

Cash Limit analysed at Priority Level 2020/21

Priority Area	2020/21 £'000
Housing	16,382
People - Children	55,189
People - Adults	83,784
Place	24,915
Economy	1,006
Your Council	35,999
Council Wide	25,017
Council Cash Limit	242,292

Haringey Council – Reserves Policy

Background

1. Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to consider the level of reserves when setting a budget requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.
2. CIPFA has issued Local Authority Accounting Panel (LAAP) Bulletin No.55, Guidance Note on Local Authority Reserves and Balances and LAAP Bulletin 99 (Local Authority Reserves and Provisions). Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government.
3. This note sets out the Council's policy for compliance with the statutory regime and relevant non-statutory guidance.

Overview

4. The Council's overall approach to reserves will be defined by the system of internal control. The system of internal control is set out, and its effectiveness reviewed, in the Annual Governance Statement. Key elements of the internal control environment are objective setting and monitoring, policy and decision-making, compliance with statute and procedure rules, risk management, achieving value for money, financial management and performance management.
5. The Council will maintain:
 - a General Fund general reserve;
 - a Housing Revenue Account (HRA) general reserve; and
 - a number of earmarked reserves.
6. Additionally, the Council is required to maintain *unusable* reserves to comply with accounting requirements although, as the term suggests, these reserves are not available to fund expenditure.

General Fund general reserve

7. The purpose of the general reserve is to manage the impact of emergencies or unexpected events. Without such a reserve, the financial impact of such events could cause a potential financial deficit in the general fund, which would be severely disruptive to the effective operation of the authority. The reserve should mitigate against immediate service reductions if there were any unforeseen financial impacts.
8. The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. It will also take account of the extent to which specific risks are supported through earmarked reserves. The level will be expressed as a cash sum over the period of the general fund medium-

term financial strategy. The level will also be expressed as a percentage of the general funding requirement (to provide an indication of financial context).

HRA general reserve

9. The purpose of the HRA general reserve is similar to the General Fund general reserve above except applied to the ring-fenced HRA. The HRA 10-year Financial Plan assumes a revenue contribution to capital outlay (RCCO) of at least £9.3m pa. This will enable the council to react to changes in government policies and manage risks associated with the extensive expansion programme. The plan also assumes a working balance of £14.2m.

Earmarked reserves

10. The purpose of earmarked reserves is to enable sums to be set aside for specific purposes or in respect of potential or contingent liabilities where the creation of a provision is not required or permitted.
11. The Council will maintain the following earmarked reserves:
 - a. **Schools Reserve** - This balance represents the net balances held by the Council's 63 schools. The Secretary of State for Education allows Local Authorities to have within their Scheme for Financing Schools, a provision whereby surplus balances that are deemed excessive can be withdrawn from the school in question and applied elsewhere within the Dedicated Schools Budget.
 - b. **Transformation Reserve** - This reserve is earmarked for the costs associated with the Council's Transformation programmes including the investment necessary to deliver longer term efficiencies and change, together with the associated costs of redundancies and decommissioning.
 - c. **Services Reserve** - It is Council policy that services may request funds to be carried forward, subject to approval by the Cabinet in the year-end financial outturn report. This reserve earmarks those funds to either be carried forward to the following financial year or retained. This reserve also includes the Dedicated Schools Grant (DSG) negative £2.2m balance from 2018/19. On Friday 31 January 2020 the DfE published the outcome of the consultation on clarifying the DSG ringfence. This stated:
"The effect of these provisions is that LAs will not be permitted to fund any part of the deficit from sources other than DSG (and any specific grants whose conditions allow them to be applied to the schools budget) without the authorisation of the Secretary of State. If a LA wished to use other sources, it must apply to the Secretary of State for authorisation to disregard the new arrangements."
However, the proposed changes have yet to be formally adopted. In the absence of the formal ratification, no change to the reserve is proposed at this time. All reserve balances and treatment will be reviewed again as part of the 2019/20 outturn report to Cabinet, planned for June 2020 by which time it is expected that the updated School and Early Years Finance (England) Regulations 2020 will have

been enacted along with the necessary changes to the DSG grant conditions.

