

**London Borough of Haringey**  
**Updated Treasury Management Strategy Statement**  
**2018-19 to 2020-21**

**1 Introduction**

- 1.1 In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.
- 1.2 In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Council Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.
- 1.3 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.
- 1.5 In accordance with the CLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a change in how treasury management services are delivered, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balance.

**2 External Context**

- 2.1 **Economic background:** The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now

weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

- 2.2 Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.
- 2.3 In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.
- 2.4 **Credit outlook:** High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.
- 2.5 Bail-in legislation, which is intended to protect taxpayers from failing banks in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.
- 2.6 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 very low.
- 2.7 **Interest rate forecast:** The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- 2.8 Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a

shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

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

### 3 Local Context

- 3.1 On 31<sup>st</sup> March 2017, the Council held £347.0m of borrowing and £18.6m of investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

- 3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The estimates for each pool, based on the current proposed Revenue Budget and Capital Programmes, are:

**Table 1a: Treasury Position – General Fund**

	31/03/2017 Actual £'000	31/03/2018 Original £'000	31/03/2018 Projected £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000	31/03/2021 Estimate £'000
General Fund CFR	305,346	374,671	351,995	413,279	448,411	482,635
Less: Share of existing external debt and other long term liabilities	159,839	125,322	190,254	134,472	129,067	124,316
Internal Borrowing	145,507	100,785	161,741	170,341	170,341	170,341
Cumulative Net Borrowing Requirement	0	148,564	0	108,466	149,003	187,978

**Table 1b: Treasury Position – HRA**

	31/03/2017 Actual £'000	31/03/2018 Original £'000	31/03/2018 Projected £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000	31/03/2021 Estimate £'000
HRA CFR	271,096	271,096	251,497	275,087	275,087	275,087
Less: Share of Existing External Debt & Other Long Term Liabilities	227,945	199,903	204,203	194,568	187,462	181,842
Internal Borrowing	43,151	71,193	47,294	47,294	47,294	47,294
Cumulative Net Borrowing Requirement	0	0	0	33,225	40,331	45,951

- 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 2018/19 and the remainder of the forecast period.
- 3.4 The tables above show how the Council's capital requirement is funded currently and how it is expected to be funded in the coming years. Due to the differential between short and long term interest rates (discussed in more detail in section 4), the Council has maximised the amount of internal borrowing that can be done. As short term interest rates are forecast to remain relatively low (probably below 2%) for the next few years. It is anticipated that a significant level of internal / short term borrowing will continue, with the only reduction expected reflecting the planned movement in reserves.
- 3.5 Ensuring that gross external debt does not exceed the CFR over the medium term is a key indicator of prudence. There has been no difficulty meeting this requirement in 2017/18 nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.
- 3.6 It is a requirement for the HRA CFR to remain within the limit of indebtedness or "debt cap" set by the DCLG at the time of the implementation of self-financing. The table below shows the current expected level of the HRA CFR and the debt cap. Any decision by the Council to undertake new borrowing for housing will cause the future years' debt predictions for the HRA debt pool to increase.

**Table 2: HRA Debt Cap**

	31/03/2017 Actual £'000	31/03/2018 Original £'000	31/03/2018 Projected £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000	31/03/2021 Estimate £'000
HRA CFR	271,096	278,721	251,497	275,087	275,087	275,087
HRA Debt cap	327,538	327,538	327,538	327,538	327,538	327,538
Headroom	56,442	48,817	76,041	52,451	52,451	52,451

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

**Table 3: Capital Expenditure**

	2016/17 Actual £'000	2017/18 Original £'000	2017/18 Projected £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
General Fund	55,321	133,941	51,990	143,119	117,888	106,448
HRA	58,210	68,901	47,995	58,850	0	0
Total	113,531	202,842	99,985	201,969	117,888	106,448

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

**Table 4: Capital Financing**

	2016/17 Actual £'000	2017/18 Original £'000	2017/18 Projected £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Capital receipts	2,385	1,045	1,627	7,500	7,500	1,323
Other grants & contributions	12,946	42,869	12,677	57,485	52,963	55,651
Government Grants	8,562	16,097	9,259	9,412	14,825	8,368
Reserves / Revenue contributions	56,768	59,186	42,975	35,953	369	132
Total Financing	80,662	119,197	66,538	110,351	75,657	65,475
Borrowing	32,868	83,645	33,447	91,619	42,230	40,973
Total	113,531	202,842	99,985	201,969	117,888	106,448

- 3.9. As an indicator of affordability the table below shows the incremental impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme and the number of rented properties (HRA).

