

TREASURY MANAGEMENT STRATEGY 2016/17 – 2018/19**1. INTRODUCTION**

- 1.1. In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.
- 1.2. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.
- 1.3. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4. The Council has potentially large exposures to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

2. EXTERNAL CONTEXT

- 2.1. The following paragraphs explain the economic and financial background against which the Treasury Management Strategy is being set.

2.2. Economic background

Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Movements in transport costs, and alcohol and tobacco prices contributed to annual CPI inflation of 0.0% in November. Wages are growing at 2.4% a year, and the unemployment rate has dropped to 5.2%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015.

2.3. Interest rate forecast

Uncertainty over the outcome of the forthcoming EU referendum could put downward pressure on UK GDP growth and interest rates.

NFDC's treasury adviser, Arlingclose, projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

2.4. Credit outlook

The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, whilst those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, whilst Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to NFDC; returns from cash deposits remain stubbornly low.

3. Balance Sheet summary and forecast

- 3.1. The Council currently has £144.4m of borrowing and £75.2m of investments as at 31 December 2015. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance Sheet Summary and Forecast	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
General Fund CFR	3.7	3.9	3.5	4.4	3.8
HRA CFR	1.9	1.9	1.9	1.9	1.9
HRA settlement	142.7	142.7	142.7	138.6	134.5
Total CFR	148.3	148.5	148.1	144.9	140.2
Less: Total debt **	(144.5)	(144.3)	(144.1)	(139.8)	(135.5)
Internal (over) borrowing	3.8	4.2	4.0	5.1	4.7
Less: GF Usable reserves	(18.2)	(16.6)	(15.8)	(16.4)	(17.0)
Less: HRA Usable reserves	(18.5)	(18.2)	(14.9)	(13.6)	(13.3)
Less: Working capital	(17.7)	(10.3)	(6.6)	(6.6)	(6.6)
Resources for investments	(54.4)	(45.1)	(37.3)	(36.6)	(36.9)
Net borrowing or (investments)	(50.6)	(40.9)	(33.3)	(31.5)	(32.2)

** external borrowing - shows only loans to which the Council is committed and excludes optional refinancing

- 3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 3.3. The Council's CFR is forecast to remain relatively stable over the coming years but is currently planned to reduce in 2017/18 as the first instalment of the HRA settlement is due for repayment. The Council's reserves are currently shown to remain relatively consistent over the next few years.
- 3.4. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2016/17.

4. BORROWING STRATEGY

- 4.1. The Council held £144.4m of loans at 31 December 2015, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that this will reduce by a further £0.1m during 2015/16, and £0.2m per annum thereafter as the £2.0m PWLB (Lymington Harbour Commissioners) loan is repaid and by £4.1m per annum from 2017/18 as the PWLB (Housing Subsidy

Settlement) loan instalments become repayable. The Council does not expect to need to borrow in 2016/17 but is allowed to borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £178.1m.

4.2. Objectives

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.3. Limits

The Council is required to put in place the following Prudential Indicators to control its limits on borrowing; these are operational and authorised boundaries for external debt, and the maximum HRA debt limit.

Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Operational Boundary	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Total Debt	163.5	163.1	159.9	155.2

Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Total Debt	178.5	178.1	174.9	170.2

Maximum HRA Debt Limit

The Council is also limited to a maximum HRA CFR through the HRA self-financing regime. The Council may not borrow more than this limit for HRA purposes.

This limit is dictated by the DCLG and is based on the amount of the settlement payment of £142.7m plus the old Housing Subsidy Notional Debt amount of £12.8m, plus any further borrowing approved by the DCLG. The Council is not currently planning to seek further approvals to increase HRA borrowing and therefore actual total borrowing for the HRA is currently predicted to remain at £142.7m until 2017/18.

HRA Debt Limit	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Total	155.5	155.5	155.5	155.5

4.4. Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to use internal resources.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.

In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

4.5. Sources

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB)
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK

- UK public and private sector pension funds (except the Hampshire Pension Fund)
- capital market bond investors
- special purpose companies created to enable local authority bond issues

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

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

The Council has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

4.6. Short-term and Variable Rate loans

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

4.7. Debt Rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. INVESTMENT STRATEGY

5.1. The Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £49.2 and £87.4m, and levels are expected to be marginally lower in the forthcoming year.

