MUNICIPAL YEAR 2018/2019 - REPORT NO. 161

MEETING TITLE AND DATE	Agenda - Part: 1	Item: 6
Cabinet – 13 February 2019 Council – 27 February 2019	**Subject: Treasury Management Strategy 2019/20** **Wards: All** **Key Decision No:** 4829	
REPORT OF: Director of Finance Contact officer: Paul Reddaway tel:020 8379 4730 E mail: **paul.reddaway@enfield.gov.uk**	**Cabinet Member consulted:** **Cllr M. Maguire**	

1. EXECUTIVE SUMMARY

1.1. The Council's cashflow management, use of banks, investments and borrowing is governed by the Treasury Management Strategy (TM Strategy)

1.2. The CIPFA Code of Practice for Treasury Management in Public Services (the "TM Code") requires the Council to determine its Treasury Management Policy and Strategy for 2019/20 and the following 2 years.

1.3. The Local Government Act 2003 also requires Local Authorities to adopt Prudential Indicators and Minimum Revenue Provision Statements.

1.4. The Investment strategy will continue to give priority to security and liquidity of investment capital over return. It will also be prudent and transparent.

1.5. The strategy assumes growing external borrowing as part of the planned capital scheme. Investments will continue to be prudent and diversify Council surplus cash within the parameters permitted.

2. RECOMMENDATIONS

Cabinet is asked to agree and recommend to Council to:

1. Agree the Treasury Management Strategy 2019/20,
2. Note the Economic context & Interest rate forecast (Appendices A and B)
3. Agree the Prudential Indicators (Appendix D)
4. Agree the Minimum Revenue Provision Statement (Appendix E)
5. Agreed Counterparty List and limits (Appendix F)

3. BACKGROUND

3.1 The Council has adopted the TM Code which requires the Council to approve a Treasury Management Strategy before the start of each financial year.

3.2 In addition, the Department for Communities and Local Government (DCLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an Investment Strategy before the start of each financial year.

3.3 The Treasury Management Strategy fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the TM Code and the DCLG Guidance.

3.4 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 and to mitigate these risks.

3.5 The Council is currently required to receive and approve, as a minimum, three main reports each year. The Treasury Management Strategy is one of them.

3.6 The Treasury Management Strategy covers the following main sections

a) treasury indicators which limit the treasury risk and activities of the Council
b) prospects for interest rates
c) the borrowing strategy
d) policy on borrowing in advance of need
e) debt rescheduling
f) the investment strategy
g) creditworthiness policy
h) the minimum revenue provision (MRP) policy
i) the capital plans and the prudential indicators

3.7 As at 31st December 2018 the Council had £804m of borrowing in total. This is split between £669m in Long Term Loans (83%) and £135m (17%) held in Short Term Loans. There were also £65m of investments held with six different counterparties. The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.8 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 set against the risk of receiving unsuitably low returns. Given the increasing risk and continued low returns from short term unsecured bank investments, the Council aims to reduce the level of investments held by continuing to internalise borrowing.

4 ALTERNATIVE OPTIONS CONSIDERED

There are no other options, the Treasury Management Reports needs to be approved prior to the next financial year. Section 7 of the TM Strategy sets out the alternatives considered.

5 REASONS FOR RECOMMENDATIONS

These items have been brought to the attention of the Audit & Risk Management Committee in line with the requirements of the CIPFA code of Practice.

6 COMMENTS OF AND OTHER DEPARTMENTS

6.1 Financial Implications

See the main section of the Treasury Management Strategy

6.2 Legal Implications

The council will be in breach of the CIPFA TM code if it does not approve the strategy before the start of the year.

6.3 Property Implications

Not applicable

7 KEY RISKS

7.1 Included within the Treasury Management Strategy Statement

8 IMPACT ON COUNCIL PRIORITIES

- **Good homes in well-connected neighbourhoods**
- **Build our Economy to create a thriving place**
- **Sustain Strong and healthy Communities**

8.1 **The Treasury Strategy indirectly contributes to the Council's ability to address the values set out within the Council's priorities**

9 EQUALITIES IMPACT IMPLICATIONS

9.1 There are no direct Equalities implications arising from this report

10 PERFORMANCE MANAGEMENT IMPLICATIONS

10.1 The report provides clear evidence of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good performance management.

11 HEALTH AND SAFETY IMPLICATIONS

11.1 There are no direct Health & Safety implications arising from this report.

12 HUMAN RESOURCES IMPLICATIONS

12.1 There are no direct HR implications arising from this report

13 PUBLIC HEALTH IMPLICATIONS

13.1 There are no direct Public Health implications arising from this report.

EQUALITIES IMPACT IMPLICATIONS

13.2 The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities

Background Papers

None

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

London Borough of Enfield

2019/20

Treasury Management Strategy - 2019/20

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Appendices:

Treasury Management Strategy Statement 2019/20

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/or 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. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.5. CIPFA defines treasury management as:

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

1.6. Investments held for service purposes or for cashflow purposes are considered in a different report, the Investment Strategy (**Section 4**).

2. Economic Outlook

2.1. **Appendix A** sets out the economic national context within which this Strategy has been constructed. There remains uncertainty with the Brexit negotiation still underway, UK GDP growth is behind trend and there are still low expectations for significant increase in base rate although this naturally dependent on inflationary pressures which are broadly under control at this point.

2.2. A forecast of future interest rates provided by the Council's Treasury Management advisers Arlingclose is set out in **Appendix B**. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.75%, and that new long-term loans will be borrowed at an average rate of 3%.

3. Borrowing Strategy

3.1. 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 Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.2. The Authority has an increasing CFR due to the requirements of the Authority's capital programme and will therefore be required to borrow up to £731m over the forecast period. As set out in **Table 1**.

