London Borough of Haringey

Treasury Management Strategy Statement 2016/17 to 2018/19

Introduction

1.1 In February 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.2 In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

1.3 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

1.4 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 risk are therefore central to the Authority's treasury management strategy.

1.5 CIPFA has defined Treasury Management as:

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.6 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral elements of treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

1.7 The strategy takes into account the impact of the Council's proposed Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates. Subsequent changes to the revenue budget and capital programme will require adjustments to the TMSS and Prudential Indicators.

1.8 The purpose of this report is to propose:

- Treasury Management Strategy - Borrowing in Section 4, Investments in Section 5
- Prudential Indicators – these are detailed throughout the report and summarised in Annex 2
- MRP Statement – Section 7

1.9 The strategy has been developed in consideration of economic and interest rate forecasts detailed in annex 3.

2. External Context

Economic background: Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in November. Wages are growing at 3% a year, the unemployment rate has dropped to 5.4% and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015 The MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The markets reacted calmly when the Federal Reserve finally raised policy rates by 0.25% at its December meeting, indicating that future increased will be gradual. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

Credit outlook: The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

Interest rate forecast: The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex 3.

For the purpose of setting the budget for 2016-17, it has been assumed that new 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 2.1%.

3. Balance Sheet and Treasury Position

3.1 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management activity. The estimates for each pool, based on the current proposed Revenue Budget and Capital Programmes, are:

Table 1a: Treasury Position – General Fund

	31/03/2015 Actual £'000	31/03/2016 Approved £'000	31/03/2016 Projected £'000	31/03/2017 Estimate £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000
General Fund CFR	278,291	297,121	271,742	290,670	285,388	296,388
Less: Share of existing external debt and other long term liabilities	147,684	139,960	141,749	133,661	125,213	117,283
Less: 2016 / 17 cash balance reduction				20,000	20,000	20,000
Internal Borrowing	130,607	131,318	129,993	124,993	119,993	114,993
Cumulative Net Borrowing Requirement	0	25,843	0	12,016	20,182	44,112

Table 1b: Treasury Position – HRA

	31/03/2015 Actual £'000	31/03/2016 Approved £'000	31/03/2016 Projected £'000	31/03/2017 Estimate £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000
HRA CFR	271,096	292,666	278,548	293,002	295,943	297,624
Less: Share of Existing External Debt & Other Long Term Liabilities	197,981	191,454	190,813	182,483	173,705	166,016
Internal Borrowing	73,115	69,780	87,735	82,735	77,735	72,735
Cumulative Net Borrowing Requirement	0	31,432	0	27,784	44,503	58,873

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

3.3 Ensuring that gross external debt does not exceed the CFR over the medium term is a key indicator of prudence. There has been no difficulty meeting this requirement in 2015-16 nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.

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

Table 2: HRA Debt Cap

	31/03/2015 Actual £'000	31/03/2016 Approved £'000	31/03/2016 Estimate £'000	31/03/2017 Estimate £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000
HRA CFR	271,096	292,666	278,548	293,002	295,943	297,624
HRA Debt cap	327,538	327,538	327,538	327,538	327,538	327,538
Headroom	56,442	34,872	48,990	34,536	31,595	29,914

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

Table 3: Capital Expenditure

	2014/15 Actual £'000	2015/16 Approved £'000	2015/16 Projected Out-turn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
General	64,049	54,568	44,571	50,682	52,410	50,000
HRA	40,997	92,074	96,436	64,307	51,121	50,000
Total	105,046	146,642	141,007	114,989	103,531	100,000

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

Table 4: Capital Financing

	2014/15 Actual £'000	2015/16 Approved £'000	2015/16 Projected Out-turn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital receipts	20,113	25,798	9,275	3,200	33,650	12,000
Other grants & contributions	22,568	28,953	30,309	17,806	14,441	17,000
Government Grants	40,799	16,612	8,904	4,000	3,000	3,000
Reserves / Revenue contributions	10,939	28,260	80,702	45,853	44,180	44,319
Total Financing	94,419	99,623	129,190	70,859	95,271	76,319
Borrowing	10,627	47,019	11,817	44,130	8,260	23,681
Total	105,046	146,642	141,007	114,989	103,531	100,000