**Table 5: Incremental Impact of Capital Investment Decisions**

	2016/17 Actual	2017/18 Approved	2017/18 Projected	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Increase in Band D Council Tax	10.84	13.75	13.65	35.03	22.75	22.70
Increase in Average Weekly Housing Rents	0.09	0.20	0.50	2.16	0.00	0.00

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

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

**Table 6: Ratio of Financing Costs to Net Revenue Stream**

	2016/17 Actual %	2017/18 Approved %	2017/18 Projected %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	1.86	2.18	1.58	2.48	2.76	2.68
HRA	8.50	9.87	9.44	8.73	8.43	7.85

#### 4. Borrowing Strategy

4.1. The Council currently holds £307.4m of long term loans, an increase of £36.7m on the previous year, as part of its strategy for funding previous years' capital programmes. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

##### Objectives

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

##### Strategy

4.3. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

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

4.5. The level of reserves and working capital that enable internal borrowing will be monitored and projected changes will be used to determine the timing and level of

new debt. The Council's treasury advisor will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this costs more in the short-term.

- 4.6. Alternatively, the Council may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This will enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. These arrangements will only be considered where there is certainty as to borrowing needs and timing and where predictability of interest costs is beneficial to the capital programme.
- 4.7. The Council will adopt a flexible approach to this borrowing in consultation with its treasury management advisers. The following issues will be considered prior to undertaking any external borrowing:
- Affordability;
  - Maturity profile of existing debt;
  - Interest rate and refinancing risk;
  - Borrowing source.

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

- Public Works Loan Board (PWLB) and any successor body
  - Other local authorities
  - Institutions such as European Investment Bank and Commercial Banks
  - UK public/private sector pension funds (except Haringey Pension Fund)
  - Capital market bond investors
  - UK Municipal Bonds Agency plc and other entities created to enable local Council bond issues
  - Leasing
- 4.8. The Council may borrow short-term loans (up to one year in length) to cover cash flow shortages. The Council has previously raised the majority of its long-term borrowing from the PWLB but it continuously investigates other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.
- 4.9. UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the risk that other local Council borrowers default on their loans;



and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Corporate Committee that contains explicit legal advice.

#### Lender's Option Borrower's Option Loans

- 4.9 The Council holds £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £100m of these LOBOS have options during 2018/19, and although the Council understands that lenders are very unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

#### Short-term and Variable Rate loans

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

#### Debt Rescheduling

- 4.11 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

### **5. Investment Strategy 2018/19**

- 5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has been up to £50m. It is anticipated that net balances will be similar next year. The impact on the value of cash balances from capital expenditure and the timing of any associated debt financing are uncertain.



### Objectives

- 5.2. Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

### Negative Interest Rates

- 5.3. If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation has previously occurred in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested. However, the Bank Rate rose in November 2017 to 0.50%, so this situation may be less likely to occur in 2018/19.

### Strategy

- 5.4. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits and money market funds. These investments are exposed to bank bail in risk. Investment is also done with the Debt Management Office (HM Treasury), these investments are not exposed to bail in risk. To reduce potential exposure to unsecured bank deposits, the counterparty policy has been expanded to include quasi government institutions; Supranational banks. Covered bonds are now identified separately from unsecured bank deposits as these deposits are of lower risk being both secured on collateral and possessing a bank issuer guarantee.
- 5.5. Following a review and as cash balances are not expected to increase in 2018/19, counterparty investment limits have been maintained at 2017/18 levels – counterparty limits for individual banks has been set at £5m and exposure to each individual local Council is maintained at maximum deposit of £15m per Council. These changes also reflect the anticipation that cash balances will continue to remain at or below historic levels as part of the policy to minimise new long term borrowing.

### Specified and Non-specified Investments

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

5.7. The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local Council, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

5.8. The Council defines “high credit quality” organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of [A-] or higher

#### Non-specified Investments

5.9. Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 7 below.

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

Prudential Indicators. Investment activity will be reported to Corporate Committee as part of the quarterly reports.

