London Borough of Haringey

Treasury Management Strategy Statement 2024/25

1. Introduction

1.1. Treasury management is the management of the Council’s cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council’s prudent financial management.

1.2. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy’s *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council’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 a different report.

2. External Context – provided by the Council’s appointed treasury advisor, Arlingclose

Economic background

2.1. The Council's treasury management strategy for 2024/25 will be significantly influenced by several factors, including inflation, higher interest rates, a weakening economic outlook, an uncertain political climate due to an upcoming general election, and ongoing conflicts in Ukraine and the Middle East.

UK inflation, interest rates and economic growth outlook

2.2. The Bank of England's (BoE) Monetary Policy Committee (MPC) continued to tighten monetary policy throughout 2023. The Bank Rate was raised to a peak of 5.25% in August 2023. However, contrary to expectations of another increase in September, the MPC decided to maintain this level for the rest of the year. The table below shows an extract of the Bank of England’s Bank Rates throughout the year.

	Jan-23	Mar-23	Jun-23	Sep-23	Dec-23
BoE Bank Rate	3.5%	4.25%	5.00%	5.25%	5.25%

2.3. The November quarterly Monetary Policy Report (MPR) forecasted an extended period of low Gross Domestic Product (GDP) growth, with the potential for a slight decline due to continued weak economic activity. The BoE also anticipates that higher interest rates will constrain GDP growth, which is forecast to remain weak over the forecast period.

2.4. The forecast for UK Consumer Price Index (CPI) inflation was considered highly uncertain, with potential upside risks to CPI reaching the 2% target in the near term. These risks are driven primarily by potential energy price increases, strong domestic wage growth, and the persistence of price-setting.

2.5. The Office for National Statistics (ONS) reported that the annual CPI inflation measure for the UK was 3.9% in November 2023, down from 4.6% in the previous month. Looking ahead, the Bank of England (BoE) anticipates that CPI inflation will continue to fall slowly based on the interest rate path implied by financial markets. However, it is projected to take until early 2025 to reach the 2% target, and then fall below target in the second half of 2025 and into 2026.

2.6. Despite the challenging economic environment, demand for labour has remained strong. The table below shows an extract of the reported annual unemployment rate over the past four quarters.

	Jan-23	Mar-23	Jun-23	Sep-23
Unemployment rate	3.7%	4.9%	4.2%	4.2%

2.7. Looking ahead, the Monetary Policy Report (MPR) indicates that the unemployment rate is expected to gradually increase over the forecast period and reach approximately 5% by late 2025 or early 2026.

Global economic outlook

2.8. Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve (Fed) decided to pause in September and November, keeping the Fed Funds rate target at this level. It is likely this level represents the peak in the Fed's rate hiking cycle, after it struck a more cautious and accommodating tone following the December 2023 meeting.

2.9. In the Eurozone, inflation has been steadily declining since the beginning of 2023, reaching an annual rate of 2.4% in November 2023. Economic growth has been weak, with GDP contracting by 0.1% in the three months leading up to September 2023. In line with other central banks, the European Central Bank has raised its rates, bringing the deposit facility, fixed rate tender, and marginal lending rates to 4.00%, 4.50%, and 4.75% respectively.

Credit Outlook

2.10. Credit Default Swaps (CDS) are financial derivatives that investors use as insurance to offset their credit risk with that if another investor. Throughout 2023, CDS prices were volatile. They spiked in March due to concerns of banking sector contagion following the insolvency of Silicon Valley Bank and the takeover of Credit Suisse by UBS. After declining in Q2 of the calendar year, CDS prices began to steadily rise in the second half of the year.

2.11. Factors contributing to this increase include higher interest rates and inflation, and the ongoing war in Ukraine, and now the Middle East. However, on an annual basis, the volatility of CDS prices was lower in 2023 compared to 2022.

2.12. Moody's, a US-based credit rating agency, has revised its outlook on the UK sovereign from negative to stable. This change reflects their view of restored political predictability following the volatility after the 2022 mini-budget. Moody's has also affirmed the Aa3 rating, acknowledging the UK's economic resilience and strong institutional framework.

2.13. Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative. It also made the same adjustment for five rated local authorities. However, in the same update, the long-term ratings of those five local authorities were downgraded.