3.7 As an indicator of affordability the table below shows the incremental impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme (based on the interest cost of capital receipts and borrowing applied to capital expenditure) with the number of homes paying council tax (GF) and the number of rented properties (HRA). The General Fund and HRA ratios are below projections this year as no external borrowing has been required. Foe 2016-17 the ratio is impacted by expectations of significant additional borrowing.

Table5: Incremental Impact of Capital Investment Decisions

	2014/15 Actual £'000	2015/16 Approved £'000	2015/16 Projected Out-turn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Increase in Band D Council Tax	16.02	34.03	5.02	32.04	14.26	31.74
Increase in Average Weekly Housing Rents	0.17	2.27	0.81	1.51	1.00	1.00

3.8 The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on debt costs less investment income.

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

Table 6: Ratio of Financing Costs to Net Revenue Stream

	2014/15 Actual %	2015/16 Approved %	2015/16 Projected Out-turn %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	1.89	1.90	1.89	1.93	2.01	2.25
HRA	10.01	9.28	9.06	8.88	9.02	8.98

4 Borrowing Strategy

4.1 A breakdown of the Council's current and expected external borrowing plus other long-term liabilities is shown in Annex 1. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit. Debt (excluding leases) is projected at £283.2 million at the year end, a decrease of £10.8 million during the year. No new borrowing, including temporary borrowing, has been required this year. It is anticipated that new borrowing of £40 million, including £13 million of maturities will be required next year, allowing for a £20 million reduction in cash balances.

Objectives

4.2 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.

Strategy:

4.3 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.

4.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The level of reserves and working capital that enable internal borrowing will be monitored and projected changes will be used to determine the timing and level of new debt. The Council's treasury advisor will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5 Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This will enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. These arrangements will only be considered where there is certainty as to borrowing needs and timing and where predictability of interest costs is beneficial to the capital programme.

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

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

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

- Public Works Loan Board (PWLB) and any successor body
- Other local authorities
- Institutions such as the European Investment Bank and directly from Commercial Banks
- UK public and private sector pension funds (except Haringey Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other entities created to enable local authority bond issues

- Leasing

4.7 The Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages. The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

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

Lender's Option Borrower's Option Loans

4.9 The Authority holds £125 million of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2016/17, 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 Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. No further LOBO loans will be considered without discussion with Corporate Committee.

Short-term and Variable Rate loans

4.10 These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below. At present they do offer significant savings compared with long term debt.

Debt Rescheduling

4.11 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The 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.

5. Investment Strategy 2016-17

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 has ranged between £9.6 million and £95.1 million. It is anticipated that balances will be lower next year as debt is repaid. The impact on the value of cash balances from capital expenditure and the timing of any associated debt financing are uncertain.

Objectives

5.2 Both the CIPFA Code and the CLG Guidance require the 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 receiving unsuitably low investment income.

Strategy

5.3 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, bank CDs and money market funds. These investments are exposed to bank bail in risk. To reduce the exposure to unsecured bank deposits, the counterparty policy has been expanded to include quasi government institutions; Supranational banks. Covered bonds are now identified separately from unsecured bank deposits as these deposits are of lower risk being both secured on collateral and possessing a bank issuer guarantee. During 2015 the Council commenced using treasury bills and certificates of deposits (CDs). The latter provides access to a greater range of counterparties who do not take fixed terms deposits e.g. overseas banks. This diversification has enabled the limit per counterparty for individual banks to be reduced from £20 million to £10 million. Similarly for local authority deposits the maximum exposure is halved to £15 million. These changes also reflect the anticipation that cash balances will remain at or below recent levels as part of the policy to minimise new long term borrowing.

