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and,
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing within the same period, and the Council is required to agree upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

3.9 Interest Rate Exposure

Based on the projected investment and borrowing requirements of the Council over the next three years the upper limit on fixed and variable interest rate exposure is outlined in Table 11. These rates are consistent with those in the 2016/17 strategy.

Table 11. Interest Rate Exposure

	General Fund		HRA	
	Fixed	**Variable**	**Fixed**	**Variable**
2017/18 Limits				
Borrowing	100%	20%	100%	20%
Investments	60%	100%	60%	100%
2018/19 Limits				
Borrowing	100%	20%	100%	20%
Investments	60%	100%	60%	100%
2019/20 Limits				
Borrowing	100%	20%	100%	20%
Investments	60%	100%	60%	100%

With the exception of the bank overdraft, all borrowing the Council undertakes is at a fixed rate of interest.

Investments have a 100% variable upper limit, as currently the majority of returns are variable including the external investment funds, ‘savings’ account, and money market fund investments. The fixed element of investments reflect fixed deposits, and non-treasury management, policy based investment decisions. All investments of this nature are on a fixed term basis, whereby any interest chargeable on a project is then recharged on to the project itself, the idea being that in cost terms there is a nil impact on the Council. The loan to LED as referred to elsewhere within this report is one such example of a policy based investment decision.

The upper limit on variable borrowing at 20% ensures a level of certainty for Council borrowing, and thus cash outflows. The upper limit on fixed investments helps to protect the council from interest rate risk. For example it is not in the best interests of the Council to have too much cash tied up in a fixed return investment in the event of an interest rate rise, which would mean better returns may be had elsewhere. Variable rate investments often track the base rate, thus removing the risk associated with upward interest rate changes.

3.10 Maturity Structure of Borrowing

This is the amount of projected long term capital borrowing that is due for repayment in each period expressed as a percentage of total borrowing. A limit is set to reduce the Council’s exposure to large sums falling due in any one period.

At any point the actual percentages of debt projected to mature in each year will add up to 100%, but the proposed indicator is for a range of approved percentages. This gives discretion within an approved range to the treasury team. It does mean that each ‘set’ of figures will sum to more than 100%.

The council is asked to approve the following limits as outlined in Table 12:

Table 12. Limits on Maturity Structure of Fixed Rate Borrowing as % of Total Borrowing

		General Fund		HRA	
		Upper Limit	Lower Limit	Upper Limit	Lower Limit
Current Year	2016/17	20%	0%	20%	0%
Next yr	2017/18	20%	0%	20%	0%
Y2-5	2018/19 - 2021/22	85%	0%	20%	0%
Y6 -10	2022/23 - 2026/27	20%	0%	25%	0%
Y11+	2027/28 – 2056/57	25%	0%	80%	0%

The upper limit in the General Fund for year’s two to five is due to the impact of cash flow timings associated with the repayment of the potential relocation

loan. This loan is funded from capital receipts associated with the project and therefore does not represent a significant maturity risk to the Council.

Within the HRA the majority of the loans are over the longer term, as aligned to the HRA business plan, resulting in the upper limit being higher from 2027 onwards.

The upper limits on the maturity structure of borrowing will shift slightly each year as the maturity dates draw closer. However the limits shown are in line with expectations based on the funding plans.

The actual amounts maturing in each period are shown in Table 13 and reflect both the actual and potential loan commitments as referred to elsewhere within this strategy.

