

NOTICE OF MEETING

CORPORATE COMMITTEE

**Monday, 3rd February, 2020, 7.00 pm - Civic Centre, High Road,
Wood Green, N22 8LE**

Members: Councillors Isidoros Diakides (Chair), Mike Hakata (Vice-Chair), Peray Ahmet, Dawn Barnes, Patrick Berryman, Barbara Blake, Mahir Demir, Makbule Gunes, Liz Morris, Alessandra Rossetti, Daniel Stone and Noah Tucker

Co-optees/Non Voting Members:

Quorum: 3

1. FILMING AT MEETINGS

Please note that this meeting may be filmed or recorded by the Council for live or subsequent broadcast via the Council's internet site or by anyone attending the meeting using any communication method. Although we ask members of the public recording, filming or reporting on the meeting not to include the public seating areas, members of the public attending the meeting should be aware that we cannot guarantee that they will not be filmed or recorded by others attending the meeting. Members of the public participating in the meeting (e.g. making deputations, asking questions, making oral protests) should be aware that they are likely to be filmed, recorded or reported on.

By entering the meeting room and using the public seating area, you are consenting to being filmed and to the possible use of those images and sound recordings.

The chair of the meeting has the discretion to terminate or suspend filming or recording, if in his or her opinion continuation of the filming, recording or reporting would disrupt or prejudice the proceedings, infringe the rights of any individual or may lead to the breach of a legal obligation by the Council.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

3. URGENT BUSINESS

The Chair will consider the admission of any late items of urgent business. (late items will be considered under the agenda items where they appear. New items will be dealt with at item)

4. DECLARATIONS OF INTEREST

A member with a disclosable pecuniary interest or a prejudicial interest in a matter who attends a meeting of the authority at which the matter is considered:

- (i) must disclose the interest at the start of the meeting or when the interest becomes apparent, and
- (ii) may not participate in any discussion or vote on the matter and must withdraw from the meeting room.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Register of Members' Interests or the subject of a pending notification must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal interests and prejudicial interests are defined at Paragraphs 5-7 and Appendix A of the Members' Code of Conduct.

5. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

To consider any requests received in accordance with Part 4, section B, Paragraph 29 of the Council's Constitution.

6. MINUTES (PAGES 1 - 10)

To consider and agree the minutes of the meeting held on 2nd December 2019.

7. NEW ITEMS OF URGENT BUSINESS

To consider any items of urgent business as identified at item 3.

8. TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21 (PAGES 11 - 40)

9. DATE AND TIME OF NEXT MEETING

18th March

Philip Slawther, Principal Committee Co-ordinator
Tel – 020 8489 2957
Fax – 020 8881 5218
Email: philip.slawther2@haringey.gov.uk

Bernie Ryan
Assistant Director – Corporate Governance and Monitoring Officer
River Park House, 225 High Road, Wood Green, N22 8HQ

Friday 24th January

MINUTES OF MEETING CORPORATE COMMITTEE HELD ON MONDAY, 2ND DECEMBER, 2019, 7.00 PM

PRESENT:

Councillors: Isidoros Diakides (Chair), Mike Hakata (Vice-Chair), Patrick Berryman, Barbara Blake, Mahir Demir, Liz Morris, Alessandra Rossetti, Daniel Stone and Noah Tucker

ALSO ATTENDING:

115. FILMING AT MEETINGS

The Chair referred Members present to agenda Item 1 as shown on the agenda in respect of filming at this meeting, and Members noted the information contained therein.

116. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

Apologies for lateness were received from Cllr Hakata and Cllr Stone.

117. URGENT BUSINESS

The Committee was advised that there was a late item of urgent business in relation to the annual audit letter from the year ended 31st March 2019 from the external auditors. The audit completion report was published as part of the Corporate Committee agenda as an appendix to Item 9, the statement of accounts update, however the annual audit letter was not available for publication until 27 November.

118. DECLARATIONS OF INTEREST

There were no declarations of interest.

119. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

None.

120. MINUTES

The Committee requested an update around the Chair's conversations with the Cabinet Member for Finance on the Capital programme. In response, the Chair advised that he had discussed the issue with Cllr Adje and the Leader. It was noted that the forthcoming MTFs included significant capital expenditure and that there was still a small gap in the overall projected budget. A Member briefing session was held recently on the budget and budget process.

RESOLVED

The Committee agreed the minutes of the meeting from 9th September 2019.

121. HOUSING BENEFIT SUBSIDY UPDATE

The Committee received a report for noting which provided an update on Housing Benefit subsidy overpayments, following a report from BDO to the Committee in February 2019 which highlighted the Council had a higher than usual number and value of overpayments arising from local authority errors and administrative delays. The reasons for this were partly to do with the Council clearing a large backlog in this area in 2017/18. The Committee noted that following the BDO report in February, additional sample checks were carried out which, following dialogue with the DWP, resulted in a reduction in the subsidy loss for 2017/18 from £458k to £61k. The Council was also unable to claim a grant from the DWP for authorities who did not breach the 0.54% of their benefit threshold, which was estimated to be around £1.4m. The report was introduced by Andy Briggs, AD Customers, Transformation and Resources as well as Helen Hili, Service Manager SSC – Central Service Delivery as set out in the agenda pack at pages 9-13. The following was noted in discussion of the report:

