Annex 4

London Borough of Haringey

Treasury Management Strategy Statement 2017-18 to 2019-20

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 Council 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 borrowed and invested substantial sums of money and is therefore exposed 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.

1.5 In accordance with the CLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a change in how treasury management services are delivered, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balance.

2 External Context

2.1 **Economic background:** The major external influence on the Council's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, 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 last for up to two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

2.2 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 has indicated it will tolerate temporary inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

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

2.4 Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. 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.

2.5 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 upsetting the status quo.

2.6 **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.

2.7 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 Council; returns from cash deposits however continue to fall.

2.8 **Interest rate forecast:** The Council'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 and 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.

2.9 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. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

2.10 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.20%, and that new long-term loans will be borrowed at an average rate of 2.84%.

3 Local Context

3.1 On 30th November 2016, the Council held £319m of borrowing and £38m of investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

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. The estimates for each pool, based on the current proposed Revenue Budget and Capital Programmes, are:

Table 1a: Treasury Position – General Fund

	31/03/2016 Actual £'000	31/03/2017 Approved £'000	31/03/2017 Projected £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000
General Fund CFR	276,919	297,121	308,590	301,745	310,974	319,693
Less: Share of existing external debt and other long term liabilities	147,684	139,960	124,992	116,751	109,137	101,107
Internal Borrowing	129,235	131,318	183,598	184,994	191,186	197,111
Cumulative Net Borrowing Requirement	0	25,843	0	0	10,651	21,474

Table 1b: Treasury Position – HRA

	31/03/2016	31/03/2017	31/03/2017	31/03/2018	31/03/2019	31/03/2020

	Actual £'000	Approved £'000	Projected £'000	Estimate £'000	Estimate £'000	Estimate £'000
HRA CFR	271,096	292,666	271,096	271,096	271,096	278,910
Less: Share of Existing External Debt & Other Long Term Liabilities	197,981	191,454	199,903	199,903	199,903	207,717
Internal Borrowing	73,115	69,780	71,193	71,193	71,193	71,193
Cumulative Net Borrowing Requirement	0	31,432	0	0	0	0

3.3 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 2017/18 and the remainder of the forecast period.

3.4 The tables above show how the Council's capital requirement is funded currently and how it is expected to be funded in the coming years. Due to the differential between short and long term interest rates (discussed in more detail in section 4), the Council has maximised the amount of internal borrowing that can be done. As short term interest rates are forecast to remain relatively low (probably below 2%) for the next few years. It is anticipated that a significant level of internal / short term borrowing will continue, with the only reduction expected reflecting the planned movement in reserves.

3.5 Ensuring that gross external debt does not exceed the CFR over the medium term is a key indicator of prudence. There has been no difficulty meeting this requirement in 2016-17 nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.

3.6 It is a requirement for the HRA CFR to remain within the limit of indebtedness or "debt cap" set by the DCLG at the time of the implementation of self-financing. The table below shows the current expected level of the HRA CFR and the debt cap. Any decision by the Council to undertake new borrowing for housing will cause the future years' debt predictions for the HRA debt pool to increase.

Table 2: HRA Debt Cap

	31/03/16 Actual £'000	31/03/17 Approved £'000	31/03/17 Estimate £'000	31/03/18 Estimate £'000	31/03/19 Estimate £'000	31/03/20 Estimate £'000
HRA CFR	271,096	292,666	271,096	271,096	271,096	278,910
HRA Debt cap	327,538	327,538	327,538	327,538	327,538	327,538
Headroom	56,442	34,872	56,442	56,442	56,442	48,628

3.7 Table 3 below shows proposed capital expenditure over the coming three financial years. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and housing rent.