**Table 7: Limits - Specified and Non-Specified Investments**

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

Risk Assessment and Credit Ratings

- 5.11. 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.
- 5.12. 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.
- 5.13. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then no new investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

#### Other Information on the Security of Investments

- 5.14. The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the 'quality financial press'. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
- 5.15. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or

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

### Investment Limits

5.16. The Council has determined that revenue reserves available to cover investment losses are forecast to be £18m on 31st March 2018. In order that no more than 85% of estimated available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

## **6. Treasury Management Indicators**

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

### Security

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

**Table 8: Credit Score Target**

	Target
Portfolio average credit	3 - 6

### Interest Rate Exposures

6.3. This indicator is set to control the Authority's exposure to interest rate risk, which includes £125m of LOBO loans. The upper limits on fixed and variable rate

interest rate exposures, expressed as the proportion of net principal borrowed will be:

**Table 9: Interest Rate Exposure**

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	60%	60%	60%

- 6.4. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Authorised Limits for External Debt

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

**Table 10: Authorised Limit**

	2016/176 Actual £'000	2017/18 Approved £'000	2017/18 Projected £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	347,046	481,523	348,959	618,366	653,498	687,723
Other Long-term Liabilities	45,498	54,540	45,498	43,261	38,137	33,466
Total	392,544	536,063	394,457	661,627	691,635	721,189

Operational Boundary for External Debt

- 6.6. The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit. The Operational Boundary and Authorised Limit apply at the total level.

**Table11: Operational Boundary**

	2016/176 Actual £'000	2017/18 Approved £'000	2017/18 Projected £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	347,046	431,523	348,959	568,366	603,498	637,723
Other Long-term Liabilities	45,498	49,582	45,498	39,934	35,203	30,892
Total	392,544	481,105	394,457	608,300	638,702	668,614

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

### Maturity Profile

- 6.8. The Council is required to set limits on the percentage of the portfolio maturing in each of the periods set out in the table below. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be taken for the optimum period. The limits apply to the combined General Fund and HRA debt pools.
- 6.9. The maturity range has been applied to LOBO loans (see 4.9 above) based on their contractual maturity date. The column on the right hand side represents the maturity structure based on the next date that the lender is able to reset interest rates.

**Table 12: Maturity Profile**

	Lower Limit	Upper Limit	31-Mar-18	31-Mar-18
	%	%	%	LOBO adjusted %
under 12 months	0%	60%	17%	45%
12 months & within 24 months	0%	40%	3%	10%
24 months & within 5 years	0%	40%	6%	6%
5 years & within 10 years	0%	40%	5%	5%
10 years & within 20 years	0%	40%	5%	5%
20 years & within 30 years	0%	40%	15%	13%
30 years & within 40 years	0%	50%	26%	14%
40 years & within 50 years	0%	50%	24%	3%
50 years & above	0%	40%	0%	0%



## Liquidity Management

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

## Principal Sums Invested for Periods Longer than 364 days

6.11. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

**Table 13: Limit on Sums Invested Beyond 364 Days**

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£10m	£10m	£10m

## **7. MRP Statement**

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

### General Fund MRP policy: borrowing before 2007/08

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

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

- 7.4. The historic MRP policy for borrowing incurred before 2007/08 led to MRP charges that exceeded what prudence required during the period from 1 April 2007 to 31 March 2016. This resulted in a cumulative charge at 31 March 2016 that was in excess of what is considered prudent and appropriate under the current policy. To reflect the historic over-provision the Council will undertake an annual review to determine whether to make a realignment of MRP charged to the General Fund, using the policy set out above, to recognise the excess sum charged to that point.
- 7.5. The following conditions will apply to the annual review:
- Total MRP after applying realignment will not be less than zero in any financial year.
  - The cumulative total of the MRP realignment will never exceed the amount of historical over-provision calculated to 31 March 2016.

#### General Fund MRP policy: prudential borrowing from 2007/08

- 7.5. For borrowing incurred on schemes described by the Government as Prudential Borrowing or Unsupported Borrowing, MRP will be calculated over the estimated remaining useful life applicable to the expenditure (usually the useful life of the asset it is financing) using the Annuity repayment method in accordance with Option 3 of the guidance.
- 7.6. This means that MRP will be calculated on an annuity basis (like many domestic mortgages) over the estimated life of the asset. Estimated life periods will be determined by the Section 151 Officer under delegated powers.
- 7.7. In accordance with the provisions in the guidance, MRP will be first charged in the financial year following the one in which the entire asset to which the charge relates, becomes fully operational.
- 7.8. Financial agreements such as loans, investments or where assets are to be acquired for future development (including where capital receipts are part of the business case), will not, at the discretion of the CFO, attract MRP. This discretion will be applied where it is reasonable to assume that the initial capital investment will be returned to the Council in full at maturity or over a defined period.

#### Concession Agreements

- 7.9. MRP in relation to concession agreements (e.g. PFI contracts) and finance leases are calculated on an asset life method using an annuity repayment profile, consistent with the method for all prudential borrowing since 2007/08. Estimated life periods will be determined under delegated powers.
- 7.10. The Section 151 Officer may approve that such debt repayment provision may be made from capital receipts or from revenue provision.

