Appendix 1

Treasury Management and Investment Statement 2017/18

Introduction

The Treasury Management and Investment Strategy sets out the Council's plan for treasury management for the period 2017/18 to 2019/20. The plan forms an integral part of the Council's strategic planning process, linking in with the Medium Term Financial Plan, Capital Investment Strategy and annual budget cycle.

The Council's Treasury Management Policy is set out at Appendix 2

The Council adopted the CIPFA Treasury Management in the Public Services: Code of Practice 2011 edition in March 2012.

The Council has a legal obligation under the Local Government Act 2003 to have regard to the Prudential code and the Welsh Government guidance.

Prudential Code

The key objectives of the Prudential code are to ensure that the capital investment plans of local authorities;

- are affordable;
- all external borrowing and other long term liabilities are within **prudent** and **sustainable** levels;
- the treasury management decisions are taken in accordance with professional good practice. In making capital investment decisions the Council should have regard to option appraisal, asset management and strategic planning. To demonstrate the Council has fulfilled these objectives the Code sets out prudential indicators that should be set before the beginning of the forthcoming year. Separate indicators should be prepared for the Housing Revenue Account and the General Fund.

Welsh Government Guidance

In line with the Welsh Government Guidance this document is a single strategy document covering the requirements of the CIPFA Treasury Management Code and Welsh Government's guidance.

The Welsh Government guidance contain requirements with regard to the need to set out the Council's policies for the prudential management of its investments giving regard to firstly security and secondly liquidity. It covers the definition of specified and non-specified investments and the approach to investment risk.

Risk Management

The Council has borrowed and invested significant sums of money and is therefore exposed to financial risks such as 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 Authority's Treasury Management Strategy.

External Context

Economic background

The major external influence on the Authority's Treasury Management Strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Since June 2016, financial markets have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and are forecasted to last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, the US economy and its labour market have been showing steady improvement. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook

Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority.

Interest rate forecast

The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18**.** The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view combined with the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. Further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

Local Context

Table 1: Balance Sheet Summary and Forecast

Capital Financing Requirement (CFR)

	31.3.2016 Actual	**31.3.2017 Estimate**	**31.3.2018 Estimate**	**31.3.2019 Estimate**	**31.3.2020 Estimate**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Non HRA CFR	120,134	119,887	120,003	118,473	116,814
HRA CFR	71,287	78,314	90,017	93,647	95,923
Total CFR	**191,421**	**198,201**	**210,020**	**212,120**	**212,737**

The above Capital Financing Requirement indicates that between 1st April 2016 and 31st March 2021 the Authority expects to undertake £46.891M in new debt-funded capital expenditure. This consists of £12.953M General Capital Supported Borrowing, £31.301M required for the Housing Business Plan and £2.637M required for the School Investment

Programme under the Local Government Borrowing Initiative. During this period provision for repayment via MRP (Minimum Revenue Provision) including for the Housing Revenue Account (HRA) will be made of £25.575M.

This will be funded from a mixture of Internal and External borrowing. The Authority currently has a balance of internal borrowing of £32M which has been afforded as a result of its high levels of cash balances due to its current level of reserves. As these reserves start to be spent over the coming years in line with forecasts, the position will need to be monitored carefully.

The balance of the Authority’s usable reserves and working capital can be utilised for internal borrowing or investment.

In the medium to long term it is expected that the Council will need to borrow externally, this is primarily as a result of the HRA needing to borrow funds to meet the Welsh Quality Housing Standard in 2017 and meet other aspirations set out in the Draft Housing Business Plan.

Prudential Indicators

Affordability

The objective of the affordability indicator is to consider the impact of the Council’s capital investment plans on the council tax and, for the Housing Revenue Account (HRA), the level of rent to be charged. To achieve this, the Council has to consider all of the resources available to it, together with the totality of its capital plans, revenue income and revenue expenditure forecast for the coming year and the following two years. These should be rolling scenarios and not fixed for three years.
The indicators in this category which are required to be approved by Council are set out below:

1 Ratio of relevant financing costs to HRA income and to the amount to be met from government grants and local taxpayers for Non HRA.

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of any investment income.

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	%	%	%	%	%
HRA	23.80	24.28	25.45	27.11	26.97
Non HRA	4.14	4.40	4.20	4.12	4.02

The analysis above shows the Council Fund implications remain relatively stable throughout the period, the HRA cost is increasing over the period in line with the aspirations for maintenance and regeneration set out in the draft Housing Business Plan, the plan demonstrates that this level of investment is affordable over the 30 year period of the plan.