- d. **PFI lifecycle Reserve** - The PFI reserve is increased by PFI grant received in excess of contractual payments. This will be utilised to fund future years' PFI related costs.
- e. **Debt Repayment / Capital Reserve** - this reserve is used to set aside money that the Council has for repaying outstanding debt in the future and/or for the purposes of setting aside money earmarked for capital investment.
- f. **Insurance Reserve** - The Council self-insures a number of risks including liability, property and theft. Insurance claims are erratic in their timings and so the Council maintains a reserve to smooth the charge to the Council's revenue account in the same way as a premium to an external insurance provider would smooth charges to the revenue account.
- g. **Unspent Grants Reserve** - This reserve holds grant income recognised in the CIES when received, but which will finance related expenditure in future years.
- h. **Labour Market Growth Resilience Reserve** - It is beneficial for the Council to support people into work and this reserve will support activities which achieve that aim.
- i. **Financing Reserve** - The financing reserve is a key tool for managing the impact of financial plans from one year to another. This reserve requires balances to be at different levels year to year depending on the demand as identified through previous and current budget plans.
- j. **IT Infrastructure Reserve** - The Council has built into base budgets, a limited provision for the planned maintenance and renewal of certain assets as, by their nature these costs are irregular in their occurrence. The IT infrastructure reserve spreads the charge to revenue for this type of expenditure.
- k. **Resilience Reserve** - This reserve will be used as a one-off measure to offset non-delivery / delay of planned savings and other budget risks contained within the MTFs. It will provide additional robustness and financial resilience for the Council.
- l. **Other Reserves** - This reserve represents other small reserve balances held by the Council.
 - i. **Urban Renewal Reserve:** it would be beneficial for the council to support local businesses so they can share the benefits of

the growth, this could include supporting town centres and business investment districts and maintaining retail business.

- m. **Smoothing Reserve (HRA):** this is used to accumulate changes in asset values within the HRA that must, under accounting rules, be charged against the revenue costs of the HRA. The reserve will assist the impact of volatile movements from one year to another.

- n. **Homes for Haringey Reserve:** This reserve is earmarked for Homes for Haringey and it helps to fund the Company's innovation, growth and unforeseen cost pressures. The use of this reserve is regulated by the Management Agreement with the Council. Homes for Haringey may request the Council to consider proposals to use this reserve during the financial planning process.

Management and control

- 12. The schools reserve and the insurance reserve are clearly defined and require no further authority for the financing of relevant expenditure.
- 13. The use of all other reserves requires budgetary approval in the normal way.
- 14. All reserves are reviewed as part of the budget preparation, financial management and closing processes.

Reporting and review

- 15. The Council will consider a report from the S151 Officer on the adequacy of the reserves in the annual budget-setting process. The report will contain estimates of reserves where necessary. The Corporate Committee will consider actual reserves when approving the statement of accounts each year.
- 16. The Council will review the reserves policy on an annual basis.

RESERVES AND THEIR ADEQUACY

1. General Fund General Reserve

- 1.1. The judgement on the adequacy of the general fund general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events. For this purpose, identification of the key risks is done in three ways:
 - identification of risks during the financial planning and budget setting process as set out in the main report;
 - risk assessment of the agreed investment and savings proposals in the agreed budget package, and;
 - key risks identified, monitored and managed through the Council's risk management strategy and framework.
- 1.2. The calculation of the potential financial impact of these assessed risks has been undertaken and in the light of this, it is considered that the level of the General Fund un-earmarked balance which is maintained at £15.8m during 2020/21 is appropriate.
- 1.3. The risks set out in Annex 3c assess a potential financial impact at £20m for 2020/21; the Chief Finance Officer (CFO) regards the range set out above as being sufficient to cover the potential risks. It is, however, clear that resources for managing potential risk are not significantly greater than the level of risk identified, so the CFO is specifically highlighting the need for robust budget management in 2020/21 including the efficient delivery of agreed savings.
- 1.4. The 2020/21 figure for general balances (£15.8m) represents 6.5% of the Council's budget requirement.
- 1.5. The estimates of the reserves position at period 10 2019/20, including earmarked and un-earmarked reserves for the General Fund, Schools and the HRA are detailed in the following table. It should be noted however, that by the nature of these reserves, the timing of when draw down may be required is uncertain and thus unless specific timeframes have been identified no draw down is assumed.