Table 3: Capital Expenditure

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
General	44,571	115,687	67,795	77,087	62,425	64,813
HRA	96,436	83,775	61,886	43,561	42,944	43,220
Total	141,007	199,462	129,681	120,648	105,369	108,033

3.8 Capital expenditure is expected to be financed or funded as follows.

Table 4: Capital Financing

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital receipts	9,275	25,798	565	19,248	12,594	6,204
Other grants & contributions	119,915	38,663	33,431	31,860	15,657	18,531
Government Grants	0	16,612	24,543	8,108	12,903	14,852
Reserves / Revenue contributions	7,452	28,260	52,228	36,332	34,622	33,331
Total Financing	136,642	109,333	110,767	95,548	75,776	72,918
Borrowing	4,365	56,689	18,914	25,100	29,593	35,115
Total	141,007	166,022	129,681	120,648	105,369	108,033

3.9. As an indicator of affordability the table below shows the incremental impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme and the number of rented properties (HRA). The General Fund and HRA ratios are below projections this year as no external borrowing has been required. For 2017-18 the ratio is impacted by expectations of significant additional borrowing for the General Fund.

Table 5: Incremental Impact of Capital Investment Decisions

	2015/16 Actual	2016/17 Approved	2016/17 Projected Out-turn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate

	£'000	£'000	£'000	£'000	£'000	£'000
Increase in Band D Council Tax	10.03	32.04	1.58	14.98	19.97	20.30
Increase in Average Weekly Housing Rents	0.42	1.10	0.81	0.20	0.31	1.16

3.10. The ratio of financing costs to the Council's net revenue stream 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 borrowing costs. The ratio is based on debt costs less investment income.

3.11. The ratio for the General Fund is deteriorating over the period. This is due mainly to reduced Council revenues, including reclassification of Better Care funding. The effect of net new borrowing is mitigated by the lower coupon compared with maturing debt. HRA would derive greater benefit from the repayment of high coupon debt.

Table 6: Ratio of Financing Costs to Net Revenue Stream

	2015/16 Actual	2016/17 Approved	2016/17 Projected Out-turn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%	%	%
General Fund	1.85	1.93	1.89	2.18	2.12	2.36
HRA	9.02	8.88	9.06	9.87	9.39	10.35

4. Borrowing Strategy

4.1. The Council currently holds £273.6m of loans, a decrease of £11.6m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £37.3m in 2017/18. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £536.1m.

Objectives

4.2. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs 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.

Strategy

4.3. 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 either use internal resources, or to borrow short-term loans instead.

4.4. By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by delaying borrowing into future years when long-term borrowing rates are forecast to rise modestly.

4.5. The level of reserves and working capital that enable internal borrowing will be monitored and projected changes will be used to determine the timing and level of new debt. The Council's treasury advisor will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2017-18 with a view to keeping future interest costs low, even if this costs more in the short-term.

4.6. Alternatively, the Council may arrange forward starting loans during 2017-18, where the interest rate is fixed in advance, but the cash is received in later years. This will enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. These arrangements will only be considered where there is certainty as to borrowing needs and timing and where predictability of interest costs is beneficial to the capital programme.

4.7. The Council will adopt a flexible approach to this borrowing in consultation with its treasury management advisers. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

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

- Public Works Loan Board (PWLB) and any successor body
- Other local authorities
- Institutions such as European Investment Bank and Commercial Banks
- UK public/private sector pension funds (except Haringey Pension Fund)
- Capital market bond investors

- UK Municipal Bonds Agency plc and other entities created to enable local Council bond issues
- Leasing

4.8. The Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages. The Council has previously raised the majority 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.

4.9. UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local Council borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Corporate Committee that contains explicit legal advice.

<u>Lender's Option Borrower's Option Loans</u>

4.9 The Council holds £125m of LOBO (Lender's 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 Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2017/18, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. No further LOBO loans will be considered without discussion with Corporate Committee.

<u>Short-term and Variable Rate loans</u>

4.10 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. However, they do, at present, offer significant savings compared with long term debt.

Debt Rescheduling

4.11 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 2017-18

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 £0 and £50m. It is anticipated that net balances will be lower next year as debt is repaid. The impact on the value of cash balances from capital expenditure and the timing of any associated debt financing are uncertain.

Objectives

5.2. 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.

Negative Interest Rates

5.3. If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

5.4. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits and money market funds. These investments are exposed to bank bail in risk. To reduce potential exposure to unsecured bank deposits, the counterparty policy has been expanded to include quasi government institutions; Supranational banks. Covered bonds are now identified separately from unsecured bank deposits as these deposits are of lower risk being both secured on collateral and possessing a bank issuer guarantee.