2. Incremental impact of capital investment decisions on the council tax and on housing rents.

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact of the capital programme on rents and Council Tax is determined by calculating the loss of interest based on the difference between the existing capital programme with no changes and the capital programme inclusive of proposed changes.

	2017/18	**2018/19**	**2019/20**
	£	**£**	**£**
Housing Rent Implication per week (average)	0.03	0.08	0.13
Band D Council Tax Implication	0.13	0.29	0.33

3. Capital expenditure

The figures shown in the following table represent the Draft Final Capital Programme proposals.

Capital Expenditure	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual £000	**Estimate £000**	**Estimate £000**	**Estimate £000**	**Estimate £000**
Learning & Skills	16,723	18,605	9,501	3,828	19,350
Social Services	346	673	505	1,427	100
Visible & Housing Services	5,498	13,373	11,805	3,316	2,260
Resources & Managing Director	6,520	10,942	22,122	4,291	2,170
Non HRA total	**29,087**	**43,593**	**43,933**	**12,862**	**23,880**
HRA*	79,257	17,844	19,571	12,392	11,370
Total	**108,344**	**61,437**	**63,504**	**25,254**	**35,250**

*The Estimates reflect the Draft Housing Business Plan Proposals and figures also reflect the Draft Final Capital Proposals.

Prudence

In order to ensure long term affordability, decisions taken regarding external debt have to be prudent and, in the long term, sustainable. The indicators include:

4. Capital Financing Requirement (CFR)

This measures the Council's underlying need to finance capital expenditure (excluding transferred debt) and is shown both as an in-year movement and at 31st March.

In-Year Movement CFR	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Non HRA	497	-247	116	-1,530	-1,659
HRA	65,072	7,027	11,703	3,630	2,276
Total	**65,569**	**6,780**	**11,819**	**2,100**	**617**

CFR at 31st March	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Non HRA CFR	120,134	119,887	120,003	118,473	116,814
HRA CFR	71,287	78,314	90,017	93,647	95,923
Total CFR	**191,421**	**198,201**	**210,020**	**212,120**	**212,737**

The CFR is forecast to increase by £21.316M between 31st March 2016 and 31st March 2020 as capital expenditure financed by debt outweighs resources put aside for debt repayment.

5. Gross debt and the Capital Financing Requirement

The Council should ensure that gross external 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 the current and next two financial years.

The Section 151 Officer reports that the Council had no difficulty meeting the requirement of this indicator in 2015/16 and does not envisage any difficulties meeting this indicator in the current or future years. This view takes into account current commitments, existing plans and the proposals in this Strategy.

Gross Debt	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Brought forward 1 April	96,368	159,411	157,199	173,496	181,400
Carried forward 31 March	159,411	157,199	173,496	181,400	187,347
In year requirement	**63,043**	**-2,212**	**16,297**	**7,904**	**5,947**

The above assumes that all additional borrowing beyond 2017/18 will be external, the current projected levels of reserves are expected to permit internal borrowing for 2016/17 of £13M in addition to the current £32M. The Council's advice from their Treasury Management advisors Arlingclose Ltd. is that given the current, low investment yields, internal borrowing should be utilised, therefore, in line with this advice, the Section 151 Officer will seek to maximise internal borrowing.

The following Prudential Indicators are relevant for the purposes of setting an integrated Treasury Management Strategy.

6. Operational boundary for external debt

	2016/17	2017/18	2018/19	2019/20
	Probable outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000
Borrowing	185,600	200,300	199,200	205,700
Other long term liabilities	0	0	0	0
Total	**185,600**	**200,300**	**199,200**	**205,700**

The proposed operational boundary for external debt is based upon estimates of the most likely, prudent, but not worst case scenario. The operational boundary links to the authority's plans for capital expenditure, estimates of capital financing requirement and the estimate of cashflow requirements for the year. This is the expected maximum limit for external debt. It is lower than the Authorised Limit and cash flow variations may lead to the occasional breach of the operational boundary.

7. Authorised limit for external debt

	2016/17	2017/18	2018/19	2019/20
	Probable outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000
Borrowing	192,500	214,700	214,400	220,300
Other long term liabilities	0	0	0	0
Total	**192,500**	**214,700**	**214,400**	**220,300**

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 Authority can legally owe. It is not a limit that the Council will expect to borrow up to on a regular basis and provides headroom over and above the operational boundary.