Specified and Non-specified Investments

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

5.5 Although cash balances will be low at certain times, there tends to remain a core balance that is capable of being invested for more than twelve months. On occasions investments with a maturity of slightly in excess of 12 months can offer exceptional good value. For this reason, the strategy allows a maximum of £10 million to be invested for over 12 months but less than 24 months. The Chief Financial Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Investment activity will be reported to Corporate Committee as part of the quarterly reports.

Risk Assessment and Credit Ratings

5.6 Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.7 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.

5.8 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then no new investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.9 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 and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.10 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.

Liquidity Management

5.11 The Authority uses cash flow forecasting 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.

6 Treasury Management Indicators

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

Authorised Limits for external Debt

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

Table 7: Authorised Limit

	2014/15 Actual £'000	2015/16 Approved £'000	2015/16 Projected Out-turn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing	294,065	441,211	283,233	468,174	489,794	506,475
Other Long-term Liabilities	48,218	62,321	49,329	60,057	54,829	49,549
Total	342,283	503,532	332,562	528,231	544,623	556,024

Operational Boundary for External Debt

6.3 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit. The Operational Boundary and Authorised Limit apply at the total level. The limits compare with existing gross debt of £333 million and projected three year debt financed capital expenditure of £76 million and provides scope for variations in capital expenditure, funding sources and reserves.

Table 8: Operational Boundary

	2014/15 Actual £'000	2015/16 Approved £'000	2015/16 Projected Out-turn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing	294,065	391,211	283,233	418,174	439,794	456,475
Other Long-term Liabilities	48,218	56,656	49,329	54,598	49,844	45,044
Total	342,283	447,867	332,562	472,772	489,638	501,519

6.4 The Chief Financial 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.

Fixed and Variable Interest Rate Exposure

6.5 The Council's existing level of fixed interest rate exposure is 98% and variable rate exposure is 2%, however it is recommended that the limits in place for 2015/16 are maintained in future to retain flexibility. At present variable rates from the PWLB compare unfavourably with short term loans from local authorities due to the additional margin charged over gilts. If LOBO loans are treated as variable, the current variable allocation is 48%.

Table 9: Fixed and variable

	2015/16 Approved %	2015/16 Actual %	2016/17 Upper Limit %	2017/18 Upper Limit %	2018/19 Upper Limit %
Upper Limit for Fixed Interest Rate Exposure	100	98	100	100	100
Upper Limit for Variable Interest Rate Exposure	40	2	40	40	40

Maturity Profile

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

6.7 The maturity range has been applied to LOBO loans (see 4.8 above) based on their contractual maturity date. The column on the right hand side represents the maturity structure based on the next date that the lender is able to reset interest rates.

Table 10: Maturity Profile

	Lower Limit	Upper Limit	31-Mar-16	31-Mar-16
	%	%	%	LOBO adjusted %
under 12 months	0%	40%	4%	48%
12 months & within 24 months	0%	35%	4%	4%
24 months & within 5 years	0%	35%	9%	9%
5 years & within 10 years	0%	35%	13%	13%
10 years & within 20 years	0%	35%	4%	4%
20 years & within 30 years	0%	35%	4%	0%
30 years & within 40 years	0%	35%	26%	12%
40 years & within 50 years	0%	50%	10%	10%
50 years & above	0%	50%	26%	0%

Average Credit Scoring

6.8 Arlingclose, the Council's treasury management advisers, has a way of scoring the level of credit risk the Council is taking. This measure scores credit risk on a scale of 0 to 10 on both a value weighted and a time weighted basis and the table below demonstrates how to interpret the scores:

Above target	AAA to AA+	Score 0 - 2
Target score	AA to A+	Score 3 - 5
Below target	Below A+	Score over 5

6.9 The quarterly scores during 2015-16 have been within the range 2.70 to 5.63, which is partially outside of the target score following the reduction in Barclay's credit rating. Action was taken during October to return to within the target. For the next three years the target will remain 3 to 5.