5.5. Following a review and as cash balances are not expected to increase in 2017/18, counterparty investment limits have been maintained at 2016/17 – counterparty limits for individual banks has been set at £5m and exposure to local Council is maintained at maximum deposit of £15m per Council. These changes also reflect the anticipation that cash balances will continue to remain at or below historic levels as part of the policy to minimise new long term borrowing.

Specified and Non-specified Investments

5.5. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Instruments proposed for the Council's use within its investment strategy are contained in Appendix 4, which also explains the meaning of these terms. The list of proposed counterparties is shown in Appendix 5. In keeping with the strategy of maintaining high quality counterparties, at least 50% of all investments will be specified investments.

Specified Investments

5.6. 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 Council, parish council or community council, or
    - a body or investment scheme of "high credit quality".

5.7. 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.

Non-specified Investments

5.8. Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. 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 7 below.

5.9. Although cash balances will be low at certain times, there may be opportunities to invest core balances for more than twelve months. On occasions investments with a maturity of slightly in excess of 12 months can offer exceptional good value. For this reason, the strategy allows a maximum of £5m to be invested for over 12 months but less than 24 months. The Chief Operating Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Investment activity will be reported to Corporate Committee as part of the quarterly reports.

Table 7: Limits - Specified and Non-Specified Investments

Specified Investments				
Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**	**Maximum period of investment**
Term Deposits	UK	Debt Management Account Deposit Facility (DMADF), Debt Management Office (DMO)	No limit	364 days
Gilts	UK	Debt Management Office (DMO)	No limit	364 days

Treasury Bills	UK	Debt Management Office (DMO)	No limit	364 days
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£15m per local authority	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit/Covered Bonds	UK or AA+	Counterparties rated at least A- Long Term (or equivalent)	£5m per bank or banking group	364 days
Constant Net Asset Value Money Market Funds (MMFs)	UK/Ireland/ Luxembourg domiciled	AAA-rated Money Market Funds	£10m per MMF*; Group limit £50m	Instant Access
Non Specified Investments				
Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**	**Maximum period of investment**
Gilts	UK	Debt Management Office (DMO)	£10m	36 Months
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£15m per local authority	36 Months
Term Deposits/ Call Accounts/ Certificates of Deposit/Covered Bonds	UK or AA+	Counterparties rated at least A- Long Term (or equivalent)	£5m per bank or banking group	364 days
Variable NAV Enhanced Cash Funds	UK/Ireland/ Luxembourg domiciled	AAA - rated Funds	£5m per ECF*; Group limit £10m	Minimum Weekly Redemption

Risk Assessment and Credit Ratings

5.10. 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.

5.11. Credit ratings are obtained and monitored by the Council's treasury advisers, 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.

5.12. 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 no new investments 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.

Other Information on the Security of Investments

5.13. 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.

5.14. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. 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.

Investment Limits

5.15. The Council's estimated revenue reserves available to cover investment losses are forecast to be £18m on 31st March 2017. In order that no more than 85% of estimated available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries 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.

6. Treasury Management Indicators

6.1. Exposures to treasury management risks are measured and managed using the following indicators.

Security

6.2. The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 8: Credit Score Target

	Target
Portfolio average credit	3 - 6

Interest Rate Exposures

6.3. This indicator is set to control the Authority's exposure to interest rate risk, which includes £125m of LOBO loans. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

Table 9: Interest Rate Exposure

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	60%	60%	60%

6.4. 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. All other instruments are classed as variable rate.

Authorised Limits for External Debt

6.5. The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

Table 10: Authorised Limit

	2015/16 Actual	2016/17 Approved	2016/17 Projected Out-turn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing	283,233	468,174	271,614	481,523	494,848	515,623

Other Long-term Liabilities	49,329	60,057	45,498	54,540	49,132	43,534
Total	332,562	528,231	317,112	536,063	543,980	559,157

Operational Boundary for External Debt

6.6. The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit. The Operational Boundary and Authorised Limit apply at the total level. The limits compare with existing gross debt of £272m and projected three year debt financed capital expenditure of £69m and provides scope for variations in capital expenditure, funding sources and reserves.