2.14. Competing tensions persist in the banking sector. On one hand, higher interest rates boost net income and profitability. On the other hand, a weakening economic outlook and potential recessions increase the possibility of a deterioration in the quality of banks' assets.

2.15. However, the institutions on the Council's treasury management adviser, Arlingclose's counterparty list remain well-capitalised, and the counterparty advice provided on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2023)

2.16. Although UK inflation and wage growth remain elevated, the Council's treasury management adviser Arlingclose forecasts that the Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee (MPC) is expected to begin reducing rates in 2024 to stimulate the UK economy, but it will be cautious and wait until it is confident that there will be no lasting second-round effects. Arlingclose forecasts rate cuts starting from Q3 2024, with rates potentially reaching a low of around 3% by early to mid-2026.

2.17. Arlingclose anticipates that long-term gilt yields will remain generally stable at their current levels, despite ongoing volatility. This follows the decrease in yields towards the end of 2023, which reflects the projected lower medium-term trajectory for the Bank Rate. Yields will continue to be relatively higher compared to previous periods, influenced by quantitative tightening and substantial bond supply. However, it is important to note that there may still be short-term fluctuations caused by economic and political uncertainty and events.

2.18. A more detailed economic and interest rate forecast provided by Arlingclose is included in this document as Annex A.

2.19. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 4.75%, and that new long-term loans will be borrowed at an average rate of 5.50%.

3. Local Context

3.1. On 31 December 2023, the Council held £787.1m of borrowing and £54.4m of treasury investments. This is set out further in detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast (Capital Financing Requirement)

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m
General Fund CFR	649.8	698.5	779.6	855.8	907.8	949.5	1,000.3
HRA CFR	471.1	516.1	643.5	838.5	1,081.4	1,329.9	1,471.3
Total CFR	**1,142.9**	**1,214.6**	**1,423.1**	**1,694.3**	**1,989.2**	**2,279.4**	**2,471.6**
Less: Other debt liabilities*	-22.0	-17.7	-13.2	-10.6	-9.9	-9.2	-8.5
Loans CFR	**1,120.9**	**1,196.9**	**1,409.9**	**1,683.7**	**1,979.3**	**2,270.2**	**2,463.1**
Less: Internal borrowing	-337.6	-316.5	-332.7	-352.4	-364.1	-366.0	-374.8
CFR Funded by External Borrowing	**783.3**	**880.4**	**1,077.2**	**1,331.3**	**1,615.2**	**1,904.2**	**2,088.3**
Breakdown of External Borrowing:							
Existing borrowing**	783.3	760.4	677.3	661.3	645.3	629.3	613.3
New borrowing to be raised	-	120.0	399.9	670.0	969.9	1,274.9	1,475.0

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

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

3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during the medium-term financial strategy (MTFS) forecast period.

3.4. The Council has an increasing CFR due to the capital programme, but minimal treasury investments, therefore there will be a new borrowing requirement of up to £1,475m over the forecast period 2024/25 to 2028/29 (See Table 1). Table 2 below shows a breakdown of the forecast borrowing position at each financial year end to finance both the General Fund and the Housing Revenue Account's (HRA) capital programmes.

Table 2: Year-end Borrowing Position Summary

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m
General Fund borrowing	421.9	410.2	477.9	535.6	578.2	620.9	663.6
HRA borrowing	361.4	470.2	599.3	795.7	1,037.0	1,283.3	1,424.7
Total borrowing	**783.3**	**880.4**	**1,077.2**	**1,331.3**	**1,615.2**	**1,904.2**	**2,088.3**

3.5. The Council's capital plans are the primary driver of the Council's borrowing requirement, and they are outlined in detail in the Council's main budget report, specifically in the Capital Strategy section. The Council's capital programme is robustly scrutinised and tested to ensure that the capital plans are affordable and prudent. Table 1 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 five year time frame).