- a. The Committee noted that Haringey Council administered Housing Benefits and Council Tax Reduction for approximately 27,000 and 25,00 claimants respectively and those payments were made on behalf of the DWP who then transferred the money back to the Council via a subsidy claim. No subsidy was paid for overpayments that exceeded 0.54% of the total benefit.
- b. BDO advised that the Council had caught up with the backlog in 2018/19 and that current performance was on track to remain under the threshold by year end. BDO advised that this was the best position that the auditors had seen in the four years since being appointed. The Committee was advised that the challenge for the Council was to maintain this level of performance.
- c. The Committee sought reassurance around the use of risk-based verification software and concerns that some council's had stopped using it due to safeguarding concerns. In response, officers advised that they weren't aware of the specific issue but advised that they had spoken to other councils who had used the software for many years and that feedback was very positive. Officers advised that the software was working well and that it allowed them to remodel the risk profile to focus on the high risk cases.
- d. The Committee sought clarification on the process for claiming the subsidy from the DWP and whether the Council was always out of pocket. Officers advised that the subsidy claim was calculated through estimates and that a final tally up was done at the end to make sure that these were correct.
- e. The Committee sought further clarification around how this was reflected within the Council's accounts and the MTFS. Officers advised that an estimate was made based on spending at the start of the year and that if that estimate was not met there would likely be a negative variance in the next year's accounts. The MTFS was worked out on an assumption of a neutral position i.e. that the Council would get back what it put in. The Chair commented that there were also contingency resilience reserves built into the budget.

- f. In response to concerns about the level of Haringey's overpayments and how this compared to the total amount of benefits it paid, officers agreed to check the level of benefit payments and how this compared across London. Officers also agreed to check how Haringey's overpayments compared to its statistical neighbours. Officers commented that the data was complicated by people being afraid to inform the Council of a change of circumstance for fear of losing money **(Action: Helen Hili)**.
- g. The Committee sought clarification on how the impact on customers was measured. In response, officers advised there were a number of indicators which demonstrated overall satisfaction levels such as the number of complaints received, the number of Member Enquiries and the number of complaints that were escalated to stage 2.
- h. Officers advised that the number of queries in relation to housing benefit, including repeat queries, were coming down at the front end of the process i.e. telephone queries and in person at customer service centres. The reduction in these contacts had also been confirmed by the external auditor. Officers added that they would continue to monitor this going forwards and were mindful of the importance of the quality of user experience.
- i. The Chair welcomed officers' invitation to come back with another report next year and also requested that it include some analysis on the Risk Based Verification model and the wider implementation of the FOBO programme. **(Action: Andy Briggs/Helen Hili)**.

RESOLVED

- l. The Committee noted the Housing Benefit Subsidy update.

122. TREASURY MANAGEMENT UPDATE REPORT

The Committee received a Treasury Management update report, which provided an update on the Council's treasury management activities and performance in the three months to 30th September 2019. The report was introduced by Thomas Skeen, Head of Pensions, Treasury and Chief Accountant as set out in the agenda pack at pages 15 – 31. The following was noted in discussion of the report:

- a. The Committee noted that there was not much change in treasury management activities from the previous update, with the exception of an increase in borrowing from the PLWB increasing by 1% from gilts +0.8% to gilts +1.8% for any new borrowing. This was set out in detail in Appendix 2 of the report.
- b. The Committee was advised that this would have a significant impact on borrowing costs, which would in turn impact the cost of undertaking the Council's capital programme, particularly for schemes that were identified as self-financing. Officers advised that they would be reviewing these schemes as part of the budget proposals being developed and the additional borrowing costs would be reflected in the MTFs. At present, commercial banks would only loan money to local authorities over a maximum of a seven year term which was not suitable for the vast majority of the Council's borrowing needs.
- c. It was noted that a bond release would first require the Council to become credit rated by one the major rating agencies which would be an involved, lengthy and costly process.

- d. Officers advised that they would bring a further update to the Committee at its next meeting in March. **(Thomas Skeen)**.
- e. In response to a question, officers advised that the increase in rates did not have an impact on the capital financing requirement as this was an accounting measure that reflected the authorities need to borrow.
- f. The Committee agreed that they would like to hear further information from the Cabinet Member for Finance and Strategic Regeneration around the impact of increased borrowing rates on the Council's spending, capital programme and on its house building agenda in particular. **(Action: Cllr Adje)**.

RESOLVED

- I. That members noted the Treasury Management activity undertaken during the three months to 30th September 2019 and the performance achieved.
- II. That members noted that all treasury activities were undertaken in line with the approved Treasury Management Strategy.
- III. That members noted the contents of the briefing note at Appendix 2 of the report regarding the recent increase in the Public Works Loan Board (PWLB) rate.

123. STATEMENT OF ACCOUNTS UPDATE

The Committee a report which provided an update on the Statement of Accounts for 2018/19, as well as the external auditors final audit completion report. The report was introduced by Thomas Skeen and the final audit completion report was introduced by Lee Lloyd-Thomas, Engagement Partner at BDO, as set out in the agenda pack at pages 33 and 41 respectively. The following was noted in discussion of the report:

- a. Officers advised that Haringey was not the only authority to have submitted their final statement of accounts late. The Committee was advised that 42% of local authorities had not submitted their accounts by July 31st deadline and 14-20 London local authorities had not published their accounts by 31st July. Officers advised that, as of the date of the meeting, there were 9 London local authorities that had still not published their final statement of accounts for 2018/19.
- b. BDO advised that there were two main misstatements that had been corrected. These related to an increase in school valuations arising from updated land and buildings data, which required correcting an error from previous years. As well as an error of £24.6m in the group accounts due to double counting of the cost of refurbishment works to Alexandra Palace. These, along with other corrected misstatements, increased the deficit on the provision of services by £12.7m in the amended financial statements. This was well within the Council's agreed level of materiality of £15.8M.
- c. There were also further unadjusted audit items identified of £4.916m for the Group and £4.115M for the Council but these items were not posted as per statutory guidance, as they did not impact the Council's General Fund or HRA balances.