Principal Sums Invested for Periods Longer than 364 days

6.10 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:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£10m	£10m	£10m

7. MRP Statement

7.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2 The four MRP options available are:

Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

7.3 MRP in 2016/17: The guidance states Options 1 and 2 may be used only for capital expenditure originally incurred when government support was available. Methods of making prudent provision for self financed expenditure include Options 3 and 4. There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

7.4 It is a requirement for Council to approve the MRP statement before the start of the financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

7.5 It is proposed the Council will continue to apply Option 1 (charge 4% per annum over 25 years) in respect of capital expenditure originally incurred when government support was available and

Option 3 (charge over the life of the asset) in respect of all other capital expenditure funded through borrowing. MRP in respect of leases and PFI (Private Finance Initiative) schemes brought onto the Balance Sheet under the IFRS (International Financial Reporting Standards) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

8. Capital Expenditure

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

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

9 Other Items

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

Policy on Use of Financial Derivatives

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

Policy on Apportioning Interest to the HRA

9.3 On 1st April 2012, the Authority 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. .

Investment Training

9.4 CIPFA's Treasury Management Code of Practice requires the Chief Financial Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

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

9.6 The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers

9.7 The Authority 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 Authority's treasury management staff.

Investment of Money Borrowed in Advance of Need

9.8 The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

9.9 The total amount borrowed in 2016-17 will not exceed the authorised borrowing limit of £528 million. The maximum period between borrowing and expenditure is expected to be one year, although the Authority is not required to link particular loans with particular items of expenditure.

Financial Implications

9.10 The budget for investment income in 2016/17 is £170,000 million, based on an average investment portfolio of £23 million at an interest rate of 0.75%%. The budget for debt interest paid in 2016/17 is £14.9 million, based on an average debt portfolio of £310 million at an average interest rate of 4.8%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. Interest paid and earned is apportioned between the General Fund and HRA. The average interest rate on existing debt will decline in 2016-17 from 5.30% to 5.19% with interest costs falling by £1.0 million to £14 million. New debt is projected to cost an average 2.1%.

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

Monitoring & Reporting

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

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

9.14 Officers monitor counterparties on a daily basis with advice from the Council's treasury management advisers to ensure that any creditworthiness concerns are addressed as soon as they arise. Senior management hold monthly meetings with the officers undertaking treasury management to monitor activity and to ensure all policies and procedures are being followed.

10. Other Options Considered

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

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

Details of Treasury Position

A: General Fund Pool

	31-Mar-16 Projected £'000	31-Mar-17 Estimate £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000
Existing External Borrowing commitments:				
PWLB	50,139	45,882	41,395	37,465
Market loans	42,281	42,281	42,281	42,281
Cash reduction	0	20,000	20,000	20,000
Total External Borrowing	92,420	108,163	103,676	99,746
Long Term Liabilities	49,329	45,498	41,537	37,537
Total Gross External Debt	141,749	153,661	145,213	137,283
CFR	271,742	290,670	285,388	296,388
Internal Borrowing	129,993	124,993	119,993	114,993
Cumulative Borrowing requirement	0	12,016	20,182	44,112

B: HRA Pool

	31-Mar-16 Projected £'000	31-Mar-17 Estimate £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000
Existing External Borrowing commitments:				
PWLB	108,094	99,764	90,986	83,297
Market loans	82,719	82,719	82,719	82,719
Local Authorities	0	0	0	0
Total External Borrowing	190,813	182,483	173,705	166,016
CFR	278,548	293,002	295,943	297,624
Internal Borrowing	87,735	82,735	77,735	72,735
Cumulative Borrowing requirement	0	27,784	44,503	58,873