Annex 3b - Projected Reserves Position (To Period 10 - 2019/20)

Description (£'000)	Balance at 31/03/2019	Forecast		Balance at 31/03/2020
		Transfer In 2019/20	Transfer Out 2019/20	
General Fund Reserve	-15,828	0	0	-15,828
General Fund earmarked reserves:				
Schools reserve	-10,382	0	0	-10,382
Transformation reserve	-6,096	0	2,836	-3,259
Services reserve	-7,878	0	3,724	-4,154
PFI lifecycle reserve	-13,684	0	0	-13,684
Debt repayment reserve	-5,045	0	0	-5,045
Insurance reserve	-5,911	0	0	-5,911
Unspent grants reserve	-7,336	-2,294	1,434	-8,196
Labour market growth resilience reserve	-705	0	259	-446
Financing reserve	-6,247	0	4,600	-1,647
IT Infrastructure reserve	-3,000	0	0	-3,000
Resilience Reserve	-7,303	0	0	-7,303
Other reserves	-726	0	0	-726
GF earmarked reserves:	-74,313	-2,294	12,854	-63,754
Total General Fund Usable Reserves	-90,141	-2,294	12,854	-79,582
Housing Revenue Account	-31,325	0	0	-31,325
Housing Revenue Account Earmarked Reserves:				
HRA Smoothing reserve	0	0	0	0
Homes for Haringey	-1,426	0	0	-1,426
HRA earmarked reserves	-1,426	0	0	-1,426
Total HRA Usable Reserves	-32,750	0	0	-32,750

Adequacy of Reserves - Risk Assessment 2020/21

Three key assessment areas:

1. Identification of risks via the financial planning and budget setting process as set out in the main report;
2. Risk assessment of the agreed investment and budget reductions proposals in the proposed budget package, and;
3. key risks identified, monitored and managed through the Council's risk management strategy in the corporate risk register.

	Net Budget Exposure	Risk	Residual Impact
	£m	%	£m
1. Budget Process			
Children's Services	55.2	A High-level risk assessment (10%) has been applied to the budget amount potentially at risk	14.7
Adults Social Services	83.8		
Temporary Accommodation	7.8		
2. Budget Reduction Proposals			
- Delivery Programme	14.6	High risk (33%) on savings proposals for 2020/21	4.8
3. Other Service Unidentified Risks		Estimated	0.5
Total Risks			20.0
Less Resilience Reserve			7.3
Less un-earmarked (General) reserves for the above			15.8
Available after risks			3.1