- d. The auditors advised the Committee that, overall, they were satisfied that the accounts represented a true and fair reflection of the Council's financial position.
- e. The Committee questioned whether the decisions to cut the audit fees by 40% was a false economy. In response, officers agreed that this seemed to be the case, given the additional staff resources invested. The Committee were advised that the fees were set centrally and that the Council had no discretion in this. BDO commented that from an auditors perspective the two month turnaround time for auditing all local authorities was unsustainable.
- f. The Committee sought assurances around the discrepancies in the valuation of land and the actions undertaken since this was identified in the previous audit of the accounts for 2017/18. In response, BDO advised that there had been an undervaluation by nearly £200m and that each school had been subject to a re-evaluation process since the previous audit. BDO reassured the Committee that a lot of work had been undertaken to tidy up the asset register and that Haringey's asset register was now as clean as BDO had seen it.
- g. The Chair sought assurances around whether there were any other areas of concern in relation to land and building valuations that the Committee needed to be aware of. In response, BDO advised that Haringey was probably ahead of most local authorities in this respect and that actions such as categorising housing stock by architypes etcetera was a good accounting model.

RESOLVED

- I. That the Committee considered the contents of the report and any further oral updates given at the meeting by Council officers or the external auditor BDO.
- II. That the Committee noted the contents of the external auditor's final audit completion report at Appendix 1 of the report, including the management responses the recommended actions.

124. INTERNAL AUDIT PROGRESS REPORT 2019/20 - QUARTER 2

The Committee received a report which set out the work undertaken by Internal Audit for the period ending 30th September 2019. The report was introduced by Minesh Jani, Head of Audit and Risk Management as set out in the agenda pack at pages 101-112. The following was noted in discussion of this report:

- a. The Head of Audit and Risk Management advised that the actions arising from the LGO report were included in the audit of Temporary Accommodation.
- b. The Chair requested an update on the audit of the management of the commercial portfolio. In response, officers advised that this audit had identified 5 priority recommendations and that most of these related to the service not carrying out areas of work that they had agreed that they would, such as the need to inspect all of the its premises within two years.

RESOLVED

- I. That the Committee noted the audit coverage and follow up work completed.

125. COUNTER FRAUD UPDATE REPORT 2019/20 QUARTER 2

The Committee received a report which detailed the work undertaken by the Counter Fraud team for the quarter ending 30th September 2019, including both pro-active and reactive investigative work undertaken relating to fraud and/or irregularities. The report was introduced by Minesh Jani, Head of Audit and Risk Management as set out in the agenda pack at pages 113-118. The following was noted in discussion of the report:

- a. In response to a question on the hit rate for letters around single occupancy fraud, officers advised that seven people had written back to the Council and four of those required further investigation, whilst they were satisfied with the response from the other three.
- b. In response to a question around the annual target for RTB fraud, officers advised that the Council was on target and that year to date performance was not expressed as a rolling 12 month average.
- c. In response to a question, officers advised that there were fewer fraudulent RTB applications coming through and it was suggested that this was testament to a deterrent effect at work.
- d. In response to a question about the categorisation of fraud cases and how these were pursued, officers advised that if officers found that if RTB fraud was being committed deliberately and that the person applying was lying then they would seek the maximum sanction allowed under the law. However, officers understood that circumstances varied and that each case had to be assessed on its merits. Officers set out that the fraud team took into account extenuating circumstances and it was understood that honest mistakes and technical infractions occurred.
- e. In response to a question around NRPF, officers advised that an audit of NRPF would be included in next year's audit plan and that an update on the issue would be brought back to the Committee. **(Action: Minesh Jani)**.
- f. In response to a question around the process for the fraud team becoming involved in an application, officers advised that applications were vetted by the service and if there were inconsistencies then the fraud team would carry out further checks and then refer these back to the service for a decision.
- g. The Chair requested that officers give some further consideration of how best to present an annual fraud target. **(Action: Minesh Jani)**.

RESOLVED

That the Committee noted the counter-fraud work completed in the period to 30 September 2019.

126. CORPORATE COMMITTEE TRAINING NEEDS

The Committee received a verbal update on training needs from the Head of Audit and Risk Management.

The Committee agreed that officers would send round a schedule of training that was usually undertaken and Members would provide feedback on where they thought there was a gap and where improvements could be made. The Chair requested that training be made available to other councillors as well. **(Action: Minesh Jani)**.

127. ANY OTHER BUSINESS OF AN URGENT NATURE

The Committee received the annual audit letter for the year ended 31st March 2019 from the external auditors. The audit letter summarised that the financial statements in the final Statement of Accounts 2018/19 gave a true and fair view of the financial position and its income and expenditure for the year and had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

The Committee noted that 5 valid objections had been received in response to the accounts. BDO concluded that the LOBO loans were not an unlawful type of borrowing and the Council had not acted unlawfully in taking these loans. The other four objections related to; schools PFI, the HDV, property maintenance and late payment of Council Tax penalties. All four of these objections were ongoing and the Statement of Reasons was to be completed.

The Committee had no formal recommendations to raise in relation to the annual audit letter.

RESOLVED

The Committee received the annual audit letter.