C: Security Measure

		2016-17	2017-18	2018-19
Above target	AAA to AA+	Score 0 - 2	Score 0 - 2	Score 0 - 2
Target score	AA to A+	Score 3 - 5	Score 3 - 5	Score 3 - 5
Below target	Below A+	Score over 5	Score over 5	Score over 5

Summary of Prudential Indicators

No.	Prudential Indicator	2016/17	2017/18	2018/19
CAPITAL INDICATORS				
1	Capital Expenditure	£'000	£'000	£'000
	General Fund	50,682	52,410	50,000
	HRA	64,307	51,121	50,000
	TOTAL	114,989	103,531	100,000

No.	Prudential Indicator	2016/17	2017/18	2018/19
2	Ratio of financing costs to net revenue stream	%	%	%
	General Fund	1.93	2.01	2.25
	HRA	8.88	9.02	8.98

No.	Prudential Indicator	2016/17	2017/18	2018/19
3	Capital Financing Requirement	£'000	£'000	£'000
	General Fund	290,670	285,388	296,388
	HRA	293,002	295,943	297,624
	TOTAL	583,672	581,331	594,012

No.	Prudential Indicator	2016/17	2017/18	2018/19
4	Incremental impact of capital investment decisions	£	£	£
	Band D Council Tax	32.04	14.26	31.74
	Weekly Housing rents	1.51	1.00	1.00

No.	Prudential Indicator	2016/17	2017/18	2018/19
TREASURY MANAGEMENT LIMITS				
5	Borrowing limits	£'000	£'000	£'000
	Authorised Limit	528,231	544,623	556,024
	Operational Boundary	472,772	489,638	501,519

No.	Prudential Indicator	2016/17	2017/18	2018/19
6	HRA Debt Cap	£'000	£'000	£'000
	Headroom	34,536	31,595	29,914

No.	Prudential Indicator	2016/17	2017/18	2018/19
7	Upper limit – fixed rate exposure	100%	100%	100%
	Upper limit – variable rate exposure	40%	40%	40%

No.	Prudential Indicator	2016/17		2017/18		2018/19	
8	Maturity structure of borrowing						
	(U: upper, L: lower)	L	U	L	U	L	U
	under 12 months	0%	40%	0%	40%	0%	40%
	12 months & within 2	0%	35%	0%	35%	0%	35%
	2yrs & within 5 yrs	0%	35%	0%	35%	0%	35%
	5 yrs & within 10 yrs	0%	35%	0%	35%	0%	35%
	10 yrs & within 20 yrs	0%	35%	0%	35%	0%	35%
	20 yrs & within 30 yrs	0%	35%	0%	35%	0%	35%
	30 yrs & within 40 yrs	0%	35%	0%	35%	0%	35%
	40 yrs & within 50 yrs	0%	50%	0%	50%	0%	50%
	50 yrs & above	0%	50%	0%	50%	0%	50%

No.	Prudential Indicator	2016/17	2017/18	2018/19
9	Sums invested for more than 364 days	10	10	10

No.	Prudential Indicator	2016/17	2017/18	2018/19
10	Adoption of CIPFA Treasury Management Code of Practice	√	√	√

Arlingclose Economic & Interest Rate Forecast November 2015

Underlying assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.

- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.

- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Average
Official Bank Rate														
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.31
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.12
Downside risk				-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-0.73
3-month LIBID rate														
Upside risk	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.36
Arlingclose Central Case	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.50	1.60	1.65	1.70	1.75	1.24
Downside risk		-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20	-1.20	-0.83
1-yr LIBID rate														
Upside risk	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.41
Arlingclose Central Case	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15	2.15	1.82
Downside risk	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25	-1.25	-0.88
5-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	1.30	1.38	1.45	1.53	1.60	1.68	1.75	1.83	1.90	1.98	2.05	2.13	2.20	1.75
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
10-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	1.90	1.95	2.00	2.05	2.10	2.15	2.20	2.25	2.30	2.35	2.40	2.45	2.50	2.20
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
20-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	2.50	2.53	2.55	2.58	2.60	2.63	2.65	2.68	2.70	2.73	2.75	2.78	2.80	2.65
Downside risk	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20	-1.20	-0.89
50-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	2.50	2.55	2.60	2.63	2.65	2.68	2.70	2.73	2.75	2.78	2.80	2.83	2.85	2.69
Downside risk	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15	-1.15	-0.84