Table11: Operational Boundary

	2015/16 Actual £'000	**2016/17 Approved £'000**	**2016/17 Projected Out-turn £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
Borrowing	283,233	418,174	271,614	431,523	444,848	465,623
Other Long-term Liabilities	49,329	54,598	45,498	49,582	44,665	39,576
Total	332,562	472,772	317,112	481,105	489,514	505,199

6.7. The Chief Financial Officer has delegated Council, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Corporate Committee.

Maturity Profile

6.8. The Council is required to set limits on the percentage of the portfolio maturing in each of the periods set out in the table below. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be taken for the optimum period. The limits apply to the combined General Fund and HRA debt pools.

6.9. The maturity range has been applied to LOBO loans (see 4.9 above) based on their contractual maturity date. The column on the right hand side represents the maturity structure based on the next date that the lender is able to reset interest rates.

Table 12: Maturity Profile

	Lower Limit	Upper Limit	31-Mar-16	31-Mar-16
	%	%	%	LOBO adjusted %
under 12 months	0%	60%	4%	48%
12 months & within 24 months	0%	40%	4%	4%
24 months & within 5 years	0%	40%	9%	9%
5 years & within 10 years	0%	40%	13%	13%
10 years & within 20 years	0%	40%	4%	4%
20 years & within 30 years	0%	40%	4%	0%
30 years & within 40 years	0%	50%	26%	12%
40 years & within 50 years	0%	50%	36%	10%
50 years & above	0%	40%	0%	0%

Liquidity Management

6.10. The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Principal Sums Invested for Periods Longer than 364 days

6.11. 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 long-term principal sum invested to final maturities beyond the period end will be:

Table 13: Limit on Sums Invested Beyond 364 Days

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£10m	£10m	£10m

7. MRP Statement

7.1. The Council's MRP policy has been reviewed and revised to better reflect the rules set out in the prudential code and government guidance around prudent provision for repayment of borrowed capital. The revised policy, which will take effect from 1 April 2016, ensures that provision for capital repayment is made over a period that is commensurate with the period in which the asset purchased provides benefits.

<u>General Fund MRP policy: borrowing before 2007/08</u>

7.2. The Council will calculate MRP on historic debt based on the Capital Financing Requirement (CFR) as at 1 April 2007.

7.3. The Council will calculate the MRP charge based on 2% of that CFR, fixed at the same cash value so that the whole debt is repaid after 50 years in total.

7.4. The historic MRP policy for borrowing incurred before 2007/08 led to MRP charges that exceeded what prudence required during the period from 1 April 2007 to 31 March 2016. This resulted in a cumulative charge at 31 March 2016 that was in excess of what is considered prudent and appropriate under the current policy. To reflect the historic over-provision the Council will undertake an annual review to determine whether to make a realignment of MRP charged to the General Fund, using the policy set out above, to recognise the excess sum charged to that point.

7.5. The following conditions will apply to the annual review:

- Total MRP after applying realignment will not be less than zero in any financial year.
- The cumulative total of the MRP realignment will never exceed the amount of historical over-provision calculated to 31 March 2016.

<u>General Fund MRP policy: prudential borrowing from 2007/08</u>

7.5. For borrowing incurred on schemes described by the Government as Prudential Borrowing or Unsupported Borrowing, MRP will be calculated over the estimated remaining useful life applicable to the expenditure (usually the useful life of the asset it is financing) using the Annuity repayment method in accordance with Option 3 of the guidance.

7.6. This means that MRP will be calculated on an annuity basis (like many domestic mortgages) over the estimated life of the asset. Estimated life periods will be determined by the Section 151 Officer under delegated powers.

7.7. In accordance with the provisions in the guidance, MRP will be first charged in the financial year following the one in which the entire asset to which the charge relates, becomes fully operational.

7.8. Financial agreements such as loans, investments or where assets are to be acquired for future development (including where capital receipts are part of the business case), will not, at the discretion of the CFO, attract MRP. This discretion will be applied where it is reasonable to assume that the initial capital investment will be returned to the Council in full at maturity or over a defined period.