128. DATE AND TIME OF NEXT MEETING

18th March, 19:00

CHAIR: Councillor Isidoros Diakides

Signed by Chair

Date

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**Corporate Committee
Action Tracker**

Mtg. Date	Action	Response	Who by	Completed
2 nd December	In response to concerns about the level of Haringey's overpayments and how this compared to the total amount of benefits it paid, officers agreed to check the level of benefit payments and how this compared to its statistical neighbours.		Helen Hili	
2 nd December	The Committee requested a follow up report on housing benefit overpayment for next year and also requested that it include some analysis on the Risk Based Verification model and the wider implementation of the FOBO programme	Agreed	Andy Briggs/Amelia Hadjimichael	Scheduled for a future meeting (July).
2 nd December	Officers advised that they would bring a further update on Treasury Management to the Committee at its next meeting in March	Coming to March	Thomas Skeen	Scheduled to a future meeting (March)
2 nd December	The Committee requested further information from the Cabinet Member for Finance and Strategic Regeneration around the impact of increased borrowing rates on the Council's spending, capital programme and on its house building agenda in particular		Cllr Adje	Ongoing
2 nd December	An audit of NRPF would be included in next year's audit plan and the Committee requested an update on the issue at an upcoming meeting.	Agreed	Minesh Jani	Scheduled to a future meeting (March)
2 nd December	The Chair requested that officers give some further consideration of how best to present an annual fraud target.	Officers will provide a verbal update at the meeting	Minesh Jani	
2 nd December	Officers to send round a schedule of training that was undertaken and Members would provide feedback on where they thought there was a gap and where improvements could be made. The Chair requested that training be made available to other councillors as	Agreed	Minesh Jani	Scheduled to a future meeting (March)

	well.			
9 th Sept	The Committee requested some further analysis around training for school audits – including the number of people invited, number who attended and outcomes.	Agreed	Minesh Jani	Scheduled to a future meeting (March)
9 th Sept	Cabinet Member for Schools and Families as well as the relevant AD to attend a future meeting to discuss the schools audits – suggested February.	Noted	Minesh Jani/Clerk	Scheduled to a future meeting.
25 th July	The Head of Audit and Risk Management agreed to bring an updated AGS back to the December meeting and to include a note on its implementation to date.	A follow up will be reported to the committee in March 2020.	Minesh Jani	Scheduled for March meeting

Report for: Corporate Committee 3 February 2020

Item number: 8

Title: Treasury Management Strategy Statement 2020/21

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions, Treasury & Chief Accountant
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

1.1 To present the Treasury Management Strategy Statement for 2020/21 to the Corporate Committee (following its scrutiny at Overview and Scrutiny Committee) before it is presented to Full Council for final approval.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the proposed Treasury Management Strategy Statement for 2020/21 is agreed and recommended to Full Council for approval.

4. Reasons for decision

4.1 The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year.

5. Alternative Options Considered

5.1 None

6. Background information

6.1. The CIPFA Treasury Management Code of Practice requires that the Treasury Management Strategy Statement is formulated by the Committee responsible for the monitoring of treasury management, is then subject to scrutiny before being approved by Full Council. In Haringey, the Corporate

Committee is responsible for formulating the Treasury Management Strategy Statement for recommendation to full Council through Overview and Scrutiny Committee. Any comments by Overview and Scrutiny will be reported to Corporate Committee. Training will be provided in advance of the meeting by Arlingclose, the Council's Treasury advisor.

6.2. The key updates to the proposed strategy being considered are summarised below:

- Prior years' treasury management strategy statements have focussed on the coming three financial years (as is the common practice at many local authorities). This year's strategy shows a five year position throughout the report, which better aligns with the Council's medium term financial strategy and budget report.
- The recent increase to borrowing rates from the Public Works Loan Board (PWLB) is referred to in paragraph 4.5 of the report. This refers to alternatives which will be considered to PWLB borrowing, now that the rate has been increased.
- The revised strategy has allowed for the possibility of the Council diversifying its treasury investments into higher yielding asset classes (paragraph 5.4). Were this to proceed, this would represent a change in the Council's strategy from prior years, and is included in the strategy to allow for this as a possibility at this stage, not for final decision making purposes. This would be the subject of further reports for later in the financial year if this is to proceed further, and would return to Overview and Scrutiny prior to progression.
- The strategy maintains the maximum limit of £5m on any single investment on the basis that the Council's treasury reserve is of this level.
- The section of the report which focusses on the Council's minimum revenue provision has been expanded to provide more detail and improve clarity in paragraphs 10.9 and 10.10.
- The revenue budget implications section of the report in section 12 has been expanded on to provide a greater level of detail and to provide clearer linkages to various elements of the Council's MTFs.

7. Contributions to Strategic Outcomes

7.1 The treasury strategy will influence the achievement of the Council's budget.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

- 8.1 The approval of a Treasury Management Strategy Statement is a requirement of the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code.
- 8.2 Financial Comments are contained throughout the treasury management strategy statement.

Legal

- 8.3 The Assistant Director of Corporate Governance has been consulted on the content of this report. The Council must make arrangements for the proper administration of its financial affairs and its power of borrowing is set out in legislation.
- 8.4 The Council is required to determine and keep under review its borrowing and in complying with this requirement it must have regard to the code of practice entitled the “Prudential Code for Capital Finance in Local Authorities” as published by CIPFA from time to time.
- 8.5 As mentioned in this report the CIPFA Treasury Management Code of Practice requires the Council to agree a Treasury Management Strategy Statement (TMSS) (including an Investment Strategy). In considering the report Members must take into account the expert financial advice available and any further oral advice given at the meeting of the Committee.

Equalities

- 8.6 There are no equalities issues arising from this report.

9. Use of Appendices

- 9.1 Appendix 1 – Treasury Management Strategy Statement 2020/21.

10. Local Government (Access to Information) Act 1985

- 10.1 Not applicable.

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London Borough of Haringey

Treasury Management Strategy Statement 2020/21

1. Introduction

- 1.1. Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority 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 financial risk are therefore central to the Authority's prudent financial management.
- 1.2. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.
- 1.3. Investments held for service purposes or for commercial profit are considered in section 6 of this report, in line with the 2018 MHCLG Investment Guidance.

2. External Context - provided by the Council's appointed treasury advisor, Arlingclose

- 2.1. **Economic background:** The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21.
- 2.2. UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.
- 2.3. GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.
- 2.4. The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth

projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

- 2.5. Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.
- 2.6. In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.
- 2.7. **Credit outlook:** Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market.
- 2.8. Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.
- 2.9. Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.
- 2.10. **Interest rate forecast:** The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.
- 2.11. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.
- 2.12. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.
- 2.13. For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 0.75%, and that new long-term loans will be borrowed at an average rate of 3.5%.