Counterparty Policy

The investment instruments identified for use in 2015-16 are listed in the table. Each investment type is classified as either 'Specified' or 'Non – Specified' investment categories. Specified investments are considered low risk and relate to funds invested for up to one year. Only those investments with a credit rating of at least AA- are considered as specified. Non-specified investments normally offer the prospect of higher returns but carry higher risk and may have a maturity beyond one year. At least 50% of investments held will be specified. All investments are sterling denominated.

As discussed in the borrowing strategy the plan during 2016-17 is to rely on short term debt and minimise cash balances. This will lead to a high proportion short dated and tradable instruments e.g. money market funds, T-bills, CDs and DMO within the cash portfolio to cover liquidity needs.

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

Minimum Credit Quality & diversification Limits

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

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

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

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

Non UK Banks

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

Maturities Guidance

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

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

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

Banks and Building Society Deposits, Call Accounts and Certificates of Deposit: These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

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

Money Market and Enhanced Cash Funds: Shares in diversified investment vehicles consisting of time deposits, call accounts, CDs etc with banks and financial institutions. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while Enhanced Cash Funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Lending List of counterparties for investments

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

Instrument		Country/ Domicile	Counterparty	Arlingclose Suggested max maturity
Supranational Banks			European Bank for Reconstruction and Development	24 months
			European Investment Bank	24 months
			Inter-American Development Bank	24 months
			International Bank for Reconstruction & Development	24 months
UK Banks and Building Societies- Term Deposits, Call Accounts & CDs		UK	HSBC Bank Plc	13 months
		UK	Standard Chartered Bank	6 months
		UK	Barclays Bank Plc	100 days
		UK	Lloyds Banking Group including Bank of Scotland	13 months
		UK	Santander UK	6 months
		UK	Nationwide Building Society	6 months
		UK	Coventry Building Society	6 months
Non-UK Banks - Term Deposits, Call Accounts and CDs		Australia	Australia & New Zealand Banking Group	6 months
		Australia	National Australian Bank	6 months
		Australia	Commonwealth Bank of Australia	6 months
	new	Australia	Westpac Banking Group	6 months
	new	Canada	Bank of Montreal	13 months
	new	Canada	Royal Bank of Canada	13 months
	new	Canada	Toronto-Dominion Bank	13 months
	new	Singapore	DBS Bank	13 months
	new	Singapore	Overseas-Chinese Banking Corp	13 months
	new	Singapore	United Overseas Bank	13 months
		Sweden	Nordea Bank	13 months
		Sweden	Svenska Handelsbanken	13 months
Covered Bonds issued by UK Banks & Building Soc		UK	UK Banks and Buildings societies listed above.	24 months
			Royal Bank of Scotland	24 months

NB: max maturity capped at 24 months.

Compared with last year, no counterparties have been deleted and no UK banks added. The four supranational banks are new additions. All are AAA rated by the three rating agencies. These banks raise funds via CDs. The Arlingclose support maximum maturities of up to 5 years for AAA rated supranational banks.

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

Investments in covered bonds are limited to UK banks and building societies. In addition to those banks and building societies eligible for unsecured deposits, Royal Bank of Scotland has been added for covered deposits. Covered deposits offer additional default protection due to the provision of collateral as security.

The counterparty list excludes MMF and ECF's as the name of the fund reflects the fund manager not the quality of the underlying holdings. Selection of MMFs and ECFs will be based on the criteria set of in Annex 4. The limit for any single MMF is £20 million and each ECF is £5 million.

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