Indicator	Description	Relationship to risk and interpretation
Reserves Sustainability Measure	This indicator is the ratio between the current level of reserves and the average change in reserves in each of the past three years. A negative value (which implies reserves have increased) or one greater than 100 is recoded to 100.	The indicator provides a measure of how long (in years) it will take for a council to completely denude its reserves, if they continue to use reserves at the same rate as in the previous three years. A low value suggests that there is a risk that the authority will run out of reserves. A high value says, that on current trends, they are unlikely to deplete their reserves.
Level of Reserves	This is the ratio of the current level of reserves (total useable excluding public health & schools) to the council's net revenue expenditure. We have set the figure at 100% for a small number of district councils to remove the impact of extreme outliers.	A low level of reserves may indicate that a council has low capacity to cope with financial shocks. It will also face a risk should expenditure exceed income.
Change in Reserves	This indicator shows the average percentage change in reserves (total useable excluding public health and schools) over the past three years.	A council that is using up its reserves may be at risk if they do not move to a more balanced budget.
Interest Payable / Net Revenue Expenditure	This indicator is the ratio of Interest Payable and Net Revenue Expenditure.	This indicator aims to provide a better insight in terms of the budget flexibility of a council. Should a council have a high proportion of its expenditure dedicated to repaying debt, this could limit the council's flexibility to make further savings.
Gross External Debt	This indicator compares the gross external debt held by the council to the total revenue reserves (excl. Schools and Public Health).	This is a cover ratio that would give some idea of how proportionate a council's borrowing activity is compared to the reserves of the authority.
Social care ratio	This indicator is the ratio of total spending on adults' and children's social care to net revenue expenditure.	This indicator provides a measure of the degree of flexibility within a council's budget. Spending on these items is less likely to be reduced compared to other categories. A high ratio suggests the council has little flexibility to make further savings, potentially leading to risk.
Fees & Charges to Service Expenditure Ratio	This indicator shows the proportion of fees and charges against the council's total service expenditure.	Fees and charges are an increasing source of income. Thus, compared to the service expenditure a council incurs, a relatively low level of fees and charges may suggest a limited capacity to ensure budget flexibility.
Council Tax Requirement / NRE	This indicator shows the ratio of council tax as a proportion of net expenditure.	As locally raised council tax becomes more important, a lower ratio may be associated with difficulties in raising the income necessary to support spending.
Growth Above the Baseline	The Growth above the baseline figure is calculated as the difference between the baseline funding level and retained rates income, over the baseline funding level. The data for this is obtained from the RO and the 2019/20 Business Rates Levy and Safety net calculator.	A higher growth above the baseline may indicate a larger risk.

London Borough of Haringey Treasury Management Strategy Statement 2020/21

1. Introduction

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

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

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

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

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

Local Context

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

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

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

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

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

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

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

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

2.19. The capital plans which underpin the borrowing requirement above are dealt with in the council's main budget report (in particular the Capital Strategy section). All of the Council's capital programme is robustly scrutinised and tested to ensure that the capital plans are affordable and prudent. The above shows the five-year effects of the Council's capital programme, however all capital plans are assessed in their entirety (i.e. some schemes are for a greater than 5-year time frame).

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

Table 1b: Year end borrowing position summary

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

3. Borrowing Strategy

- 3.1. The Authority currently holds £407 million of loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1a shows that the Authority expects to increase its borrowing by up to £438m by the end of 2020/21. The Authority may also borrow additional sums to reduce its existing internal borrowing to satisfy future years' borrowing requirements, providing this does not exceed the authorised limit for borrowing as set out in table 2 of this report.
- 3.2. **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.
- 3.3. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. However, given the size of the Council's capital programme, and the need to diversify the Council's debt portfolio, long term borrowing will also be required during 2020/21, so the strategy will be to fulfil the Council's borrowing requirement with a mixture of long and short term borrowing.
- 3.4. By taking short term borrowing, the Authority is able to reduce net borrowing costs. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring longer term borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine to what extent the Authority borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 3.5. The Authority has in recent years raised all of its long-term borrowing from the PWLB. The government increased PWLB rates by 1% in October 2019. Long-term borrowing will therefore now be considered from a variety of sources besides the PWLB such as banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. The Authority's immediate cashflow requirements can be fulfilled by short term borrowing from other Local Authorities.