DRAFT

3. Local Context

3.1. On 31st December 2019, the Authority held £407.2m of borrowing and £33.8m of investments. Forecast changes to borrowing balances are shown in the balance sheet analysis in table 1 below.

3.2. Table 1a: Balance sheet summary - cumulative forecast Capital Financing Requirement (CFR) and borrowing balances

	31.3.19 Actual £m	31.3.20 Estimate £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
General Fund CFR	383.8	466.5	608.9	720.0	815.4	877.1	909.9
HRA CFR	249.8	300.7	464.1	610.0	683.2	744.5	829.0
Total CFR	633.7	767.2	1,073.0	1,330.0	1,498.6	1,621.6	1,738.9
Less: Other debt liabilities *	-31.8	-27.5	-23.4	-19.2	-14.8	-10.2	-8.2
Loans CFR	601.9	739.8	1,049.6	1,310.9	1,483.9	1,611.4	1,730.7
Less: Internal borrowing	-213.1	-213.1	-213.1	-213.1	-213.1	-213.1	-213.1
CFR Funded by External Borrowing	388.8	526.7	836.5	1,097.8	1,270.8	1,398.3	1,517.6
Breakdown of external borrowing:							
Existing Borrowing**	388.8	406.7	398.9	387.9	384.0	366.3	365.3
New Borrowing to be raised	0.0	120.0	437.6	709.8	886.8	1,032.1	1,152.3

*leases and PFI liabilities and transferred debt form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

3.3. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, by utilising the cash representing these reserves and working capital, this is known as internal borrowing.

3.4. The Authority has an increasing CFR due to the capital programme, and will therefore be required to raise new borrowing of up to £1,152m over the forecast period.

3.5. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1a shows that the Authority expects to comply with this recommendation during the course of the MTF5.

3.6. The capital plans which underpin the borrowing requirement above are dealt with in the council's main budget report (in particular the Capital Strategy section). All of the Council's capital programme is robustly scrutinised and tested to ensure that the capital plans are affordable and prudent. The above shows the five year effects of the Council's

capital programme, however all capital plans are assessed in their entirety (i.e. some schemes are for a greater than 5 year time frame).

- 3.7. The breakdown of the borrowing position at each financial year end for both the General Fund and the HRA is shown below:

Table 1b: Year end borrowing position summary

	31.3.19 Actual £m	31.3.20 Estimate £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
GF	170.3	227.3	373.8	489.1	588.9	655.2	690.0
HRA	218.5	299.4	462.7	608.6	681.9	743.1	827.6
Total	388.8	526.6	836.5	1,097.7	1,270.8	1,398.3	1,517.6

4. Borrowing Strategy

- 4.1. The Authority currently holds £407 million of loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1a shows that the Authority expects to increase its borrowing by up to £438m by the end of 2020/21. The Authority may also borrow additional sums to reduce its existing internal borrowing to satisfy future years' borrowing requirements, providing this does not exceed the authorised limit for borrowing as set out in table 2 of this report.
- 4.2. **Objectives:** The Authority'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 Authority's long-term plans change is a secondary objective.
- 4.3. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority'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. However, given the size of the Council's capital programme, and the need to diversify the Council's debt portfolio, long term borrowing will also be required during 2020/21, so the strategy will be to fulfil the Council's borrowing requirement with a mixture of long and short term borrowing.
- 4.4. By taking short term borrowing, the Authority is able to reduce net borrowing costs. The benefits of short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring longer term borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine to what extent the Authority borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 4.5. The Authority has in recent years raised all of its long-term borrowing from the PWLB. The government increased PWLB rates by 1% in October 2019. Long-term borrowing will therefore now be considered from a variety of sources besides the PWLB such as banks,

pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. The Authority's immediate cashflow requirements can be fulfilled by short term borrowing from other Local Authorities.

- 4.6. Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 4.7. Sources of borrowing: The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board (PWLB) and any successor body
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - any other UK public sector body
 - UK public and private sector pension funds (except Haringey Pension Fund, and the London Collective Investment Vehicle)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- 4.8. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing
 - hire purchase
 - Private Finance Initiative
 - sale and leaseback
- 4.9. **Municipal Bonds Agency:** 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 will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; 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.
- 4.10. **LOBOs:** The Authority 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 Authority has the option to either accept the new rate or to repay the loan at no additional cost. £50m of these LOBOs have options during 2020/21, and although the Authority 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 repay LOBO loans with no penalty if it can, however, it recognises that lenders are highly unlikely to offer this while the interest rates on existing loans remain above prevailing rates.
- 4.11. Some LOBO lenders are now open to negotiating premature exit terms from LOBO loans via payment of a premium to the lender. Haringey Council's policy will be to exit LOBO agreements if the costs of replacing the loans, including all premium, transaction and funding costs, generate a material net revenue saving for the Council over the life of the

loan in net present value terms, and all costs are consistent with Haringey's approved medium term financial strategy. Whether to repay a LOBO loan will be determined by the S151 Officer, in line with Haringey's constitution.

- 4.12. When loans are prematurely repaid, there is usually a premium payable to the lender, to compensate them for interest forgone at the contractual rate, where prevailing interest rates are lower. Haringey would need to refinance LOBOs by raising borrowing for both the original sum borrowed, and the premium payable to the lender. However, this type of arrangement can prove beneficial where interest savings exceed premium costs. Replacing LOBOs, that contain an option for lenders to increase the rate, with fixed rate debt will reduce refinancing and interest rate risk.
- 4.13. **Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).
- 4.14. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority 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.
- 4.15. **Borrowing Limits:** The council's total borrowing limits are set out in table 2 below.
- 4.16. 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 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.
- 4.17. 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.
- 4.18. The Chief Finance Officer has delegated authority, 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.