#### Finance Leases

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

#### Statutory capitalisations

- 7.12. For expenditure which does not create a fixed asset, but is statutorily capitalised and subject to estimated life periods that are referred to in the guidance, these estimated periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.
- 7.13. Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, at the discretion of the Section 151 Officer.

## **8. Capital Expenditure**

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

## **9. Other Items**

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

### Policy on Use of Financial Derivatives

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

### Policy on Apportioning Interest to the HRA

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

### Investment Training

- 9.4. CIPFA's Treasury Management Code of Practice requires the Chief Financial Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.
- 9.5. Given the significant amounts of money involved, it is crucial members have the necessary knowledge to take treasury management decisions. Training sessions are arranged for members to keep their knowledge up to date.
- 9.6. The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

#### Investment Advisers

- 9.7. The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is reviewed by the Council's treasury management staff.

#### Investment of Money Borrowed in Advance of Need

- 9.8. The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.
- 9.9. The total amount borrowed in 2018/19 will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be one year, although the Council is not required to link particular loans with particular items of expenditure.

### Financial Implications

- 9.10. The budget investment income in 2018/19 is £30k, based on an average investment portfolio of £15m at an interest rate of 0.20%. The budget for debt interest paid in 2018/19 is £16.1m, based on an average debt portfolio of £350m (including short term debt) at an average interest rate of 4.6%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will also be different. Interest paid and earned is apportioned between the General Fund and HRA. The average interest rate on existing long term debt will decline in 2018/19 from 4.70% to 4.51% with interest costs falling by approximately £1.0m. New long term debt has been raised in 2017/18 at an average cost of 2.61%.
- 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 30<sup>th</sup> September. This will be reported to Corporate Committee, and then reported to full Council. Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.
- 9.14. Officers monitor counterparties on a daily basis with advice from the Council's treasury management advisers to ensure that any creditworthiness concerns are addressed as soon as they arise.

## **10. Other Options Considered**

- 10.1. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer, 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	Impact on risk management
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	<b>expenditure</b>	
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-18 Projected £'000	31-Mar-19 Estimate £'000	31-Mar-20 Estimate £'000	31-Mar-21 Estimate £'000
Existing External Borrowing commitments:				
PWLB	60,897	58,913	57,450	56,293
Market loans	92,281	42,281	42,281	42,281
Total External Borrowing	153,178	101,194	99,731	98,574
Long Term Liabilities	37,076	33,278	29,336	25,743
Total Gross External Debt	190,254	134,472	129,067	124,317
CFR	351,995	413,279	448,411	482,635
Internal Borrowing	161,741	170,341	170,341	170,341
Cumulative Borrowing requirement	0	108,466	149,003	187,978

### B: HRA Pool

	31-Mar-18 Projected £'000	31-Mar-19 Estimate £'000	31-Mar-20 Estimate £'000	31-Mar-21 Estimate £'000
Existing External Borrowing commitments:				
PWLB	121,484	111,849	104,743	99,122
Market loans	82,719	82,719	82,719	82,719
Total External Borrowing	204,203	194,568	187,462	181,841
CFR	251,497	275,087	275,087	275,087
Internal Borrowing	47,294	47,294	47,294	47,294
Cumulative Borrowing requirement	0	33,225	40,331	45,951

### C: Security Measure

		2018/19	2019/20	2020/21
Above target	AAA to AA+	Score 0 - 2	Score 0 - 2	Score 0 – 2
Target score	AA to A	Score 3 – 6	Score 3 – 6	Score 3 – 6
Below target	Below A	Score 6+	Score 6+	Score 6+

## Summary of Prudential Indicators

No.	Prudential Indicator	2018/19	2019/20	2020/21
<b>CAPITAL INDICATORS</b>				
1	Capital Expenditure	£'000	£'000	£'000
	General Fund	143,119	117,888	106,448
	HRA	58,850	0	0
	TOTAL	201,969	117,888	106,448

No.	Prudential Indicator	2018/19	2019/20	2020/21
2	Ratio of financing costs to net revenue stream	%	%	%
	General Fund	2.48	2.76	2.68
	HRA	8.73	8.43	7.85

No.	Prudential Indicator	2018/19	2019/20	2020/21
3	Capital Financing Requirement	£'000	£'000	£'000
	General Fund	413,279	448,411	482,635
	HRA	275,087	275,087	275,087
	TOTAL	688,366	723,498	757,723