Liability Benchmark

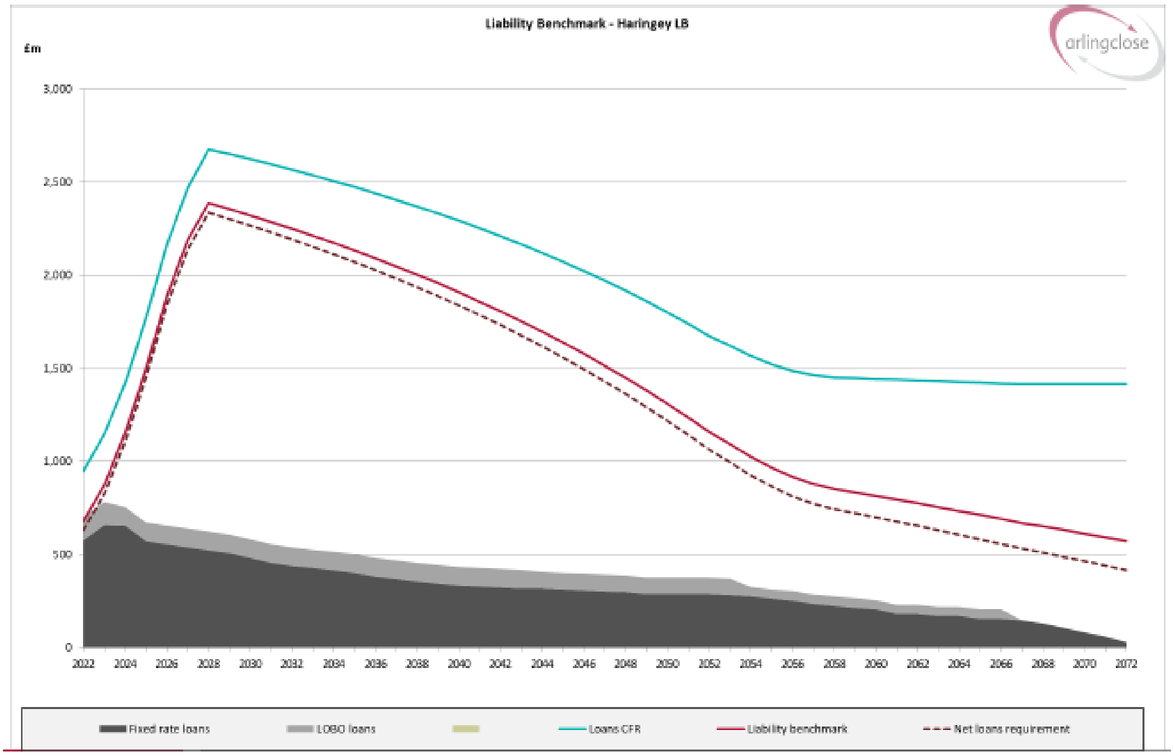
3.6. The liability benchmark has been calculated to compare the Council's actual borrowing against an alternative strategy. The liability benchmark shows the lowest risk level of borrowing. This assumes the same borrowing forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £20m at each year-end to maintain sufficient liquidity but minimise credit risk.

3.7. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or a long-term investor in the future. This is important in developing the Council's strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 3: Prudential Indicator – Liability Benchmark

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m
Loans CFR	1,120.9	1,196.9	1,409.9	1,683.7	1,979.3	2,270.2	2,463.1
Less: Balance Sheet resources	-424.8	-419.0	-4,248.8	-429.5	-433.3	-440.4	-440.4
Net loans requirement	**696.1**	**777.9**	**-2,838.9**	**1,254.2**	**1,546.0**	**1,829.8**	**2,022.7**
Plus: Liquidity allowance	20.0	30.0	30.0	30.0	30.0	30.0	20.0
Liability Benchmark	**716.1**	**807.9**	**-2,808.9**	**1,284.2**	**1,576.0**	**1,859.8**	**2,042.7**

3.8. The long-term liability benchmark assumes the same capital expenditure funded by borrowing as included in the CFR, minimum revenue provision on new capital expenditure based on a 25-year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart on the following page together with the maturity profile of the Council's existing borrowing.



4. Borrowing Strategy

4.1. On 31 December 2023, the Council held £787.1m of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to increase its borrowing by up to £400m by the end of 2024/25. The Council may also borrow additional sums to pre-fund future years' borrowing requirements, provided this does not exceed the authorised limit for borrowing as set out in the Capital Strategy.

Objectives

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

Strategy

4.3. Given the significant cuts to public expenditure and, in particular, to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years. The scale of the Council's capital programme, and the need to diversify the Council's debt portfolio to further minimise refinancing risk means that long term borrowing will be required during 2024/25. Therefore, the Council's strategy will be to fulfil its borrowing requirement during the financial year with a mixture of short-term and long-term borrowing.