- 3.6. Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 3.7. Sources of borrowing: The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board (PWLB) and any successor body
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - any other UK public sector body
 - UK public and private sector pension funds (except Haringey Pension Fund, and the London Collective Investment Vehicle)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- 3.8. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing
 - hire purchase
 - Private Finance Initiative
 - sale and leaseback
- 3.9. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report.
- 3.10. **LOBOs:** The Authority holds £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £50m of these LOBOs have options during 2020/21, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will repay LOBO loans with no penalty if it can, however, it recognises that lenders are highly unlikely to offer this while the interest rates on existing loans remain above prevailing rates.
- 3.11. Some LOBO lenders are now open to negotiating premature exit terms from LOBO loans via payment of a premium to the lender. Haringey Council's policy will be to exit LOBO agreements if the costs of replacing the loans, including all premium, transaction and funding costs, generate a material net revenue saving for the Council over the life of the loan in net present value terms, and all costs are consistent with Haringey's approved medium term financial strategy. Whether to repay a LOBO loan will be determined by the S151 Officer, in line with Haringey's constitution.

- 3.12. When loans are prematurely repaid, there is usually a premium payable to the lender, to compensate them for interest forgone at the contractual rate, where prevailing interest rates are lower. Haringey would need to refinance LOBOs by raising borrowing for both the original sum borrowed, and the premium payable to the lender. However, this type of arrangement can prove beneficial where interest savings exceed premium costs. Replacing LOBOs, that contain an option for lenders to increase the rate, with fixed rate debt will reduce refinancing and interest rate risk.
- 3.13. **Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).
- 3.14. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.
- 3.15. **Borrowing Limits:** The council's total borrowing limits are set out in table 2 below.
- 3.16. The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The Indicator separately identifies borrowing from other long-term liabilities such as finance leases. The Authorised Limit has been set on the estimate of the most likely, prudent but not worst-case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- 3.17. The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit. The Operational Boundary and Authorised Limit apply at the total level.
- 3.18. The Chief Finance Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Corporate Committee.

3.19. Table 2 Borrowing Limits

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

4. Investment Strategy - Treasury Investments

- 4.1. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority’s investment balance (excluding exceptional transactions) has generally ranged between £10 and £50 million, and similar levels are expected to be maintained in the forthcoming year. It is a requirement of the Markets in Financial Instruments Directive II (MiFID) that the Council maintains an average investment balance of at least £10m, in order to remain professional client status (see also par 11.7)
- 4.2. **Objectives:** The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Were balances to be invested for more than one year, the Authority would aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 4.3. **Negative interest rates:** If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 4.4. **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to maintain its policy of utilising highly creditworthy and

highly liquid investments such as loans to other local authorities, AAA rated money market funds and the Debt Management Office (part of HM treasury). The Authority will consider diversifying into more secure and/or higher yielding asset classes during 2020/21, in particular for the estimated £10m that is available for longer-term investment due to being required for the MiFID professional client status. Any such diversification would represent a change in strategy over the coming year and would be the subject of further reports.

- 4.5. **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority’s “business model” for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 4.6. **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.
- 4.7. Table 3: Approved investment counterparties and limits

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

- 4.8. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

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

more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

- 4.17. **Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £10m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.
- 4.18. **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 4.19. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 4.20. **Other information on the security of investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 4.21. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.
- 4.22. **Investment limits:** The Authority's revenue reserves expressly available to cover investment losses are forecast to be £5 million on 31st March 2020. In order that no more

than 100% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

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

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

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

5. Investment Strategy - Non-Treasury Management Investments

- 5.1. The Authority invests its money for three broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments** - see section 5 of this report),
 - to support local public services by lending to or buying shares in other organisations (**service investments**), and
 - to earn investment income (known as **commercial investments** where this is the main purpose).
- 5.2. This section (section 6) of this report meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of the above categories.
- 5.3. Treasury Management Investments

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

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

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

5.4. Service Investments:

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

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

5.4.3. *Table 5: Loans for service purposes in £ millions*

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

5.4.4. The largest balance above relates to Alexandra Palace debts (shown under local charities). There are historic debt balances owed by the Trust that have not been legally discharged, totalling £46.7m. Of this £3.6m relates to loans made in 2015/16 and 2016/17 for works to the Ice Rink and West Storage Yard, which are being repaid by the Trust in line with the original loan agreements. A further £43.1m is legally outstanding but does not currently have repayments being made, this debt dates back to previous decades when the Council expended funds on behalf of the Trust. Although this £43.1m debt has not been legally discharged, the Council has agreed that it will

only seek to recover this when the Trust is in a position to repay amounts due. The loans to local business include the opportunity investment fund, and a loan to a business who operates some of Haringey's leisure facilities.