Based on capital borrowing plans included in the budget the current projected maturity structure of borrowing is shown in Table 13:

Table 13. Estimated Maturity Structure of Fixed Rate Borrowing as % of Total Borrowing

		General Fund		HRA	
		Projected Borrowing Amount Maturing £000	Total	Projected Borrowing Amount Maturing £000	Total
Current Year	2016/17	425	4.33%	1,490	**1.79%**
Next yr	2017/18	124	1.26%	1,310	**1.57%**
Y2-5	2018/19 - 2021/22	8,249	83.99%	8,383	**10.05%**
Y6 -10	2022/23 - 2026/27	369	3.76%	18,750	**22.48%**
Y11-20	2027/28 - 2036/37	654	6.66%	52,876	**63.40%**
Y21-30	2037/38 - 2046/47	0	0%	450	**0.54%**
Y31-40	2047/48 - 2056/57	0	0%	139	**0.17%**
		9,821	**100.00%**	**83,398**	**100.00%**

In addition to the above, the Council has an overdraft limit of £0.35m and can, if required, borrow for periods less than 3 months at fixed rates, in order to meet daily cash flow requirements. The strategy is managed so as to avoid short term fixed borrowing where possible.

3.11 Upper Limit for Total Principal Sums Invested over 364 days

Only the Council's external funds can be invested for over 364 days and these total £30.94m. In practice the Council can access this money with 3 days notice.

3.12 Policy on Borrowing in Advance of Need

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. For example the Council cannot borrow in advance of need purely to profit from the investment of extra sums borrowed.

The Strategic Lead Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Borrowing in advance will be made within the constraints that it will:

- be limited to no more than the expected increase in borrowing need;
- occur not more than 12 months in advance of need); and,
- be agreed with the Section 151 Officer and Portfolio Holder for Finance in advance.

The risks associated with any borrowing in advance will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.13 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential 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 current treasury position and the cost of debt repayment (premiums incurred).

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 treasury strategy;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Cabinet at the earliest meeting following its implementation.

4 Annual Investment Strategy

4.1 Investment Policy

The Council’s investment policy has regard to the CLG’s Guidance on Local Government Investments (“the Guidance”) and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”).

The Council’s overriding investment policy objective is to prudently manage the Council’s funds, ensuring that risks are minimised whilst maximising returns. The Council’s investment priorities in order of importance are:

- Security of the invested capital
- Liquidity of the invested capital
- Yield (return on investment)

In accordance with the above objective and in order to minimise risk to the principal sums invested, the Council sets parameters which are assessed when considering the credit risk of potential counterparties to include on the lending list. These parameters include the minimum acceptable credit quality of counterparties, i.e.their creditworthiness, and their net asset value as applicable. The counterparty list also enables diversification and thus avoidance of concentration risk.

The creditworthiness methodology used to create the counterparty list takes account of the ratings, watches and outlooks published by three ratings agencies, as advised by CIPFA. The agency data used is that published by Fitch, Moody’s, and Standard & Poors.

The Council’s officers recognise that ratings should not be the sole determinant of the quality of an institution and therefore other sources of information are used as relevant including:

- Financial press articles (macro-economic, banking, and individual institutions)
- Share price
- Other information pertaining to the banking sector
- Annual accounts of Building Societies

4.2 Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and criteria for choosing investment counterparties with adequate security, as well as monitoring that security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Strategic Lead Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified and this list provides an overall pool of counterparties considered high quality which the Council may use, rather than defining the types of investment instruments that are to be used (i.e. cash, floating rate notes, and certificates of deposit).

Counterparty ratings are monitored on a real time basis via notifications received from Capita Asset Services as the agencies publish modifications. In addition a full review of the counterparty list is carried out on a regular basis.

The security of the Council's financial assets is paramount, and whilst the strategy needs to be clear in this area it also needs be sufficiently comprehensive and itterative in order to provide operational flexibility within, what at times, is a volatile macroeconomic environment. As the financial backdrop changes it is essential that the strategy is set to enable an efficient response to those changes.

The 2017/18 strategy allows for investments of up to £2.0m to be deposited with UK incorporated banks, or those banks entitled to receive UK deposits. However the reality is that the banks have not been willing to accept cash investments for the amounts and periods the Council has been able to offer. Market sentiment indicates that this will continue into the foreseeable future with the added risk that call account returns are likely to reduce. This demonstrates that whilst it is important to include a range of parameters within a comprehensive strategy it is also important to recognise the practicality of such parameters.

The Council manages the majority of its internal investments via money market funds and a range of building societies in line with the creditworthiness criteria referred to below.