<u>Concession Agreements</u>

7.9. MRP in relation to concession agreements (e.g. PFI contracts) and finance leases will be calculated on an asset life method using an annuity repayment profile, consistent with the method for all prudential borrowing since 2007/08. Estimated life periods will be determined under delegated powers.

7.10. The Section 151 Officer may approve that such debt repayment provision may be made from capital receipts or from revenue provision.

<u>Finance Leases</u>

7.11. For assets acquired by finance leases, including leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

<u>Statutory capitalisations</u>

7.12. For expenditure which does not create a fixed asset, but is statutorily capitalised and subject to estimated life periods that are referred to in the guidance, these estimated periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

7.13. Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, at the discretion of the Section 151 Officer.’

8. Capital Expenditure

8.1. The evaluation of capital expenditure projects incorporates the cost of financing. This comprises two elements (a) the recovery of purchase costs through MRP and (b) interest. Where capital expenditure is low and no specific borrowing is required the interest cost allocated to the project will be the average cost of the Council’s debt portfolio. This method will be used even if no borrowing takes place in the year as capital expenditure reduces the ability to repay debt.

8.2. For projects incurring a high initial cost for which specific debt financing is arranged, then the interest cost used will be the average rate on the specific debt.

9. Other Items

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

Policy on Use of Financial Derivatives

9.2. The Council has previously made use of financial derivatives embedded into loans to reduce costs e.g. LOBO loans. The Council will not use standalone financial derivatives (such as swaps, forwards, futures and options). Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Policy on Apportioning Interest to the HRA

9.3. 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 Council's average interest rate on investments.

Investment Training

9.4. CIPFA's Treasury Management Code of Practice requires the Chief Financial Officer to ensure 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.

9.5. Given the significant amounts of money involved, it is crucial members have the necessary knowledge to take treasury management decisions. Training sessions are arranged for members to keep their knowledge up to date.

9.6. The needs of the Council's treasury management staff for training in investment management are assessed 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, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers

9.7. 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 reviewed by the Council's treasury management staff.

Investment of Money Borrowed in Advance of Need

9.8. 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.

9.9. The total amount borrowed in 2017-18 will not exceed the authorised borrowing limit of £536m. The maximum period between borrowing and expenditure is expected to be one year, although the Council is not required to link particular loans with particular items of expenditure.

Financial Implications

9.10. The budget investment income in 2017-18 is £30k, based on an average investment portfolio of £14m at an interest rate of 0.20%. The budget for debt interest paid in 2017-18 is £14.5m, based on an average debt portfolio of £310m (including short term debt) at an average interest rate of 4.95%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will also be different. Interest paid and earned is apportioned between the General Fund and HRA. The average interest rate on existing debt will decline in 2017-18 from 5.19% to 5.10% with interest costs falling by approximately £1.0m. New debt is projected to cost an average 2.84%.

9.11. The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

Monitoring & Reporting

9.12. Corporate Committee will receive quarterly reports on treasury management activity and performance. This will include monitoring of the prudential indicators.

9.13. It is a requirement of the Treasury Management Code of Practice that an outturn report on treasury activity is produced after the financial year end, no later than 30th September. This will be reported to Corporate Committee, shared with the Cabinet member for Resource & Culture and then reported to full Council. Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

9.14. Officers monitor counterparties on a daily basis with advice from the Council's treasury management advisers to ensure that any creditworthiness concerns are addressed as soon as they arise.

10. Other Options Considered

10.1. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Operating Officer (COO), having consulted Corporate Committee, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Details of Treasury Position

A: General Fund Pool

	31-Mar-17 Projected £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000	31-Mar-20 Estimate £'000
Existing External Borrowing commitments:				
PWLB	37,212	33,152	29,635	25,847
Market loans	42,281	42,281	42,281	42,281
Total External Borrowing	79,493	75,433	71,916	68,128
Long Term Liabilities	45,499	41,318	37,221	32,980
Total Gross External Debt	124,992	116,751	109,137	101,108
CFR	308,590	301,745	310,974	319,693
Internal Borrowing	183,598	184,994	191,186	197,111
Cumulative Borrowing requirement	0	0	10,651	21,473