No.	Prudential Indicator	2018/19	2019/20	2020/21
4	Incremental impact of capital investment decisions	£	£	£
	Band D Council Tax	35.03	22.75	22.70
	Weekly Housing rents	2.16	0.00	0.00

No.	Prudential Indicator	2018/19	2019/20	2020/21
<b>TREASURY MANAGEMENT LIMITS</b>				
5	Borrowing Limits	£'000	£'000	£'000
	Authorised Limit	661,627	691,635	721,189
	Operational Boundary	608,300	638,702	668,614

No.	Prudential Indicator	2018/19	2019/20	2020/21
6	HRA Debt Cap	£'000	£'000	£'000
	Headroom	52,451	52,451	52,451

No.	Prudential Indicator	2018/19	2019/20	2020/21
7	Upper Limit - Fixed Rate Exposure	100%	100%	100%
	Upper Limit - Variable Rate Exposure	60%	60%	60%

No.	Prudential Indicator	2018/19		2019/20		2020/21	
8	Maturity Structure of Borrowing						
	U: Upper, L: Lower	L	U	L	U	L	U
	Under 12 Months	0%	60%	0%	60%	0%	60%
	12 Months & Within 2 Years	0%	40%	0%	40%	0%	40%
	2 Years & Within 5 Years	0%	40%	0%	40%	0%	40%
	5 Years & Within 10 Years	0%	40%	0%	40%	0%	40%
	10 Years & Within 20 Years	0%	40%	0%	40%	0%	40%
	20 Years & Within 30 Years	0%	40%	0%	40%	0%	40%
	30 Years & Within 40 Years	0%	50%	0%	50%	0%	50%
	40 Years & Within 50 Years	0%	50%	0%	50%	0%	50%
	50 Years & above	0%	40%	0%	40%	0%	40%

No.	Prudential Indicator	2018/19	2019/20	2020/21
9	Sums invested for more than 364 days	£10m	£10m	£10m

No.	Prudential Indicator	2018/19	2019/20	2020/21
10	Adoption of CIPFA Treasury Management Code of Practice	✓	✓	✓

## Arlingclose Economic & Interest Rate Forecast November 2017

### Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

### Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
<b>Official Bank Rate</b>														
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.44
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
<b>3-month LIBID rate</b>														
Upside risk	0.30	0.30	0.30	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.53
Arlingclose Central Case	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	-0.10	-0.10	-0.15	-0.10	-0.10	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.17
<b>1-yr LIBID rate</b>														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.65	0.65	0.32
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.60	0.60	0.62
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.10	-0.10	-0.25
<b>5-yr gilt yield</b>														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Arlingclose Central Case	0.55	0.55	0.60	0.60	0.60	0.65	0.70	0.75	0.80	0.85	0.90	0.95	0.95	0.73
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
<b>10-yr gilt yield</b>														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Arlingclose Central Case	1.05	1.02	1.05	1.05	1.05	1.10	1.15	1.20	1.25	1.30	1.35	1.40	1.40	1.18
Downside risk	-0.20	-0.35	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15	-0.15	-0.24
<b>20-yr gilt yield</b>														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.70	0.70	0.57
Arlingclose Central Case	1.60	1.60	1.60	1.60	1.60	1.65	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.73
Downside risk	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.34
<b>50-yr gilt yield</b>														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.85	0.85	0.60
Arlingclose Central Case	1.50	1.50	1.50	1.50	1.50	1.55	1.60	1.65	1.70	1.75	1.80	1.85	1.85	1.63
Downside risk	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.50	-0.50	-0.37

**Counterparty Policy for in house treasury activities**

The investment instruments identified for use in 2018/19 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 2018/19 will be to partially 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. Ten countries have AAA ratings from all three rating agencies – Australia, Canada, Denmark, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden and Switzerland. Within these countries twelve banks meet the AA- or better criteria mentioned above and these have been included as eligible counterparties (Appendix 5). Using the highest quality overseas banks will both improve the overall security of the investment portfolio and enable greater diversification.

**Maturities Guidance**

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

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



### Additional Details on Types of Investments

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

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

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

**Lending List of counterparties for investments**

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

A UK bank has been added as a counterparty when compared with last year's list, there are now nine banks. The number of supranational banks has remained at eight. These banks raise funds via CDs. Arlingclose support maximum maturities of up to 25 years for AAA rated supranational banks, although a 15 year maximum maturity is recommended for the Council of Europe Development Bank which is AA+ rated.

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

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

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

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

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

