Annual Minimum Revenue Provision Report and Policy Statement

Introduction

New Guidance has been issued by the Secretary of State which requests that a Statement on the Council's policy for setting aside funds for repayment of borrowing, its annual Minimum Revenue Provision (MRP), should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the new Guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The Guidance explains how the MRP might be determined, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

Essentially, the Guidance may only be applied to new capital expenditure relative to the period to which the annual MRP relates. This means that debt which remains outstanding in respect of earlier capital expenditure will continue to be subject to MRP at the rate of 4% per annum or 1% for share purchases. New expenditure to be financed from borrowing is recommended to be subject to MRP on the estimated useful life basis. This may either be assessed as equal annual instalments, or lower early year charges on an annuity basis, or in accordance with depreciation accounting methods.

In general it is recommended that the Council should adopt the recommendations contained within the Guidance. However, in certain cases the Guidance recommends a useful life period/MRP for expenditures which it would not be appropriate to adopt, such as in the case of long term debtors arising from loans made to third parties. These loans will be repaid by the third parties, and do not therefore need to be subject also to an MRP. A prudent provision may be made for MRP without the inclusion of the expenditures which relate to such loans.

The following Policy Statement is therefore recommended for adoption.

MRP Policy Statement

The Council implemented the new MRP Guidance in 2007/08, and has assessed the Minimum Revenue Provision for 2007/08 and subsequent years in accordance with the main recommendations contained within the Guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. In particular, the Council are satisfied that the guidelines for their annual amount of MRP set out within this Policy Statement will result in their making the requisite prudent provision that is required by the Guidance.

Certain expenditures reflected within the debt liability at 31st March 2007 will under delegated powers be subject to either the uncompleted scheme or the anticipated life expectancy provisions of the asset life method.

In cases where schemes are not fully completed at the end of the financial year, expenditure on these may be deferred from any MRP charge in the subsequent year but reconsidered for MRP in a later year, subject to the date of their completion.

The spreading of the MRP charge under the estimated life period approach will be carried out in an aggregate manner. Details of individual schemes, whilst required for supporting information purposes in the year for which MRP liability is first being assessed, have no beneficial purposes thereafter. Schemes will accordingly be grouped within differing life periods where such apply.

The Council also determines that available resources for financing capital expenditure, such as capital receipts, will be applied to new expenditures in a manner that is considered appropriate in any financial year. For example, it will not be considered imprudent to apply such resources in the first instance to expenditures that have a shorter estimated lifespan.

When adopting this aspect of the recommendations the Council may treat any new capital schemes which are both commenced and finalised within the financial year as having been financed from any associated grants, S.106 monies, or similarly earmarked funds. This is however entirely at their discretion. In cases where expenditure is incurred on only part of a scheme which is not completed by the year end, any grant or similar financing resources may be either allocated to other new expenditures under delegated powers, or carried forward for MRP purposes, as necessary or appropriate.

Final decisions regarding the manner in which such resources are deemed to be allocated to schemes will be taken under delegated powers.

Where schemes require interim financing by loan, pending receipt of an alternative source of finance (for example capital receipts), no MRP charge shall be applied.

Estimated life periods will also be determined under delegated powers. For example, it is likely that new buildings or similar structures will have an estimated life, set by Asset Management, of over 70 years, as will any new land purchases. In this latter case, it is considered that the recommended life period of 50 years for land contained within the Guidance does not adequately reflect its realistic life period, which is considered to be at least as great as would be the case if a building is placed upon it. The Council are aware when approving this that the Guidance recommends only that the life period should bear some relation to that over which the asset is estimated to provide a service.

In the case of new capital expenditures which serve to add to the value of an existing capital asset, these will be estimated to have the same useful life as the asset whose value is enhanced.

To the extent that expenditures are not on the creation of an asset, and are of a type that are subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Council. However, in the case of long term debtors arising from loans or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long term investments), there will be no Minimum Revenue Provision made. The Council are satisfied that a prudent provision will be achieved after exclusion of these capital expenditures from the MRP requirements. From 2009/10 the Council will make a Minimum Revenue Provision on investments in shares based on a 100 year life.

In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure, and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The determination as to which schemes shall be deemed to be financed from available resources, and those which will remain as an outstanding debt liability to be financed by borrowing or other means will be assessed under delegated powers.

INTEREST RATE FORECASTS

The data overleaf shows forecasts published by Link Asset Services and Capital Economics (an independent forecasting consultancy).