B: HRA Pool

	31-Mar-17 Projected £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000	31-Mar-20 Estimate £'000
Existing External Borrowing commitments:				
PWLB	117,184	117,184	117,184	124,998
Market loans	82,719	82,719	82,719	82,719
Total External Borrowing	199,903	199,903	199,903	207,717
CFR	271,096	271,096	271,096	278,910
Internal Borrowing	71,193	71,193	71,193	71,193
Cumulative Borrowing requirement	0	0	0	0

C: Security Measure

		2017-18	2018-19	2019-20
Above target	AAA to AA+	Score 0 - 2	Score 0 - 2	Score 0 – 2
Target score	AA to A	Score 3 – 6	Score 3 – 6	Score 3 – 6
Below target	Below A	Score 6+	Score 6+	Score 6+

Appendix 2

Summary of Prudential Indicators

No.	Prudential Indicator	2017/18	2018/19	2019/20
CAPITAL INDICATORS				
1	Capital Expenditure	£'000	£'000	£'000
	General Fund	77,087	62,425	64,813
	HRA	43,561	42,944	43,220
	TOTAL	120,648	105,369	108,033

No.	Prudential Indicator	2017/18	2018/19	2019/20
2	Ratio of financing costs to net revenue stream	%	%	%
	General Fund	2.18	2.12	2.36
	HRA	9.87	9.39	10.35

No.	Prudential Indicator	2017/18	2018/19	2019/20
3	Capital Financing Requirement	£'000	£'000	£'000
	General Fund	301,745	310,974	319,693
	HRA	271,096	271,096	278,910
	TOTAL	572,841	582,070	598,603

No.	Prudential Indicator	2017/18	2018/19	2019/20
4	Incremental impact of capital investment decisions	£	£	£
	Band D Council Tax	14.98	19.97	20.30
	Weekly Housing rents	0.20	0.31	1.16

No.	Prudential Indicator	2017/18	2018/19	2019/20
TREASURY MANAGEMENT LIMITS				
5	Borrowing Limits	£'000	£'000	£'000
	Authorised Limit	536,063	543,980	559,157
	Operational Boundary	481,105	489,514	505,199

No.	Prudential Indicator	2017/18	2018/19	2019/20
6	HRA Debt Cap	£'000	£'000	£'000
	Headroom	56,442	56,442	48,628

No.	Prudential Indicator	2017/18	2018/19	2019/20
7	Upper Limit - Fixed Rate Exposure	100%	100%	100%
	Upper Limit - Variable Rate Exposure	60%	60%	60%

No.	Prudential Indicator	2017/18		2018/19		2019/20	
8	Maturity Structure of Borrowing						
	U: Upper, L: Lower	L	U	L	U	L	U
	Under 12 Months	0%	60%	0%	60%	0%	60%
	12 Months & Within 2 Years	0%	40%	0%	40%	0%	40%
	2 Years & Within 5 Years	0%	40%	0%	40%	0%	40%
	5 Years & Within 10 Years	0%	40%	0%	40%	0%	40%
	10 Years & Within 20 Years	0%	40%	0%	40%	0%	40%
	20 Years & Within 30 Years	0%	40%	0%	40%	0%	40%
	30 Years & Within 40 Years	0%	50%	0%	50%	0%	50%
	40 Years & Within 50 Years	0%	50%	0%	50%	0%	50%
	50 Years & above	0%	40%	0%	40%	0%	40%

No.	Prudential Indicator	2017/18	2018/19	2019/20
9	Sums invested for more than 364 days	10	10	10

No.	Prudential Indicator	2017/18	2018/19	2019/20
10	Adoption of CIPFA Treasury Management Code of Practice	✓	✓	✓

Arlingclose Economic & Interest Rate Forecast November 2016

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.

- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.

- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.

- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.

- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.

- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely..