These authorised limits set out above are considered to be consistent with the Council's current commitments and proposals for capital expenditure and financing and with its Treasury Management Policy. The estimates are based on most likely, (i.e. prudent but not worst case), scenario for external debt with sufficient headroom over and above this to allow for operational management (e.g. unusual cash movement).

8. Upper limits on fixed interest rate and variable interest rate exposure;

Fixed Interest Rate Exposure	2016/17 Probable Outturn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Net principal fixed rate borrowing	161,100	190,400	190,100	196,000

This is a control over a Council having large concentrations of fixed rate debt needing to be replaced at the same time when interest rates may be relatively high. The upper limit for variable rate exposure measures the extent to which the Council is exposed to the effects of changes in interest rates.

Variable Interest Rate Exposure	2016/17 Probable outturn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Net Principal Upper Limit Variable Rate	0	0	0	0

Currently the Council's variable rate exposure is on net investments rather than as a result of borrowing at variable rates. By setting the upper limit as £0 this means the Council will not have more variable rate debt than variable rate investment.

9. Upper limit for principal sums invested for longer than 364 days.

	2016/17 Probable outturn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Upper limit principal sums invested for over 364 days (per maturity date)	5,000	10,000	5,000	5,000

The Council does not currently invest beyond 364 days to minimise the investment risk, however, following discussions with our Treasury Management advisor this is an area we have identified for development during 2017/18. Taking into account projected use of reserves and capital expenditure it is considered that the amount available for longer term investment would need to be reduced beyond 2018/19 to enable internal borrowing to be maximised.

10. Fixed Rate Borrowing Maturity Limit

Amount of Projected Borrowing that is Fixed Rate Maturing in Each Period as a Percentage of Total Projected Borrowing that is Fixed Rate for 2017/18	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

Borrowing Strategy

The Council's borrowing position at 31st December 2016 comprises:

		Principal	Average Rate
		£M	%
Fixed Rate Funding	PWLB	150,398	4.80
Variable Rate Funding	Market	6,100	5.27
Concessionary Loan	WG	2,100	0.00
Total Debt		**158,598**	**4.75**

Borrowing Requirement

The Borrowing Requirement represents the estimated amount that the Council will borrow externally for this year and the next 3 years.

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
	Probable	Estimate	Estimate	Estimate
New Borrowing	0	18,100	8,600	7,200
Replacement Borrowing	0	5,000	5,000	5,000
Total	0	23,100	13,600	12,200

Borrowing Strategy

Short-term interest rates are currently much lower than long-term rates. It is likely to be more cost effective in the short-term to either borrow short term loans, variable rate loans or to not borrow and reduce the level of investments instead. However, with long-term rates forecast to rise in the coming years, any such short-term savings will need to be balanced against the potential longer-term costs.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loans Board (PWLB). A rate for new PWLB borrowing i.e. 20 basis points below the normal rate has again been offered to council's to subscribe to; it is referred to as the 'Certainty Rate'. This Council has subscribed and will be able to borrow at this lower rate.

The Council officers, in conjunction with the Treasury Management Advisers will continually monitor both the prevailing interest rates and the market forecasts and adopts a pragmatic approach to changing circumstances in respect of its borrowing needs.

Approved methods of Raising Capital Finance

The Local Government Act 2003 provides that a local authority may borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. The Council will continue to borrow from the following sources: -

- by overdraft or short term from Financial Services Authority authorised banks;
- from the Public Works Loan Board (PWLB);
- by means of loan instruments;
- other local authorities;
- stock issues;
- short – term borrowing from any source;
- other credit arrangements;
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues.

LOBO (Lender Option Borrower's Option)

The Authority holds £6M of LOBO (Lender Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £6M.

Debt Rescheduling/Repayment

The Public Works Loan Board allows authorities to prematurely repay loans and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some higher rate loans with new loans at lower interest rates or repay some higher rate loans by using investment balances where this will lead to an overall saving or reduce risk.

The decision on rescheduling will be taken by the Section 151 Officer under delegated powers as set out in the Council's Constitution (Officer Delegations) and will be reported to Cabinet as part of the agreed monitoring procedure. The Section 151 Officer will also monitor the short and longer-term interest rates that can be earned on the Council's external investments. A view will then be taken as to the benefit of the early repayment of loans having regard to any premiums payable/ discounts receivable for early repayment and action taken if appropriate.