The PWLB rates and forecasts shown have taken into account the 20 basis point certainty rate reduction effective from 1 November 2012.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views

APPENDIX B

Link Asset Services Interest Rate View	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.70%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate														
Link Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	-	-	-	-	-
5yr PWLB Rate														
Link Asset Services	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.30%	2.60%	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-	-	-
10yr PWLB Rate														
Link Asset Services	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.30%	2.60%	2.80%	3.10%	3.30%	3.30%	3.30%	3.30%	3.30%	-	-	-	-	-
25yr PWLB Rate														
Link Asset Services	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.95%	3.15%	3.45%	3.65%	3.90%	3.90%	3.90%	3.90%	3.90%	-	-	-	-	-
50yr PWLB Rate														
Link Asset Services	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.80%	3.10%	3.30%	3.60%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

Link Asset Services' View on the Economic Background

5.3 ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, inflation prospects are generally muted and it is particularly notable that wage inflation has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the fourth industrial revolution.

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. The potential for central banks to get this timing and strength of action wrong are now key risks.

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the low level of productivity growth, which may be the main driver for increases in wages; and decreasing consumer disposable income, which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether an inflation target for central banks of 2%, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a lower inflation target of 1% to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a shift up in the inflation target to 3% in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should target financial market stability. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that other non-financial asset prices, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.2% (+2.0% y/y), quarter 2 was +0.3% (+1.7% y/y) and quarter 3 was +0.4% (+1.6% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the Monetary Policy Committee, (MPC), meeting of 14 September 2017 managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting MPC. (Inflation actually came in at 3.0% in September and is expected to rise slightly in the coming months.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the contradiction within the Bank of England between action in 2016 and in 2017 by two of its committees. After the shock result of the EU referendum, the Monetary Policy Committee (MPC) voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the Financial Policy Committee (FPC) of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y), 0.6% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.2%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN. has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Specified Investments

All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	N/a	In-house and fund managers
Term deposits – UK government	N/a	In-house and fund managers
Term deposits – other LAs	N/a	In-house and fund managers
Funds on deposit with the Council's main banker – Lloyds Bank – no limit	N/a	In-house
Term deposits to 4m– banks *	AAA or Aaa	In-house and fund managers
Term deposits to 2m– banks *	AA- or Aa3	In-house and fund managers
Term deposits up to 4m– building societies *	with gross assets in excess of £1,000m	In-house and fund managers
Term deposits up to 2m – building societies *	with gross assets between £500m and £1,000m	In-house and fund managers
Callable deposits	As above	In-house and fund managers
Certificates of deposits issued by banks and building societies	As above	In-house and fund managers
Money Market Funds – Constant Net Asset Value	AAA	In-house
Money Market Funds – Low Volatility Net Asset Value	AAA	In-house
UK Government Gilts	AAA	Fund Managers
Gilt Funds and Bond Funds	AAA	Fund Managers
Treasury Bills	N/a	Fund Managers

* If forward deposits are made by in-house managers, the forward period plus the deal period should not exceed one year in aggregate.

Changes to investment rules were came into force on 3rd January 2018 with the introduction of the MIFID (Markets in Financial Instruments Directive) II regulations. Under the new rules, all local authorities are classified as retail counterparties, and authorities have to consider whether to opt up to professional status and for which types of investments. Some investment options are not available to retail counterparties, and as a result Woking Borough Council has opted up to professional status for three out of four of its existing money market funds (Federated, Standard Life and Deutsche). This has not been necessary for the remaining money market fund (LGIM), which would countinue to deal with retail counterparties. A view will be taken going forward on any new investments on a case by case basis and the arrangements will be regularly reviewed as appropriate.

Non-Specified Investments

At the time of placing an investment, a maximum of 35% will be held in aggregate in non-specified investments (including in-house and externally managed funds).

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – UK government (with maturities in excess of 1 year)	N/a	In-house and fund managers	35%	5 years
Term deposits – other LAs (with maturities in excess of 1 year)	N/a	In-house and fund managers	35%	5 years
Term deposits – banks and building societies	As for specified	In-house and fund	35%	5 years