4.19. Table 2 Borrowing Limits

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit
	£m	£m	£m	£m	£m	£m
Authorised limit – borrowing	752.4	979.6	1,240.9	1,413.9	1,541.4	1,660.7
Authorised limit – PFI & leases	39.9	30.9	25.3	19.5	13.4	10.9
Authorised limit – total external debt	792.3	1,010.5	1,266.1	1,433.4	1,554.8	1,671.5
Operational boundary - borrowing	702.4	929.6	1,190.9	1,363.9	1,491.4	1,610.7
Operational boundary – PFI & leases	36.3	28.1	23.0	17.7	12.2	9.9
Operational boundary – total external debt	738.7	957.7	1,213.8	1,381.6	1,503.6	1,620.6

5. Investment Strategy - Treasury Investments

- 5.1. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance (excluding exceptional transactions) has generally ranged between £10 and £50 million, and similar levels are expected to be maintained in the forthcoming year. It is a requirement of the Markets in Financial Instruments Directive II (MiFID) that the Council maintains an average investment balance of at least £10m, in order to remain professional client status (see also par 11.7)
- 5.2. **Objectives:** The CIPFA Code requires the Authority 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 Authority'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. Were balances to be invested for more than one year, the Authority would aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 5.3. **Negative interest rates:** If the UK enters into a recession in 2020/21, 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.

- 5.4. **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to maintain its policy of utilising highly creditworthy and highly liquid investments such as loans to other local authorities, AAA rated money market funds and the Debt Management Office (part of HM treasury). The Authority will consider diversifying into more secure and/or higher yielding asset classes during 2020/21, in particular for the estimated £10m that is available for longer-term investment due to being required for the MiFID professional client status. Any such diversification would represent a change in strategy over the coming year, and would be the subject of further reports.
- 5.5. **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 5.6. **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.
- 5.7. Table 3: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£5m 20 years	£5m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£5m 10 years	£5m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£5m 5 years	£5m 15 years	£5m 5 years	£5m 10 years
AA-	£5m 3 years	£5m 4 years	£5m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£5m 3 years	£5m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£5m 2 years	£5m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£5m 13 months	£5m 5 years	£5m 13 months	£5m 5 years
None	£1m 6 months	n/a	£5m 25 years	£5m 5 years	£5 m 5 years
Pooled funds and real estate investment trusts		£5m per fund or trust			

- 5.8. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely

based on credit ratings, and all other relevant factors including external advice will be taken into account.

- 5.9. **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 5.10. **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. 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. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
- 5.11. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 5.12. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies for treasury purposes will only be made either following an external credit assessment or to a maximum of £5m per company as part of a diversified pool in order to spread the risk widely.
- 5.13. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
- 5.14. **Pooled funds:** Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term 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 pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 5.15. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

- 5.16. **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.
- 5.17. **Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £10m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.
- 5.18. **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Authority'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.
- 5.19. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 5.20. **Other information on the security of investments:** The Authority 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, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 5.21. 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 Authority 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 Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for

example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

- 5.22. **Investment limits:** The Authority's revenue reserves expressly available to cover investment losses are forecast to be £5 million on 31st March 2020. In order that no more than 100% of 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 £5 million. 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.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£5 m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m per country
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£5m in total
Loans to unrated corporates	£5m in total
Money market funds*	£25m in total
Real estate investment trusts	£5m in total

*These limits apply for both Haringey Council and Haringey pension Fund, so the limit for Money Market Funds is £5m per MMF and £25m aggregate limit for the Council, and £25m for the fund.

- 5.23. **Liquidity management:** The Authority 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.

6. Investment Strategy - Non-Treasury Management Investments

- 6.1. The Authority invests its money for three broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments** - see section 5 of this report),
 - to support local public services by lending to or buying shares in other organisations (**service investments**), and
 - to earn investment income (known as **commercial investments** where this is the main purpose).

6.2. This section (section 6) of this report meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of the above categories.

6.3. Treasury Management Investments

6.3.1. The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £10m and £50m during the 2020/21 financial year.

6.3.2. **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

6.3.3. **Further details:** Full details of the Authority's policies and its plan for 2019/20 for treasury management investments are covered in the previous section, section 5 of this report.

6.4. Service Investments:

6.4.1. **Contribution:** The Council lends money to third parties such as its subsidiaries, local businesses, local charities, local residents and its employees to support local public services and stimulate local economic growth. These are usually treated as capital expenditure and included within the Council's capital programme

6.4.2. **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, it will be ensured that any new loans made will remain proportionate to the size of the Authority. Balances as at 31.3.19 were as follows:

6.4.3. Table 5: Loans for service purposes in £ millions

Category of borrower	31.3.2019 actual		
	Balance owing	Loss allowance	Net figure in accounts
Subsidiaries	0.3	-0.3	0.0
Local businesses	4.8	-0.6	4.2
Local charities	47.4	-43.5	3.9
Local residents	0.1	0.0	0.1
Employees	0.1	0.0	0.1
TOTAL	52.7	-44.4	8.3

6.4.4. The largest balance above relates to Alexandra Palace debts (shown under local charities). There are historic debt balances owed by the Trust that have not been

legally discharged, totalling £46.7m. Of this £3.6m relates to loans made in 2015/16 and 2016/17 for works to the Ice Rink and West Storage Yard, which are being repaid by the Trust in line with the original loan agreements. A further £43.1m is legally outstanding but does not currently have repayments being made, this debt dates back to previous decades when the Council expended funds on behalf of the Trust. Although this £43.1m debt has not been legally discharged, the Council has agreed that it will only seek to recover this when the Trust is in a position to repay amounts due. The loans to local business include the opportunity investment fund, and a loan to a business who operates some of Haringey's leisure facilities.