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

- 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.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	**0.12**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.40**
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.18**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.34**
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.60**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.65**
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.24**
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**0.50**	**0.40**	**0.35**	**0.35**	**0.35**	**0.40**	**0.40**	**0.40**	**0.45**	**0.50**	**0.55**	**0.60**	**0.65**	**0.45**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.15**	**0.95**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.96**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.70**	**1.50**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.60**	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.41**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**

Counterparty Policy

The investment instruments identified for use in 2016-17 are listed in the table. Each investment type is classified as either 'Specified' or 'Non – Specified' investment categories. Specified investments are considered low risk and relate to funds invested for up to one year. Only those investments with a credit rating of at least AA- are considered as specified. Non-specified investments normally offer the prospect of higher returns but carry higher risk and may have a maturity beyond one year. At least 50% of investments held will be specified. All investments are sterling denominated.

As discussed in the borrowing strategy the plan during 2017-18 is to rely on short term debt and minimise cash balances. This will lead to a high proportion short dated and tradable instruments e.g. money market funds, T-bills, CDs and DMO within the cash portfolio to cover liquidity needs.

Investments do not include capital expenditure as defined under section 25(1) (d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

Minimum Credit Quality & diversification Limits

For credit rated counterparties, the minimum criteria will be the lowest equivalent long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned) as below:

Long-term minimum: A- (Fitch); A3 (Moody's); A- (S&P)

The Council will also take into account the range of information on investment counterparties detailed in 'other information' section above.

The limits stated in the table below will apply across the total portfolio operated by the Council and so incorporate both Council and Pension Fund specific investments. The limits for the period of investment are the maximum for the categories of counterparties. Lower operational limits will apply if recommended following a review of creditworthiness. Operationally a limit will be applied to the amount invested in any MMF of no more than 2.0% of the Money Market Fund's total assets.

Non UK Banks

The use of non-UK banks was suspended pre April 2015. Nine countries retain AAA ratings from all three rating agencies – Australia, Canada, Denmark, Germany, Netherlands, Norway, Singapore, Sweden and Switzerland. Within these countries twelve banks meet the AA- or better criteria mentioned above and these have been included as eligible counterparties (Appendix 5). Using the highest quality overseas banks will both improve the overall security of the investment portfolio and enable greater diversification.

Maturities Guidance

At present, maturities have been kept to less than 12 months reflecting the expectation that cash balances will be maintained at low levels. However, there remains a core cash balance that persists over time. Longer maturities attract higher returns at present to compensate for illiquidity and the prospect of increased base rates in future. The strategy has been revised to permit a maximum of £10m to be invested between 12 – 24 months.

Institution Type	Minimum Credit Rating	Maximum Counterparty Limit	Maximum Period of Investment	Specified / Unspecified
Debt Management Office	UK Government	No limit	364 days	specified
Gilts, Treasury Bill & Repos	UK Government	No limit £10m	364 days 24 months	Specified non-specified
Supra-national Banks & European Agency	AA-	£10m £5m	364 days 24 months	specified non-specified
Covered Bonds issued by UK Banks	Bond AA+ / counterparty A- Bond AA+ / Counterparty BBB+ Bond AA+ / counterparty A-	£5m per bond, £20m aggregate £5m per bond, £10m aggregate £5m per bond, £10m aggregate	364 days 364 days 24 months	Specified Non-specified non-Specified
UK Local Council Deposits	n/a	£15m per counterparty £5m per counterparty	364 days 24 months	specified non-specified
UK & AAA country Banks - term deposits, CDs and call accounts	AA- AA- A-	£10m per bank or banking group £5m per bank or banking group £5m per bank or banking group	364 days 24 months 364 days	specified non-specified non-specified
Constant Net Asset Value Money Market Funds (MMFs), UK / Ireland / Luxembourg domiciled Variable NAV Enhanced Cash Funds, UK/Ireland/Luxembourg domiciled	AAA AAA	£10m per MMF. Aggregate £50m. £5m per ECF. Group limit £15m	daily liquidity Minimum Weekly Redemption	specified non-specified

<u>Additional Details on Types of Investments</u>

Banks and Building Society Deposits, Call Accounts and Certificates of Deposit: 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.