In order to address the need for flexibilty, and to ensure the spread of risk, access to an investment portal has been arranged which allows officers to

review and potentially transact with a small range of money market funds directly. All money market funds considered suitable with reference to the creditworthiness criteria will be approved for use by the Section 151 Officer before an account is opened. The Council currently has access to four money market funds; if appropriate operationally, consideration will be given to opening an additional money market fund in the future.

This strategy was changed to include corporate bonds within its creditworthiness criteria for the first time in 2016/17. The reason behind this is to provide further investment opportunities given the particularly low returns currently being offered by several of the building societies commonly used by EDDC. Investments in corporate bonds are limited to a duration of less than 1 year, must be AAA rated and have a maximum value of £2m per investee. The Council will not trade corporate bonds directly, but will trade via a specialist investment intermediary, whose fee is linked to the return. Given the short duration it is anticipated the majority of trades will be via the secondary market.

A very difficult investment environment remains. Whilst counterparty risk appears to have eased, it remains at elevated levels and economic forecasts abound with uncertainty. However, the UK also has a very accommodating monetary policy - reflected currently in a 0.25% bank rate.

EDDC's Treasury Management Strategy therefore needs to be sufficiently flexible to allow it to adapt to changing economic circumstance whilst ensuring the security of funds invested.

The Council's proposed creditworthiness criteria are included in the Table 14 below.

Table 14. Creditworthiness Criteria		
Organisation	**Criteria**	**Max Amount**
External (Long Term) Investment Fund		
Collective investment schemes (e.g. bond funds)	AAA long-term rating backed up with lowest volatility rating (V1/S1)	60% of External Fund total
Cash Flow/Internal Investments		
Deposit Building Societies	With over £5 Billion in total assets	£3m
Deposit Building Societies	With over £1 Billion in total assets	£2m
Deposit with UK incorporated Banks	Minimum F1, A1 or P1 short term backed up by A long term credit rating	£2m

Deposit with Banks Incorporated outside the UK but entitled to accept deposits in UK	Minimum F1+, A1+ or P1+ short term backed up by AA- long term credit rating	£2m
Money Market Funds	AAA long-term rating	£3m
UK Local, Police & Fire Authorities		£3m
UK Government Treasury Bills/Gilts		No limit
Corporate Bonds	AAA and less than one year duration	£2m

The ‘deposits’ referred to in Table 14 refer to either cash, floating rate notes or certificates of deposit.

The Council will not invest in subsidiaries that do not have a credit rating in their own right and a separate FSA licence from the parent company.

In the event of a downgrade resulting in a counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

Any changes in counterparty ratings or other criteria that put the counterparty below the minimum criteria whilst the Council holds a deposit will be brought to the attention of the Strategic Lead Finance and the Portfolio Holder for Finance immediately, with an appropriate response decided on a case-by-case basis.

The Council’s current counterparty list is included at Appendix 3.

It is recommended that Cabinet approves the creditworthiness criteria above.

4.3 Specified and Non-Specified Investments

Specified Investments are required to be in Sterling and have a maximum maturity of 1 year and be of ‘high credit quality’.

The definition of ‘high credit quality’ is set out below:

- Investments in Banks Incorporated in the UK with a credit rating of at least A/F1, A1 or P1 with a limit of £2m on the amount invested.

- Investments in Banks Incorporated outside of the UK but entitled to accept deposits in the UK, per the Bank of England Prudential

Regulation Authority list of banks, with a credit rating of at least AA-/F1+/A1+/P1 with a limit of £2m on the amount invested.

- Investments in collective investment schemes, including money market funds, structured as Open Ended Investment Companies (OEIC's) with a long term rating of AAA for Constant Net Asset Value (CNAV) funds and AAA V1/S1 for Variable Net Asset Values (VNAV).

- Internal Investments less than 6 months, up to agreed limits, in UK Building Society's with an asset basis of over £1 billion.

- Corporate bonds rated AAA of less than one year duration.