6.4.5. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

6.4.6. **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by weighing up the service outcomes any such loan could provide against the creditworthiness of the recipient. This is done on a case by case basis, given the low number of such arrangements. This forms part of the Council's capital programme, further details of which are in the Council's annual medium term financial strategy.

6.5. Commercial Investments: Property

6.5.1. **Contribution:** The Council holds properties which are classified as 'investment properties' in the Council's statement of accounts. These properties are all within the local area, and include approximately 200 shops, offices and other commercial premises. The revenue stream associated with these (net of the costs of maintaining the properties) forms part of the Council's annual budget, therefore contributing to the resources available to the Council to spend on local public services. Any future acquisitions that the Council makes in this area will be made with reference to the CIPFA Prudential Property Investment guidance issued in 2019.

6.5.2. The value of investment properties disclosed in the 2018/19 statement of accounts was £70.5m.

7. Capacity, Skills, Culture and Advice

7.1. 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.

7.2. 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.

7.3. 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.

- 7.4. 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.
- 7.5. Appropriately skilled and experienced finance and legal staff members work with service departments to ensure that the risks associated with any projects they undertake, and compliance with regulation and statutory guidance are properly understood, and form a key consideration in any decision making process.
- 7.6. The Council's constitution has clearly defined roles and responsibilities for treasury management responsibilities, both for members, committees, and officers.

8. Investment Indicators

- 8.1. The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

- 8.2. **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses.

- 8.3. *Table 6: Total investment exposure in £ millions*

Total investment exposure	31.03.2019 Actual	31.03.2020 Forecast	31.03.2021 Forecast
Treasury management investments	30.6	15.0	15.0
Service investments: Loans	8.3	7.9	7.5
Commercial investments: Property	70.5	70.5	70.5
TOTAL INVESTMENTS	109.4	93.4	93.0

- 8.4. **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

8.5. *Table 7: Investments funded by borrowing in £ millions*

Investments funded by borrowing	31.03.2019 Actual	31.03.2020 Forecast	31.03.2021 Forecast
Treasury management investments	0.0	0.0	0.0
Service investments:	5.4	5.6	6.0
Commercial investments: Property	45.5	50.2	56.2
TOTAL FUNDED BY BORROWING	50.9	55.8	62.2

8.6. **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

8.7. *Table 8: Investment rate of return*

Investments net rate of return	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Treasury management investments	0.66%	0.75%	0.75%
Service investments:	3.70%	3.70%	3.70%
Commercial investments: Property	6.16%	4.00%	4.00%
ALL INVESTMENTS	4.43%	3.45%	3.45%

9. Treasury Management Indicators

9.1. The Authority measures and manages its exposures to treasury management risks using the following indicators.

- 9.2. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating 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.

Credit risk indicator	Target
Portfolio average credit rating	<i>Above A-, score of 7 or lower</i>

- 9.3. **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling 3 month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£10m

- 9.4. **Interest rate exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£2m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£2m

- 9.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

- 9.6. **Maturity structure of borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

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

- 9.8. **Total short term borrowing:** the Council has used short term borrowing (under 1 year in duration) from other local authorities extensively in recent years, as an alternative to longer term borrowing from PWLB, due to the lower interest rates, and corresponding revenue savings. Short term borrowing could also be raised from other counterparties such as banks.

Short term borrowing exposes the Council to refinancing risk: the risk that interest rates rise quickly over a short period of time, and are at significantly higher rates when loans mature and new borrowing has to be raised. With this in mind, the Authority will set a limit on the total amount of short term borrowing that has no associated protection against interest rate rises, as a proportion of all borrowing.

Short term borrowing	Limit
Upper limit on short term borrowing that exposes the Council to interest rate rises as a percentage of total borrowing	30%

- 9.9. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Authority'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:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£10m	£10m	£10m

10. Minimum Revenue Provision Policy Statement

- 10.1. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.
- 10.2. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 10.3. The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.
- 10.4. The Council's MRP policy was 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 took effect from 1 April 2016, ensured that provision for capital repayment is made over a period that is commensurate with the period in which the asset purchased provides benefits.

General Fund MRP policy: borrowing before 2007/08

- 10.5. The Council calculates MRP on historic debt based on the Capital Financing Requirement (CFR) as at 1 April 2007.

- 10.6. The Council calculates 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.
- 10.7. 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 undertakes 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.
- 10.8. 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.
- 10.9. The table below summarises the historic overprovision position on pre 2008 General Fund expenditure:

Table 9 - Summary of historic overprovision of MRP on pre 2008 GF expenditure

	£m
MRP provided between 2008-2016 under previous policy to 31.3.2016	78.0
MRP required to be provided between 2008-2016 under current policy	45.2
Overprovision as at 31.3.2016	32.9

- 10.10. The remaining overprovision of MRP as at 31.3.2019 was £17.7m. The estimated MRP charges relating to pre 2008 general fund expenditure are summarised in the table below, due to the historic overprovision, MRP charges are estimated to be nil until part way through 2022/23 at which point the historic overprovision will be cleared.

Table 10: Estimated MRP charges on GF pre 2008 expenditure

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m	£m
MRP charge on pre 2008 GF expenditure	5.0	5.0	5.0	5.0	5.0	5.0
Less: historic overprovision	-5.0	-5.0	-5.0	-2.7	0.0	0.0
Net MRP charge for pre 2008 expenditure	0.0	0.0	0.0	2.3	5.0	5.0

General Fund MRP policy: prudential borrowing from 2007/08

- 10.11. 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.
- 10.12. This means that MRP will be calculated on an annuity basis (like many domestic mortgages) over the estimated life of the asset, at an appropriate interest rate. Estimated life periods will be determined by the Section 151 Officer under delegated powers.
- 10.13. 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.
- 10.14. 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.