5.2. Objectives

Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of

incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3. Strategy

Due to the increasing risk from bank 'bail-ins' and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. This is especially the case for the estimated £25m that is available for longer-term investment. Approximately 48% of NFDC's surplus cash is not subject to bail-in risk as it is invested in local authorities, corporate bonds, pooled property funds, and secured bank bonds. Whilst the remaining cash is subject to bail-in risk, 48% of these instruments are saleable, and 46% is subject to a reduced risk of bail-in through money market funds. The remaining 6% of funds subject to bail-in risk is held in an instant access account. This diversification will therefore represent a continuation of the new strategy adopted in 2015/16.

5.4. Investment Limits

Given the impact of the Bank Reform Act, Bank Recovery and Resolution Directive, and the recast Deposit Guarantee Schemes Directive, which have increased the credit risk that unsecured bank/building society investments could be 'bailed-in', the following investment limits are proposed to mitigate the risk whilst allowing sufficient flexibility to manage the Council's investment balances.

A group of banks under the same ownership will be treated as a single organisation for limit purposes. Maximum limits will also be placed on fund managers and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

The Investment Limits in Table 2 have not been adjusted from those agreed as recommended in the Treasury Management Mid-Year Monitoring Report 2015/16, as it is anticipated that changes in cash balances will not be significant in the forthcoming year.

Table 2: Investment Limits	Cash limit
Any single organisation, except the UK Central Government	£8m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£8m per group
Any group of pooled funds under the same management	£8m per manager
Registered Providers	£6m in total
Money Market Funds	50% in total

5.5. Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in Table 3, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved Investment Counterparties and Limits						
Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers Unsecured	Registered Providers Secured
UK Govt	n/a	n/a	£ Unlimited 4 years	n/a	n/a	n/a
AAA	£4m 4 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years	£4m 4 years
AA+	£4m 4 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years	£4m 4 years
AA	£4m 4 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years	£4m 4 years
AA-	£4m 3 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years	£4m 4 years
A+	£4m 2 years	£8m 3 years	£4m 4 years	£4m 3 years	£4m 4 years	£4m 4 years
A	£4m 13 months	£8m 2 years	£4m 4 years	£4m 2 years	£4m 4 years	£4m 4 years
A-	£4m 6 months	£8m 13 months	£4m 4 years	£4m 13 months	£4m 4 years	£4m 4 years
BBB+	£2m 100 days	£4m 6 months	£2m 2 years	£2m 6 months	£2m 2 years	£4m 2 years
BBB	£2m next day only	£4m 100 days	n/a	n/a	n/a	n/a
None	£1m 6 months	n/a	£4m 4 years	n/a	£4m 4 years	£4m 4 years
Pooled funds	£8m per fund					

This table must be read in conjunction with the notes below

5.6. Credit Rating

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.7. Banks Unsecured

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

5.8. Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank/building society's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank/building society will not exceed the cash limit for secured investments.

5.9. Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities (which generally do not have a credit rating) and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 4 years.

5.10. Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Investing with any unrated corporate entity will be judged on a case-by-case basis and only considered if suitable security can be obtained for the Council's investment.

5.11. Registered Providers Secured and Unsecured

Registered Providers of Social Housing, formerly known as Housing Associations; these bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed. Registered Providers can issue loans and bonds, either on an unsecured or secured basis. The secured loans and bonds are secured on the underlying assets of the Registered Provider.

5.12. Pooled Funds

Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a consistent net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Depending on the type of pooled fund invested in, it may have to be classified as capital expenditure. Because pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.13. Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council's treasury advisers, Arlingclose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.14. Other Information on the Security of Investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

Based on the available information and the advice of the Council's advisers, Arlingclose, the investment limits shown in Tables 2 and 3 may be reduced, and investing with certain counterparties may be suspended as necessary.

If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.15. Specified Investments

The CLG Guidance defines specified investments as those:

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

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.16. Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in Table 4 below.

The investment limit for total investments without credit ratings or rated below A- (excluding investments with other local authorities) has been reduced from £10.00m to £7.50m, as currently only £3.05m of NFDC's cash balance has been invested in these types of instrument. It is not expected that £10.00m would ever be required to be invested in these types of instruments.

Table 4: Non-Specified Investment Limits	Cash limit
Total long-term investments	£25.0m
Total investments without credit ratings or rated below A- (excluding investments with other local authorities)	£7.5m
Total non-Sterling investments	-
Total investments in foreign countries rated below AA+	-
Total non-specified investments	£32.5m

5.17. Liquidity Management

The Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Council's medium term financial position (summarised in Table 1) and forecast short-term balances.