All investments over 1 year in duration and/or not meeting the definition of high credit quality listed above are classified as non-specified investments.

The Council limits non-specified treasury investments to 10% of the value of its investment portfolio at the point of investment, with the maximum amount invested being in line with criteria outlined in Table 14.

4.4 Current Investment and Borrowing Position

The current position on debt and investment principal as at 31 December 2016 is show in Table 15.

Table 15. Current Investment and Borrowing Position		
	£M	
Short Term Internal Investments		
Bank of Scotland call account	1.00	
Public Sector Deposit Fund (Money Market Fund)	2.80	
Amundi Money Market Fund –Short Term (GBP)	2.00	
Goldman Sachs Sterling Liquid Reserves Fund (Money Market Fund)	0.00	
Morgan Stanley Liquidity Funds – Sterling Liquidity Fund (Money Market Fund)	3.00	
Fixed Term Cash Deposits < 1 Month	0.00	
Fixed Term Cash Deposits < 2 Month	2.00	
Fixed Term Cash Deposits < 3 Month	0.00	
Fixed Term Cash Deposits < 4 Month	4.00	
Fixed Term Cash Deposits < 5 Month	0.00	
Fixed Term Cash Deposits < 6 Month	0.00	
Fixed Term Cash Deposits < 1 Year	1.00	
	15.8	**33.80%**
External Investments		
Royal London Asset Management - Cash Plus Fund	15.49	**33.14%**
Payden & Rygel - Sterling Reserve Fund	15.45	**33.06%**
	30.94	
Total Investments	**46.74**	
Borrowing		
Short Term Cash Flow Borrowing	0.00	
PWLB Loan (General Fund) < 20 years	1.61	
PWLB Loan (HRA) < 40 years	83.40	
	85.01	

4.5 Externally Managed Funds

The Council currently has over £30m invested, split equally between the following pooled investment vehicles, OEIC's:

- Cash Plus Fund – Royal London Asset Management (RLAM)
- Sterling Liquidity Fund – Payden & Rygel

4.6 End of year investment report

At the end of the financial year, the Council will be provided with a detailed report on its investment activity as part of the Annual Treasury Report.

5. Other Items

5.1 Use of Reserves

The draft 2017/18 budget has been compiled on the basis that the Council will make the following withdrawals from reserves:

	£000
General Fund Reserves	0
Capital Reserves	1,478
	1,478

The final amount to be withdrawn from reserves is subject to the final decision of Full Council on 22nd February 2017.

The need to withdraw any further funds from the investment portfolio will be kept under review and assessed on a case by case basis with reference to the economic climate at the time.

6. Appendices

1. Interest rate forecasts
2. Economic background
3. Current counterparty list
4. The treasury management role of the Section 151 Officer

Appendix 1: Interest Rate Forecasts 2017 - 2020 (provided by Capita Asset Services as at 17 January 2017)

This information has been provided by Capita Asset Services. The following table gives their central view.

PWLB rates and forecast shown below 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	Jun-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%	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%	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%	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%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%
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	1.40%	1.60%	1.80%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%	3.20%
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	2.20%	2.30%	2.40%	2.55%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%	3.60%
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	2.75%	2.90%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%	4.15%
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	2.70%	2.80%	2.90%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%	4.10%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically

generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, ***downside risks to current forecasts*** *for UK gilt yields and PWLB rates currently include:*

- *Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.*
- *Major national polls:*
  - *Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.*
  - *Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.*
  - *Dutch general election 15.3.17;*
  - *French presidential election April/May 2017;*
  - *French National Assembly election June 2017;*
  - *German Federal election August – October 2017.*
- *A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats*
- *Weak capitalisation of some European banks, especially Italian.*
- *Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.*
- *UK economic growth and increases in inflation are weaker than we currently anticipate.*
- *Weak growth or recession in the UK's main trading partners - the EU and US.*

The potential for ***upside risks to current forecasts*** *for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -*

- *UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.*
- *A rise in US Treasury yields as a result of Fed funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.*
- *The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding*

bonds as opposed to equities and leading to a major flight from bonds to equities.