Banks Covered Bonds: These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

Money Market and Enhanced Cash Funds: Shares in diversified investment vehicles consisting of time deposits, call accounts, CDs etc with banks and financial institutions. 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 very low or no volatility will be used as an alternative to instant access bank accounts, while Enhanced Cash Funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Lending List of counterparties for investments

This is the proposed list of bank counterparties which the Council can lend to, providing the counterparties meet the requirements set out in Appendix 4 at the time of investment. The list will be kept under constant review and counterparties removed if the process described in the investment strategy raises any concerns about their credit worthiness. In addition to the counterparties listed below, UK government, local authorities, money market funds and enhanced cash funds are included in Appendix 4.

A UK bank has been suspended as a counterparty when compared with last year's list. The number of supranational banks has doubled from four to eight. All are AAA rated by the three rating agencies. These banks raise funds via CDs. The Arlingclose support maximum maturities of up to 25 years for AAA rated supranational banks, although a 15 year maximum maturity is recommended for the Council of Europe Development Bank.

There has been a net addition of six overseas banks to the counterparty list. All are rated AA- or better by all three rating agencies. These banks rarely take deposits in the UK but can be accessed through CDs. There are currently no overseas banks in the portfolio. In addition to the limits set out in Appendix 4, a limit of £5m per bank and £10m per Non-UK country will be applied.

Covered deposits offer additional default protection due to the provision of collateral as security.

The counterparty list excludes MMF and ECF's as the name of the fund reflects the fund manager not the quality of the underlying holdings. Selection of MMFs and ECFs will be based on the criteria set of in Appendix 4. The limit for any single MMF is £10m and each ECF is £5m – Group limit £50m.

Should Arlingclose reduce the maximum recommended maturity guidance for any bank, this will be reflected in the portfolio.

Instrument	Country / Domicile	Counterparty	Arlingclose Suggested (Maximum) Maturity
UK Banks and Building Societies- Term Deposits, Call Accounts & CDs			
	United Kingdom	BANK OF SCOTLAND PLC	13 months
	United Kingdom	LLOYDS BANK PLC	13 months
	United Kingdom	BARCLAYS BANK PLC	100 days
	United Kingdom	COVENTRY BUILDING SOCIETY	6 months
	United Kingdom	HSBC BANK PLC	13 months
	United Kingdom	NATIONWIDE BUILDING SOCIETY	6 months
	United Kingdom	ABBEY NATIONAL TREASURY SERV	6 months
	United Kingdom	SANTANDER UK PLC	6 months
UK: Other Institutions			
	United Kingdom	DEBT MANAGEMENT OFFICE	50 years
	United Kingdom	LCR FINANCE PLC	15 years
	United Kingdom	WELLCOME TRUST FINANCE PLC	20 years
Non-UK Banks - Term Deposits, Call Accounts and CDs			
	Australia	AUST AND NZ BANKING GROUP	6 months
	Australia	NATIONAL AUSTRALIA BANK LTD	6 months
	Canada	EXPORT DEVELOPMENT CANADA	25 years
	Denmark	KOMMUNEKREDIT	25 years
	Finland	MUNICIPALITY FINANCE PLC	15 years
	Germany	FMS WERTMANAGEMENT	25 years
	Germany	KREDITANSTALT FUER WIEFERAUF	25 years
	Germany	LANDESKRED BADEN-WUERTT FOER	25 years
	Germany	LANDWIRTSCHAFTLICHE RENTENBA	25 years
	Germany	LAND SACHSEN-ANHALT	15 years
	Netherlands	BANK NEDERLANDSE GEMEENTEN	5 years
	Netherlands	NEDERLANDSE WATERSCHAPSBANK	5 years
	Norway	KOMMUNALBANKEN AS	5 years
	Singapore	TEMASEK FINANCIAL I LTD	10 years
	Sweden	SVENSK EXPORTKREDIT AB	5 years
	Sweden	SVENSKA HANDELSBANKEN-A SHS	13 months
Supranational Banks			
		COUNCIL OF EUROPE DEVELOPMNT	15 years
		EUROPEAN BANK FOR RECONSTRUC	25 years
		EUROPEAN COAL & STEEL COMMUN	25 years
		EUROPEAN INVESTMENT BANK	25 years
		INTER-AMERICAN DEV BANK	25 years
		INTERNATIONAL BANK FOR RECON	25 years
		INTERNATIONAL FINANCE CORP	25 years
		NORDIC INVESTMENT BANK	25 years