Annual Investment Strategy

The strategy of the Council will have regard to the availability of capital receipts and financial reserves. The Investment Strategy is determined in parallel with Borrowing Strategy. Cash balances should secure the best return, whilst having due regard to capital security and with maturity patterns appropriate to the Council's expenditure programmes.

Both the CIPFA Code and the WG guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

The Council's investments for the period to 31st December 2016 are set out below;

Borrowing Institution	**Opening Balance**	**Invested**	**Returned**	**Closing Balance**
	01/04/2016	**£'000**	**£'000**	**31/12/2016**
Local Authorities	48,000	128,150	(111,150)	65,000
Debt Management Account Deposit Facility (DMADF)	30,600	1,371,350	(1,393,150)	8,800
Total	**78,600**	**1,499,500**	**(1,504,300)**	**73,800**

Interest, at an average rate of 0.28% and amounting to £229,432 has been received from maturing investments for the first 9 months of 2016/2017.

The above analysis shows that 88% of the Councils investments were placed with local authorities as at 31st December 2016, an increase from the equivalent figures in 2015 when 55% of the Councils investments were placed with local authorities. This strategy has helped the Council to minimise the reduction in its average interest rate (0.28% reduced from 0.33% in 2015) in the context of the falling Bank of England base rate and corresponding reduction in the rate paid on all investments.

The Council intends to continue to prioritise local authority investments in 2017/18. During 2017/18 it also intends to review the use of the following types of investments, to maximise return for the Council whilst continuing to prioritise the security of investments;

- Treasury Bills
- Investments beyond 364 days
- Reverse Repurchase Agreements (this is a form of secured investment with Banks).

In order to be able to utilise Treasury Bills and Reverse Repurchase Agreements the Council may need to be able to access a Custodian Account. The Council is currently working with its Treasury Management Advisors to identify an appropriate provider in respect of these types of investment products.

Credit ratings

The Council uses credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of default. The categories and definitions are set out in Appendix i. The lowest available credit rating will be used to determine credit quality.

Where available, the credit rating relevant to the specific investment or class of investment or underlying collateral is used, otherwise the counterparty credit rating is used. Credit ratings are obtained and monitored by the Council's Treasury Advisers, who will notify changes in ratings as they occur. Where an institution has its credit rating downgraded so that it fails to meet the minimum credit rating criteria then:

- No new investments will be made,
- Any existing investments that can be recalled at no cost will be recalled and
- Full consideration will be given to the recall of any other existing investments

The Section 151 Officer will be notified immediately to consider the appropriate action to be taken, if any, where a credit rating agency announces that it is actively reviewing an organisations credit rating with a view to downgrading it so that it is likely to fall below the Council's minimum criteria.

Other Information on the Security of Investments

To ensure the security of its investments, the Council will primarily invest in UK local authorities and the UK Government including Treasury Bills and Gilts.

During 2017/18 the use of Reverse Repurchase Agreements will also be reviewed, this is an emerging investment tool so the Council's maximum holding would be subject to the specific advice of the Council's Treasury Management Advisors Arlingclose Ltd.

Regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are known substantive doubts about its credit quality, even though it may meet the above criteria.

Investments are made having regard to:

- The Guidance on Local Government Investments issued by the Welsh Government (i.e. Specified and Non-Specified Investments) in April 2010;

- CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the CIPFA 'Treasury Management Code');
- The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 Statutory Instrument 3239 (W 319) (as amended).

Investment Contingencies

Certain contingencies are required to be included in the strategy for instances where sums of money cannot be invested on the money market either because it is received too late in the working day or for any other reason.

These monies will be deposited in the Council's current account. All deposits will be subject to the limit included in specified investments. Any such deposit must be withdrawn from the account and invested on the money market in the usual manner at the earliest opportunity.

Specified Investments

Specified investments are those expected to offer relatively high security and liquidity and can be entered into with the minimum of formalities. The WG Guidance defines an investment as a specified investment if all of the following apply:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- The investment is not a long-term investment (i.e. due or available to be repaid within 12 months).
- The making of the investment is not defined as capital expenditure by virtue of regulation 20 (1)(d) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 Statutory Instrument 3239 (W319) (as amended)
- The investment is made with a body or in an investment scheme of high credit quality or with one of the following public-sector bodies:
    - the United Kingdom Government
    - a local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland
    - a parish or community council.