6. TREASURY MANAGEMENT INDICATORS

6.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

6.2. Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of principal borrowed or invested will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate investment exposure	£25.0m	£25.0m	£25.0m
Upper limit on variable interest rate investment exposure	£90.0m	£90.0m	£90.0m
Upper limit on fixed interest rate borrowing exposure	£178.1m	£174.9m	£170.2m
Upper limit on variable interest rate borrowing exposure	£178.1m	£174.9m	£170.2m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later). Short-term instruments (with a maturity of less than one year) are classed as variable rate.

6.3. Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.4. Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond 365 days	£25m	£25m	£25m

7. OTHER ITEMS

7.1. There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

7.2. Policy on Use of Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy,

although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit.

7.3. Policy on Apportioning Interest to the HRA

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the average % Local Authority 7 day rate.

7.4. Investment Training

The needs of Hampshire County Council's treasury management staff delivering services to NFDC, for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

CIPFA's Code of Practice requires that the Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Representatives of the Audit Committee attended a workshop by Arlingclose on 23 November 2015, which gave an update on treasury matters.

7.5. Investment Advisers

The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Chief Executive, the County Council's Investments and Borrowing Team, and Arlingclose.

7.6. Investment of Money Borrowed in Advance of Need

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £178.1m.

APPENDIX A – ARLINGCLOSE ECONOMIC & INTEREST RATE FORECAST NOVEMBER 2015

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.55	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.85
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	1.10	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	1.50	1.55	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.25	2.30	2.35	2.35
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.00	2.05	2.10	2.20	2.30	2.40	2.50	2.60	2.65	2.70	2.75	2.80	2.80
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	2.95
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.00	3.00
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

APPENDIX B – EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

	31.12.2015 Actual Portfolio		31.12.2015 Rate of Return
	£m	%	%
BORROWING			
Long-term loans - PWLB	144.41		3.12%
Total Gross External Debt	144.41		
INVESTMENTS			
Banks Unsecured			
Direct deposits:			
- Svenska Handelsbanken	0.79	1.05%	0.45%
Certificates of Deposit:			
- Bank of Montreal	2.00		
- Credit Suisse	2.00		
- Lloyds	1.50		
- Nationwide	3.00		
- Nordea	3.00		
- Oversea-Chinese Banking Corporation	3.00		
- Rabobank	3.00		
- Standard Chartered	3.00		
	20.50	27.26%	0.64%
Total Banks Unsecured	21.29	28.31%	0.63%
Banks Secured			
Covered Fixed Bonds:			
- Lloyds	2.00		
- Yorkshire Building Society	2.00		
	4.00	5.32%	1.12%
Covered Floating Rate Notes:			
- Abbey National	2.00		
- Nova Scotia	1.70		
- Toronto Dominion	1.05		
- Yorkshire Building Society	2.50		
	7.25	9.64%	0.74%
Total Banks Secured	11.25	14.96%	0.88%
Government			
Other Local Authorities loans	13.0	17.29%	1.07%
Covered Fixed Bonds:			
- Network Rail Infrastructure Finance	3.00	3.99%	0.76%
Total Government	16.00	21.28%	1.01%

	31.12.2015 Actual Portfolio		31.12.2015 Rate of Return
	£m	%	%
Corporates			
Corporate Fixed Bonds:			
- GE Capital	1.19		
- Heathrow Funding Ltd	2.30		
- Linde Finance	1.00		
	4.49	5.97%	0.86%
Corporate Floating Rate Notes:			
- BMW US Capital LLC	1.00	1.33%	0.84%
Total Corporates	5.49	7.30%	0.86%
Pooled Funds			
Property Funds:			
- Aviva Lime Property Fund	1.05		
- CCLA Property Fund	2.00		
	3.05	4.06%	4.73%*
Money Market Funds:			
- Aberdeen (SWIP)	3.60		
- Deutsche	3.71		
- Federated	3.60		
- Insight	3.60		
- Standard Life	3.60		
	18.11	24.09%	0.48%
Total Pooled Funds	21.16	28.14%	1.10%
Total Investments	75.19	100.00%	0.90%
Net Debt	69.22		-

* average estimated annual income return to 31 December 2015