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

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

5.5. **Commercial Investments: Property**

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

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

6. **Capacity, Skills, Culture and Advice**

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

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

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

- 6.4. The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is reviewed by the Council’s treasury management staff.
- 6.5. Appropriately skilled and experienced finance and legal staff members work with service departments to ensure that the risks associated with any projects they undertake, and compliance with regulation and statutory guidance are properly understood, and form a key consideration in any decision-making process.
- 6.6. The Council’s constitution has clearly defined roles and responsibilities for treasury management responsibilities, both for members, committees, and officers.

7. Investment Indicators

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

7.2. **Total risk exposure:** The first indicator shows the Authority’s total exposure to potential investment losses.

7.3. *Table 6: Total investment exposure in £ millions*

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

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

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

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

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

7.7. *Table 8: Investment rate of return*

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

8. Treasury Management Indicators

- 8.1. The Authority measures and manages its exposures to treasury management risks using the following indicators.
- 8.2. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
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Portfolio average credit rating	<i>Above A-, score of 7 or lower</i>
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- 8.3. **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling 3-month period, without additional borrowing.

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

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

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

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

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

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

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

- 8.8. **Total short-term borrowing:** the Council has used short term borrowing (under 1 year in duration) from other local authorities extensively in recent years, as an alternative to longer term borrowing from PWLB, due to the lower interest rates, and corresponding revenue savings. Short term borrowing could also be raised from other counterparties such as banks. Short term borrowing exposes the Council to refinancing risk: the risk that interest rates rise quickly over a short period of time, and are at significantly higher rates when loans mature and new borrowing has to be raised. With this in mind, the Authority will set a limit on the total amount of short term borrowing that has no associated protection against interest rate rises, as a proportion of all borrowing.

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

- 8.9. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Authority’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

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

9. Minimum Revenue Provision Policy Statement

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

General Fund MRP policy: borrowing before 2007/08

- 9.5. The Council calculates MRP on historic debt based on the Capital Financing Requirement (CFR) as at 1 April 2007.
- 9.6. The Council calculates the MRP charge based on 2% of that CFR, fixed at the same cash value so that the whole debt is repaid after 50 years in total.
- 9.7. The historic MRP policy for borrowing incurred before 2007/08 led to MRP charges that exceeded what prudence required during the period from 1 April 2007 to 31 March 2016. This resulted in a cumulative charge at 31 March 2016 that was in excess of what is considered prudent and appropriate under the current policy. To reflect the historic over-provision the Council undertakes an annual review to determine whether to make a realignment of MRP charged to the General Fund, using the policy set out above, to recognise the excess sum charged to that point.

- 9.8. The following conditions will apply to the annual review:
- Total MRP after applying realignment will not be less than zero in any financial year.
 - The cumulative total of the MRP realignment will never exceed the amount of historical over-provision calculated to 31 March 2016.
- 9.9. The table below summarises the historic overprovision position on pre 2008 General Fund expenditure:

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

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

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

Table 10: Estimated MRP charges on GF pre 2008 expenditure

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

General Fund MRP policy: prudential borrowing from 2007/08

- 9.11. For borrowing incurred on schemes described by the Government as Prudential Borrowing or Unsupported Borrowing, MRP will be calculated over the estimated remaining useful life applicable to the expenditure (usually the useful life of the asset it is financing) using the Annuity repayment method in accordance with Option 3 of the guidance.
- 9.12. This means that MRP will be calculated on an annuity basis (like many domestic mortgages) over the estimated life of the asset, at an appropriate interest rate. Estimated life periods will be determined by the Section 151 Officer under delegated powers.