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.

Investment Counterparties

A list will be maintained of counterparties that meet the Council's minimum credit rating criteria. Counterparties downgraded below the criteria will be deleted and those upgraded to meet the criteria may be added.

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 in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation.
Non-specified investments will therefore be limited to long-term investments. The Council does not currently hold any non-specified investments but will consider opportunities in this area subject to the advice of the Council's advisers Arlingclose Ltd. and the views of the Section 151 Officer.

Non Specified Investment Limits

Amount limits have been set for long-term investments in relation to counterparty creditworthiness. The total limit on non-specified and long term investments is £10,000,000 in 2017/18. Both the level of investments and the criteria are considered to be prudent.

Investment Limits

	Short Term (under 12 months)	**Long Term (12 months+)**
UK Government incl. Treasury Bills, Gilts and DMADF	Unlimited	Unlimited
UK Local Authorities	£5M per organisation	£5M per organisation
UK and Foreign Financial Institutions (AA-)	£12M per organisation	£12M per organisation
UK Call Bank Accounts in UK Banks (F1/P-1/A-1)*	£12M per organisation	Not required

* Subject to the variation for Cooperative bank outlined below;

The Council currently retains a Cooperative bank account to act as a collections account. The Cooperative Bank does not meet the council's counterparty ratings criteria it has a short term rating of B (Fitch) and Not Prime (Moodys). However, to manage the risk associated with this account, the amount in this account will not exceed £100k and the account will be cleared down and invested on the money market on a regular basis. The Council is currently in the process of procuring an alternative product which will credit the funds collected to the Council on a regular basis. The funds will then be invested on the money market in the usual manner.

The Council does not currently invest in any individual country outside the UK and it is intended that this approach will continue in 2017/18. The total investment in individual UK institutions that are part of the same UK owned group will not exceed the limit set out in the table above.

Liquidity of Investments

The Council's expenditure programmes together with the maintenance of adequate reserves etc. will be used to determine the maximum period for which funds may prudently be committed. The maximum period for which funds may prudently be committed in any individual investment shall not exceed 10 years.

Management of Housing Revenue Account (HRA) Debt

On 2nd April 2015 as part of the agreed Housing Subsidy (HRAS) Buyout process a Public Works Loan Board loan of £63.186 million was drawn down and subsequently paid over to WG on behalf of HM Treasury.

HRA limit of indebtedness

Under the UK Wales Bill, Welsh Ministers were required to issue a determination to calculate the amount of housing debt each Local Housing Authority is treated as holding and the maximum housing debt each housing authority may hold or their limit of indebtedness. Under the terms of the voluntary agreement (March 2015) and the variation to the voluntary agreement (January 2016), the Council is required to demonstrate that it will comply with the limit of indebtedness set by Welsh Government.

The limit of indebtedness for the Vale of Glamorgan was calculated as follows;

Existing Borrowing as at 31-Mar-14	**Borrowing to meet WHQS/New Build**	**Fixed Settlement Value**	**Borrowing Headroom**	**Final Limit of indebtedness**
£M	**£M**	**£M**	**£M**	**£M**
2.079	33.9	63.156	4.588	103.723

Under the amended Prudential Code the local authority is required to report on the limit of indebtedness imposed and compare the Housing CFR to this limit.

	2016/17 Probable Outturn	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
	£M	**£M**	**£M**	**£M**
Limit of Indebtedness	103.723	103.723	103.723	103.723
Projected HRA CFR	78.314	90.017	93.647	95.923

Policy on Apportioning Interest to the HRA:

As part of the HRAS Buyout process the Authority has reviewed its arrangements for dealing with the pooling of debt, the current approach is that the Authority will continue to use a single pool for administering its debt. It is intended that interest will continue to be charged to the HRA using a consolidated rate.

City Deal

The Authority is currently working with other authorities to formulate a business case for a possible City Deal. If this was to go ahead then it is likely that the Council would need to commit significant investment to the scheme. This Treasury Management Strategy does not include the costs of any investment/borrowing associated with implementing the scheme. The development of the Business Case will be kept under review by the Section 151 Officer and a revised Treasury Management strategy will be brought to Committee if the scheme is expected to progress and the associated costs of investment can be estimated with reasonable accuracy.