4.4. By doing so, the Council aims to reduce net borrowing costs and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5. The Council has in recent years raised all its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pension funds and other local authorities, and may 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. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council has not done this in the past and intends to avoid this activity in order to retain its access to PWLB loans.

4.6. Alternatively, the Council may arrange forward starting loans, 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. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

Sources of Borrowing

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

- HM Treasury’s PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- 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
- retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other Sources of Debt Finance

4.9. 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 Lease Back
- Similar asset based finance

Municipal Bonds Agency

4.10. The UK Municipal Bonds Agency was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is 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 to the Audit Committee.

LOBOs

4.11. The Council holds £100m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £50m of these LOBOs have options exercisable during 2024/25, and with interest rates having risen sharply recently, there is now a reasonable likelihood that lenders will explore their ability to exercise their options. If they do, the Council will take the option to repay the LOBO loans to reduce refinancing risk in later years.

4.12. Some LOBO lenders may be open to negotiating premature exit terms from LOBO loans via payment of a premium to the lender. The 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. The decision to repay a LOBO loan will be determined by the S151 Officer in consultation with the lead Cabinet member for Finance, in line with Haringey's constitution.

4.13. 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. The Council 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 would reduce refinancing and interest rate risk.

Short-term and Variable Rate Loans

4.14. These loans leave the Council 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.

Debt Rescheduling

4.15. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

5. Treasury Investment Strategy

5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £37m and £165m, and similar levels are expected to be maintained in the forthcoming year.

Objectives

5.2. The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will 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. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) factors when making investment decisions.

Strategy

5.3. As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The Council aims to maintain its policy of utilising highly creditworthy and highly liquid investments such as deposits with the Debt Management Office (DMO), AAA rated money market funds and other entities on the Arlingclose approved counterparty list.

ESG policy

5.4. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business Models

5.5. Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its 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.

Approved Counterparties

5.6. The Council may invest its surplus funds with any of the counterparty types in table 5 on the following page, subject to the limits shown.

Table 5: Treasury Investment Counterparties and Limits

Sector	Time Limit	Counterparty Limit	Sector Limit
The UK Government	50 years	Unlimited	n/a
Money Market Funds	n/a	£10m	Unlimited
Local authorities & other government entities	25 years	£5m	Unlimited
Banks (secured)*	2 years	£5m	Unlimited
Banks (unsecured)*	13 months	£5m	Unlimited
Building societies (unsecured)*	13 months	£5m	£20m
Registered providers (unsecured)*	5 years	£5m	£20m
Strategic Pooled Funds	n/a	£5m	Unlimited
Real Estate Investment Trusts	n/a	£5m	Unlimited

Minimum Credit Rating

5.7. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. 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.

Government

5.8. The Council may invest in loans, and 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 Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Bank Secured Investments

5.9. Bank secured investments are investments that are secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and Building Societies (unsecured)

5.10. The Council may invest in 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.

Registered Providers (unsecured)

5.11. The Council may invest in loans, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are 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.

Money Market Funds

5.12. Money market funds are pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over banks of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic Pooled Funds

5.13. Strategic pooled funds include bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. 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 Council's investment objectives will be monitored regularly.

Real Estate Investment Trusts (REITs)

5.14. REITs are publicly traded companies that invest mainly in real estate and pay most 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.

Operational Bank Accounts

5.15. The Council 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.

Risk Assessment and Credit Ratings

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

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

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

Other Information on the Security of Investments

5.18. The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council'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.

Reputational aspects

5.19. The Council acknowledges that investing with certain counterparties, although financially secure, may subject it to criticism, whether valid or not, that could impact its public reputation. This risk will be considered when making investment decisions.

5.20. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment Limits

5.21. The Council's revenue reserves available to cover investment losses are forecast to be £30 million on 31st March 2024 and £30 million on 31 March 2025. 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 £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

5.22. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries 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 6: Additional Investment Limits

	Cash Limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£10m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£10m in total
Loans to unrated corporates	£10m in total
Money market funds*	£50m in total
Real Estate Investment Trusts	£10m in total

* These limits apply for both Haringey Council and Haringey Pension Fund, so the limit for Money Market Funds is £10m per MMF and £50m aggregate limit for the Council, and £50m for the Pension Fund.