HRA MRP policy

- 10.15. There is no statutory requirement to make an annual MRP charge for HRA assets, and the Authority does not currently plan to do this given the current low level of debt per property that the Council holds, and the fact that sums charged as depreciation in the HRA are spent on major repairs to the Authority's housing stock to ensure they remain in suitable condition. This policy will be kept under annual review.

Concession Agreements

- 10.16. MRP in relation to concession agreements (e.g. PFI contracts) and finance leases are 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.

Finance Leases

- 10.17. 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.

Statutory capitalisations

- 10.18. 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.

- 10.19. 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.
- 10.20. The Section 151 Officer may approve that such debt repayment provision may be made from capital receipts or from revenue provision.

11. Related Matters

- 11.1. The CIPFA Code requires the Authority to include the following in its treasury management strategy.
- 11.2. **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 11.3. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds 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.
- 11.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 11.5. In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 11.6. **Housing Revenue Account:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. From 2012 going forwards, new long-term loans borrowed have been, and 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 Authority's average interest rate on investments.
- 11.7. **Markets in Financial Instruments Directive:** The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and

fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, this is the most appropriate status.

12. Revenue Budget Implications

- 12.1. The budget for investment income in 2019/20 is £0.2 million, based on an average investment portfolio of £25 million at an interest rate of 0.75%. This is assumed to remain constant throughout the MTF5.
- 12.2. The budget for debt interest paid in 2020/21 is detailed in the table below for both the General Fund and HRA. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.
- 12.3. The table below demonstrates the revenue budgets in both the General Fund and HRA for both interest costs on borrowing, and Minimum Revenue Provision charges. The Council's capital programme is moving to a financing strategy that seeks to ensure that investment via the capital programme is self-financing. The self-financing schemes will normally only proceed if they produce a reduction in expenditure that includes reductions enough to cover the cost of financing the investment. The level of these savings are demonstrated in the table below.

Table 11 Revenue Budgets for Interest Costs and MRP:

	2019/20 Forecast	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
	£m	£m	£m	£m	£m	£m
MRP - pre 2008 expenditure	0.0	0.0	0.0	2.3	5.0	5.0
MRP - post 2008 expenditure	4.4	6.4	11.7	15.5	18.4	21.3
Total MRP	4.4	6.4	11.7	17.8	23.4	26.4
Interest Costs (General Fund)	4.2	5.0	6.9	8.7	10.2	11.4
Total Gross Capital Financing Costs (General Fund)	8.6	11.5	18.6	26.4	33.6	37.7
Offsetting Savings for self financing schemes	0.0	-2.2	-6.0	-9.7	-13.5	-15.4
Total Net Capital Financing Costs (General Fund)	8.6	9.3	12.7	16.7	20.1	22.3
Interest Costs (HRA)	14.4	16.4	22.0	25.4	27.4	30.0

12.4. The largest individual component of the increase in capital financing costs across the MTFs is the end of the pre 2008 expenditure MRP holiday coming to an end part way through 2022/23, with a full year effect of an additional £5.0m per annum in MRP costs from 2023/24 going forwards.

13. Other Options Considered

13.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance (S151 Officer) having consulted the Cabinet Member for Finance, 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

Appendix A - Arlingclose Economic & Interest Rate Forecast December 2019

Underlying assumptions:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.
- Brexit has been delayed until 31 January 2020. A key concern is the limited transitional period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.
- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.
- The weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.
- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

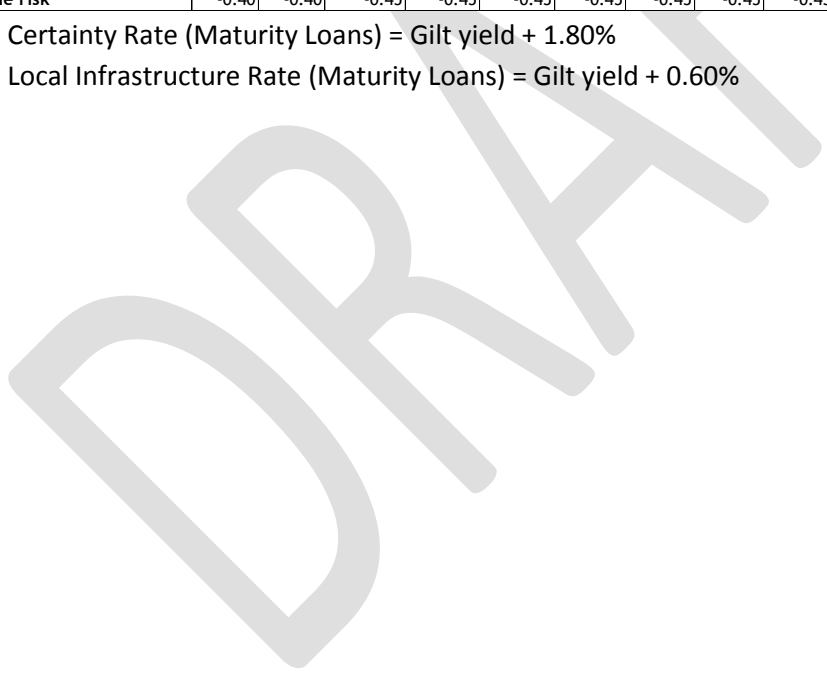
Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant the evolution of the global economy.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.21
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.60
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	0.37
Arlingclose Central Case	0.50	0.50	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.56
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.85	0.85	0.90	0.90	0.95	0.95	1.00	1.00	1.00	0.88
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.45
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	1.20	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.30
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.45
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	1.20	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.30
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.45

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%



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