The WG Investment Guidance also requires the Council to note the following matters each year as part of the investment strategy.

Treasury Management Advisers

The Council's Treasury Management adviser Arlingclose Limited continues to provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers. The services received include:

- Advice and guidance on relevant policies, strategies and reports,
- Advice on investment decisions,
- Notification of credit ratings and changes,
- Other information on credit quality,
- Advice on debt management decisions,
- Accounting advice,
- Reports on treasury performance,
- Forecasts of interest rates and
- Training courses.

The quality of this service is reviewed and controlled by the Section 151 Officer and the Treasury Management team.

The Section 151 Officer may appoint cash or fund managers to manage on its behalf all or part of the Council's investments. Any external manager so appointed will be expected to comply with the Annual Investment Strategy.

Investment Training

The needs of the Council's Treasury Management staff for training in investment management are assessed as part of the staff appraisal process and from the frequent in-house meetings between the Treasury Management Team and the Section 151 Officer. In addition Arlingclose Limited and CIPFA offer training courses, seminars etc. Training is also due to be held for Members prior to Audit Committee in February 2017.

Policy on Use of Financial Derivatives

The Localism Act 2011 includes a general power competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (.i.e. those that are not embedded into a loan or investment). Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.
In the absence of any legislative power, the Council's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall Treasury Risk Management Strategy.

Investment of Money Borrowed in Advance of Need

The Council may, from time to time, borrow in advance of spending 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.

Having considered the advice of Arlingclose Limited the Council will not be seeking to borrow sums in advance of need, unless, it is considered to be of significant economic benefit by the Section 151 Officer.

The maximum period between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

Appendix i

The Definition of Credit Ratings used in the Investment Strategy report are set out below;

Fitch's Credit Ratings and Definitions

Short Term Investments		
F1	Highest short-term credit quality	Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good short-term credit quality	Good intrinsic capacity for timely payment of financial commitments.
F3	Fair Credit Quality	Capacity for timely payment is adequate, however near term changes could result in a reduction to non investment grade.
B	Speculative	Minimal Capacity for timely payment, vulnerability to near term adverse changes.
Long Term Investments		
AAA	Highest credit quality	Lowest expectation of default risk. Exceptionally strong capacity for payment of financial commitments which is highly unlikely to be adversely affected by foreseeable events.
AA:	Very high credit quality.	Very low default risk with very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A:	High credit quality.	Expectations of low default risk. The capacity for payment of financial commitments is considered strong but may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality	Expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative	Elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative	material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

Moody's Credit Rating and Definitions

Short Term Investments	
P1	Prime 1 - Issuers have a superior ability to repay short term debt obligations
P2	Prime 2 – Issuers have a strong ability to repay short term debt obligations
P3	Prime 3 – Issuers have an acceptable ability to repay short term debt obligations
NP	Not Prime – No prime rating
Long Term Investments	
Aaa	Judged to be highest quality and subject to the lowest level of risk
Aa	Judged to be high quality and subject to very low credit risk
A	Judged to be upper medium grade and subject to low credit risk
Baa	Judged to be medium, grade and subject to moderate credit risk
Ba	Judged to be speculative and subject to high credit risk
B	Considered speculative of poor standing and are subject to very high credit risk
Caa	Judged to be speculative of poor standing and are subject to very high credit risk
Ca	Highly speculative and are likely in, or very near, default, with some prospect of recovery of principal or interest.
C	Lowest rated and are typically in default

Standard and Poor's Credit Ratings and Definitions

AAA	Investment Grade – Extremely strong capacity to meet financial commitments
AA	Investment Grade – Very strong capacity to meet financial commitments
A	Investment Grade – Strong capacity to meet financial commitments but susceptible to adverse economic conditions and changes in circumstances
BBB	Investment Grade – Adequate capacity to meet financial commitments but susceptible to adverse economic conditions and changes in circumstances
BB	Speculative Grade – Less vulnerable in the near term but faces major ongoing uncertainties
B	Speculative Grade – Vulnerable to adverse conditions but still has capacity to meet financial commitments
CCC	Speculative Grade – Currently vulnerable and dependent on favourable conditions to meet financial commitments
CC	Speculative Grade – Highly vulnerable default has not yet occurred but is expected to as a virtual certainty
C	Speculative Grade –Currently highly vulnerable to non payment
D	Payment breach of a financial commitment or in breach of an imputed promise