Liquidity Management

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

6. Treasury Management Prudential Indicators

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

Security

6.2. The Council 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	Above A, score of 6 or lower

Liquidity

6.3. The Council 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	£30m

Interest rate exposures

6.4. This indicator is set to control the Council'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	Target
Upper limit on one-year revenue impact of a 1% rise in interest rates	£2m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£2m

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

Maturity structure of borrowing

6.6. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing are shown on the following page:

Refinancing Rate Risk Indicator	Upper Limit	Lower Limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	0%

6.7. 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.

Total short-term borrowing

6.8. In recent years, the Council has used short term borrowing (under 1 year in duration) from other local authorities to meet short-term liquidity requirements. Short term borrowing can also be raised from other counterparties such as banks. This approach offers increased flexibility for cash flow management by the Council and can serve as an alternative to borrowing from PWLB over a longer term.

6.9. Short-term borrowing exposes the Council to refinancing risk. This is the risk that interest rates may rise quickly over a short period of time, resulting in significantly higher rates when the loans mature. In such cases, there is a risk that the new replacement borrowing would need to be taken at higher interest rates compared to the maturing loans.

6.10. Bearing this in mind, the Council has 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	Target
Upper limit on short-term borrowing that exposes the Council to interest rate rises as a percentage of total borrowing	20%

Long-term treasury management investments

6.11. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price Risk Indicator	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£10m	£5m	£5m

7. Related Matters

7.1. The CIPFA Code requires the Council to include the following in its treasury management strategy.

Financial Derivatives

7.2. 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).

7.3. The Council will only use standalone financial derivatives (such as swaps, forwards, futures, and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered 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.

7.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk will be included to count against the counterparty credit limit and the relevant foreign country limit.

7.5. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Housing Revenue Account

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

Markets in Financial Instruments Directive

7.7. The Council 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 Council's treasury management activities, the Director of Finance (S151 Officer) considers this to be the most appropriate status.

8. Financial Implications

8.1. The budget for investment income in 2024/25 is £2.4m based on an average investment portfolio of £50 million at an interest rate of 4.75%.

8.2. The budget for total debt interest paid in 2024/25 is detailed in table 7 below for both the General Fund and HRA. If the actual levels of investments and borrowing, or the actual interest rates, differ from those forecasted, the performance against the budget will be correspondingly different.

8.3. Table 7 demonstrates the revenue budgets in both the General Fund and HRA for both interest costs on borrowing and minimum revenue provision (MRP) charges.

Table 7: Revenue budget for interest costs and MRP

	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
MRP - pre 2008 expenditure	5.0	5.0	5.0	5.0	5.0	5.0
MRP - post 2008 expenditure	13.7	12.8	14.1	15.1	16.2	16.7
Total MRP	**18.7**	**17.8**	**19.1**	**20.1**	**21.2**	**21.7**
Interest Costs (GF)	16.9	14.8	20.0	22.0	24.5	27.1
Capital Financing Costs (GF)	**35.6**	**32.6**	**39.1**	**42.1**	**45.7**	**48.8**
Offsetting Savings for self-funded schemes	-12.7	-1.1	-2.7	-3.7	-4.2	-5.2
Estimated Capital Financing Budgets	**22.9**	**31.5**	**36.4**	**38.4**	**41.5**	**43.6**
Interest Costs (HRA)	**18.6**	**25.9**	**36.0**	**48.3**	**60.8**	**69.6**

9. Other Options Considered

9.1. 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 on the following page.

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

Annex A – Arlingclose Economic & Interest Rate Forecast - December 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium-term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

Interest Rate Forecast:

The table below shows the most recent interest rate forecast provided by Arlingclose.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B – Existing Investment & Debt Portfolio Position - December 2023

	Actual portfolio £m	Average rate %
External borrowing:		
Public Works Loan Board	642.1	2.9%
LOBO loans from banks	100.0	4.7%
Local authorities	45.0	5.7%
Total external borrowing	**787.1**	**3.3%**
Treasury investments:		
The UK Government	34.4	5.2%
Money market funds	20.0	5.3%
Total treasury investments	**54.4**	**5.2%**