(with maturities in excess of 1 year)	investments	managers		
Callable deposits (with maturities in excess of 1 year)	As above	In-house and fund managers	35%	5 years
Certificates of deposits issued by banks and building societies	As above	In-house and fund managers	35%	5 years
UK Government Gilts with maturities in excess of 1 year	AAA	Fund Managers	35%	5 years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	35%	5 years
Bonds issued by a financial institution which is guaranteed by the UK government	N/a	In-house on a 'buy-and-hold' basis. Also for use by fund managers	35%	5 years
Sovereign bond issues (i.e. other than the UK govt)	AAA	Fund Managers	35%	5 years
Corporate Bonds : ***the use of these investments would constitute capital expenditure***	N/a	N/a	Nil	N/a
Floating Rate Notes : ***the use of these investments would constitute capital expenditure***	N/a	N/a	Nil	N/a

Guide to Ratings

Fitch	Moodys	Standard and Poor's
Rating Levels to be used in Treasury Management		
AAA AA+ AA	Aaa Aa1 Aa2	AAA AA+ AA
Fitch's individual ratings measure an institution's intrinsic safety and soundness on a stand-alone basis, and provide an assessment of the strength of the institution's financial structure, its performance and its credit (and therefore, risk) profile. The laws and accounting practices that govern the operations, reporting and disclosure of financial information in the country in which the institution operates, would have a bearing on the assessment. These ratings are divorced entirely from considerations of external support, from either parent or the government, and are, therefore, useful indicators of credit. At present, Fitch is the only agency which explicitly states its view of the likely presence of a lender of last resort, either government or parent, with the willingness and the resources to aid a failing financial institution.	Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. In addition to commercial banks, Moody's BFSRs may also be assigned to other types of financial institutions such as multilateral development banks, government-sponsored financial institutions and national development financial institutions. BFSR's are a measure of the likelihood that a bank will require assistance from third parties such as its owners, its industry group, or official institutions. BFSR's do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honour its domestic or foreign currency obligations. Factors considered in the assignment of BFSR's include bank specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSR's exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.	Long Term credit ratings are based, in varying degrees, on the following considerations: • Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation; • Nature of and provisions of the obligation; • Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights. Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default

Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.S.A.

AA+

- Finland
- Hong Kong

Approved countries for investment are based on the Fitch rating.

Note: The UK is excluded from the minimum sovereign rating criteria (report paragraph 13.21 refers.

Treasury Management Policy Statement

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

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

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

Treasury management scheme of delegation

(i) Executive

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy
- approval of/amendments to the organisation's adopted clauses and treasury management policy statement
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations

(ii) Overview and Scrutiny Committee

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

(iii) Treasury Management Panel

- consideration of proposals to reschedule borrowing.

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
- appointment of external service providers.

LONG TERM BORROWING MATURITY PROFILE AS AT 19 JANUARY 2018

	PWLB	LOBO	OTHER	ALL
2017 /2018	9			9 *
2018 /2019	12		6	18
2019 /2020	5			5
2020 /2021	2			2
2021 /2022	27		10	37
2022 /2023	2			2
2023 /2024	3			3
2024 /2025	12			12
2025 /2026	11			11
2026 /2027	6			6
2027 /2028	3			3
2028 /2029	3			3
2029 /2030	3			3
2030 /2031	8			8
2031 /2032	8			8
2032 /2033	3			3
2033 /2034	8			8
2034 /2035	13			13
2035 /2036	8			8
2036 /2037	8			8
2037 /2038	6			6
2038 /2039	8			8
2039 /2040	6			6
2040 /2041	9			9
2041 /2042	4			4
2042 /2043	7			7
2043 /2044	4			4
2044 /2045	4			4
2045 /2046	4			4
2046 /2047	4			4
2047 /2048	4			4
2048 /2049	4			4
2049 /2050	8			8
2050 /2051	5			5
2051 /2052	5			5
2052 /2053	9			9

	PWLB	LOBO	OTHER	ALL
2053 /2054	18			18
2054 /2055	20			20
2055 /2056	8	5		13
2056 /2057	21			21
2057 /2058	22			22
2058 /2059	41			41
2059 /2060	47			47
2060 /2061	31			31
2061 /2062	44			44
2062 /2063	14			14
2063 /2064	14			14
2064 /2065	35			35
2065 /2066	25			25
2066 /2067	56			56
2067 /2068	14			14
2068 /2069				
2069 /2070				
2070 /2071				
2071 /2072				
2072 /2073				
2073 /2074				
2074 /2075				
2075 /2076				
2076 /2077		10	10	20
2077 /2078			5	5
2078 /2079				
2079 /2080				
2080 /2081				
2081 /2082				
2082 /2083				
2083 /2084				
2084 /2085				
2085 /2086				
2086 /2087				
2087 /2088				
2088 /2089				
	655	15	31	701

* 2017/18 maturities include those paid already as well as due.