- *A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).*

Investment and borrowing rates

- *Investment returns are likely to remain low during 2017/18 and beyond;*
- *Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;*
- *There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.*

Appendix 2: Economic Background (provided by Capita Asset Services as at 20 December 2016)

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 +0.6%. 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 quarter 4 grew reasonably strongly, increasing by 1.2% and added 0.1% to GDP growth. 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, by December it had fallen back to -7indicating 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 1.6% in December. However, prices paid by factories for inputs are rising very strongly although producer output prices are still lagging well behind.*

***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.*

***<u>USA.</u>** 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 3.5% 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.

For information: 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 i.e. 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 3:

Internal Counterparty List 2016-17 as at 31 December 2016

Building Societies				
		Total Assets £'000	**Assets > £1 Billion**	**Max Investment £**
1	Nationwide	207,622,000	YES	3,000,000
2	Yorkshire	43,231,000	YES	3,000,000
3	Coventry	33,672,000	YES	3,000,000
4	Skipton	16,612,000	YES	3,000,000
5	Leeds	14,329,000	YES	3,000,000
6	Principality	7,409,000	YES	3,000,000
7	West Bromwich	5,725,000	YES	3,000,000
8	Newcastle	3,462,000	YES	2,000,000
9	Nottingham	3,319,000	YES	2,000,000
10	Cumberland	2,129,000	YES	2,000,000
11	Progressive	1,737,000	YES	2,000,000
12	National Counties	1,567,000	YES	2,000,000
13	Saffron	1,130,000	YES	2,000,000
14	Cambridge	1,128,000	YES	2,000,000
15	Monmouthshire	1,073,000	YES	2,000,000

Money Market Funds			
	Amundi Money Market Fund - Short Term (GBP)	AAA	3,000,000
	CCLA – Public Sector Deposit Fund	AAA	3,000,000
	Goldman Sachs Sterling Liquid Reserves Fund	AAA	3,000,000
	Morgan Stanley Liquidity Funds – Sterling Liquidity Fund	AAA	3,000,000

Banks	UK or Irish bank with presence in UK and a short term Fitch rating of F1 or higher.			
UK High Street Banks		**Short Term Fitch Rating**		**Max Investment £**
	Lloyds Banking Group			
	Lloyds TSB	F1		2,000,000
	Bank of Scotland	F1		2,000,000
	Others			
	Santander UK PLC	F1		2,000,000
	Barclays	F1		2,000,000
	HSBC Bank plc	F1+		2,000,000

Non-UK Banks		Short Term Fitch Rating	Long Term Fitch Rating	Max Investment £
	Abu Dhabi (U.A.E)			
	National Bank of Abu Dhabi	F1+	AA-	2,000,000
	Australia			
	Australia and New Zealand Banking Group Ltd	F1+	AA-	2,000,000
	Commonwealth Bank of Australia	F1+	AA-	2,000,000
	National Australia Bank Ltd	F1+	AA-	2,000,000
	Westpac Banking Corporation	F1+	AA-	2,000,000
	Canada			
	Bank of Montreal	F1+	AA-	2,000,000
	Bank of Nova Scotia	F1+	AA-	2,000,000
	Canadian Imperial Bank of Commerce	F1+	AA-	2,000,000
	Royal Bank of Canada	F1+	AA	2,000,000
	Toronto Dominion Bank	F1+	AA-	2,000,000
	Netherlands			
	Cooperatieve Rabobank U.A.	F1+	AA-	2,000,000
	Singapore			
	DBS Bank Ltd	F1+	AA-	2,000,000
	United Overseas Bank Ltd	F1+	AA-	2,000,000
	Sweden			
	Svenska Handelsbanken AB	F1+	AA	2,000,000
	U.S.A			
	Bank of New York Mellon, The	F1+	AA	2,000,000
	Wells Fargo Bank NA	F1+	AA	2,000,000

UK Local, Police and Fire Authorities			
			3,000,000

Appendix 4: 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.