- 9.13. In accordance with the provisions in the guidance, MRP will be first charged in the financial year following the one in which the entire asset to which the charge relates, becomes fully operational.
- 9.14. Financial agreements such as loans, investments or where assets are to be acquired for future development (including where capital receipts are part of the business case), will not, at the discretion of the CFO, attract MRP. This discretion will be applied where it is reasonable to assume that the initial capital investment will be returned to the Council in full at maturity or over a defined period.

HRA MRP policy

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

Concession Agreements

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

Finance Leases

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

Statutory capitalisations

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

10. Related Matters

- 10.1. The CIPFA Code requires the Authority to include the following in its treasury management strategy.
- 10.2. **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate

collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

- 10.3. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 10.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 10.5. In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 10.6. **Housing Revenue Account:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. From 2012 going forwards, new long-term loans borrowed have been, and will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments.
- 10.7. **Markets in Financial Instruments Directive:** The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, this is the most appropriate status.

11. Revenue Budget Implications

- 11.1. The budget for investment income in 2019/20 is £0.2 million, based on an average investment portfolio of £25 million at an interest rate of 0.75%. This is assumed to remain constant throughout the MTF5.
- 11.2. The budget for debt interest paid in 2020/21 is detailed in the table below for both the General Fund and HRA. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

11.3. The table below demonstrates the revenue budgets in both the General Fund and HRA for both interest costs on borrowing, and Minimum Revenue Provision charges. The Council's capital programme is moving to a financing strategy that seeks to ensure that investment via the capital programme is self-financing. The self-financing schemes will normally only proceed if they produce a reduction in expenditure that includes reductions enough to cover the cost of financing the investment. The level of these savings are demonstrated in the table below.

Table 11 Revenue Budgets for Interest Costs and MRP:

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

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

12. Other Options Considered

12.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance (S151 Officer) having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Appendix A - Arlingclose Economic & Interest Rate Forecast December 2019

Underlying assumptions:

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

Forecast:

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

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

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

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

The Formal Budget Resolution

The Council is recommended to resolve, in accordance with the Local Government Finance Act 1992 (the 'Act'), as amended by the Localism Act 2011, as follows:

1. It is noted that on 31st January 2020 the Director of Finance and Section 151 Officer, after consultation with the Cabinet Member for Finance, calculated the 2020/21 Council Tax Base for the whole Council area as **78,543**.
2. The Council Tax Requirement for the Council's own purposes for 2020/21 is calculated as **£107,805,112**
3. That the following amounts be calculated for the year 2020/21 in accordance with Sections 31 to 36 of the Act:
 - a) **£949,632,829**
being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) (a) to (f) of the Act;
 - b) **£841,827,717**
being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) (a) to (d) of the Act;
 - c) **£107,805,112**
being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax Requirement for the year;
 - d) **£1,372.56**
being the Council Tax Requirement at 3(c) above, divided by the Council Tax Base at 1, above, calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year;
4. To note that the Greater London Authority has issued a precept to the Council in accordance with Section 40 of the Act for each category of dwellings in the Council's area as indicated in the table below.
5. That the Council, in accordance with Sections 30 and 36 of the Act, hereby sets the aggregate amounts shown in the table below as the amounts of Council Tax for 2020/21 for each part of its area and for each of the categories of dwellings.

Valuation Bands

LONDON BOROUGH OF HARINGEY

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
915.04	1067.54	1220.05	1372.56	1677.58	1982.58	2287.60	2745.12

GREATER LONDON AUTHORITY

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
221.38	258.28	295.17	332.07	405.86	479.66	553.45	664.14

AGGREGATE OF COUNCIL TAX REQUIREMENTS

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
1136.42	1325.82	1515.22	1704.63	2083.44	2462.24	2841.05	3409.26

6. Pursuant to Section 52ZB of the Act and the principles determined by the Secretary of State to apply to local authorities in England in 2020/21 as set out in The Referendums Relating to Council Tax Increases (Principles) (England) Report 2020/21, it is determined that the Council's relevant basic amount of Council Tax for the year is not excessive.