Table 1: Financing of capital Expenditure

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Council financing requirements	69.7	203.2	164.8	154.8	61.5	654.0
Companies financing requirements	5.4	43.3	11.1	47.5	47.5	154.8
Total Financing requirement	**75.1**	**246.5**	**175.9**	**202.3**	**109.0**	**808.8**

3.3. 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 2** sets out the position over the forecasted period.

Table 2: Relation between Total Borrowing & Capital Financing Requirement.

Relationship between total borrowing & Capital Financing Requirement	**2018/19** **£m**	**2019/20** **£m**	**2020/21** **£m**	**2021/22** **£m**
Capital Financing Requirement:				
Capital Programme	402.8	500.5	513.0	504.4
Commercial Housing & Regeneration	401.5	484.1	578.7	742.3
Housing Revenue Account (HRA)	157.7	219.7	276.7	305.2
Total Capital Financing Requirement (CFR)	**962.0**	**1,204.3**	**1,368.4**	**1,551.9**
External Borrowing	**860.0**	**1,100.0**	**1,260.0**	**1,437.0**

3.4. As at 31 December 2018 the Authority holds £804 million of loans, an increase of £107 million on the previous year, as part of its strategy for funding previous years' capital programmes. This is set out in detail in **Appendix C,** which includes level of investments held at that time too. The balance sheet forecast in Table 1 shows that the Authority expects to borrow up to £188m in 2019/20. The Authority may also borrow additional sums to prefund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1.2 billion.

3.5. The Treasury Management Prudential Indicators – shown in **Appendix D** set out the limits on Council borrowing and helps inform the its decision making process around the affordability of the capital programme over the budgeted period.

3.6. **Appendix E** sets out how the Council accounts for the repayment of debt. This is termed the Minimum Revenue Provision (MRP). This ensures the Council repays loan debt over a period of in line with the economic life of the assets.

3.7. **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.

3.8. **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.

3.9. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short term.

3.10. **Sources of borrowing:** The approved sources of long term and short-term borrowing are:

i. Public Works Loan Board (PWLB) and any successor body
ii. any institution approved for investments (see below)
iii. any other bank or building society authorised to operate in the UK
iv. any other UK public sector body
v. UK public and private sector pension funds (except the London Borough of Enfield Pension Fund)
vi. capital market bond investors
vii. UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
viii. Mayor of London Energy Efficiency Fund (MEEF)

3.11. **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:

i. leasing
ii. hire purchase
iii. Private Finance Initiative
iv. sale and leaseback

3.12. The Authority has previously raised the majority of its long term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

3.13. **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 joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

3.14. **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.

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

4. <u>Investment Strategy</u>

4.1. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. All cash balances the Authority holds during the year are invested with approved financial institutions as set out in **Appendix F**. The Authority plans to have a zero daily current bank closing balance every day ensuring all surplus cash is always appropriately invested. The level of cash deposit will fluctuate during the course of the year. During 2018/19 the Authority on average held £40m in investments and this position is likely to continue in the forthcoming year. Appendix C sets the position as at 31 December 2018. The year end actual invested cash balance will be in line with the previous year of £15m.

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. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

4.3. **Negative interest rates:** If the UK enters into a recession in 2019/20, 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 low interest rate environment and that the Authority continues not to hold any non core cash (i.e. deposits that will not be used in year). The Authority continues to diversify cash deposits between short term unsecured bank deposits and money market funds.

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 set out in **Appendix F**, subject to the cash limits (per counterparty).

4.7. **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.

4.8. **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.

4.9. **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.

4.10. **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.

4.11. **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.

4.12. 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.

4.13. **Operational bank accounts:** The Authority may incur operational exposures, for example though 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 £15 million 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.

4.14. **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.

4.15. 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 on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.16. **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.

4.17. 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.

4.18. **Investment limits**: The Authority will limit the risk of loss from a default from lending to any one organisation (other than the UK Government) will be £15 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.

4.19. **Liquidity management:** The Authority uses its own in house cash flow forecasting software model (Predictor) 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. <u>Treasury Management Indicators</u>

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

5.2. **Security:** 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.

Credit risk indicator	**Target**
Portfolio average credit score	6

5.3. **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 three month period, without additional borrowing.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£25m

5.4. **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	+£2.6m
Upper limit on one year revenue impact of a 1% <u>fall</u> in interest rates	-£2.6m

5.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The effect of an increase in interest rates will be mitigated through the Authority's risk budget.

5.6. **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	30%	0%
12 months and within 24 months	35%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	45%	0%
10 years and above	100%	0%

5.7. 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.

5.8. **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	£15m	£10m	£5m

6. <u>Related Matters</u>

6.1. The CIPFA Code requires the Authority to include the following in its treasury management strategy.

6.2. **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).

6.3. 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.

6.4. 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.

6.5. **Financial Derivatives:** In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

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

6.7. **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, the Director of Finance believes this to be the most appropriate status.

6.8. **Local Authority Companies:** The Authority will only lend to wholly own companies by the Authority or where the Authority has a controlling majority interest in the company.

6.9. All borrowing to companies owned by the London Borough of Enfield will require a formal on-lending agreement.

6.10. Prior to that they will have to achieve to meet the following requirements:

- An independently reviewed business case and cashflow forecast.
- To be able to demonstrate the ability to repay both interest and principal over the agreed repayment scheduled.
- Where possible the Council will secure the loan on the Council

6.11. Lending to Schools with the HSBC Banking Scheme: Where LEA schools with a HSBC bank account are in a structural overdraft position then the Council will provide a credit facility to endure they remain in a credit position. In interest will be charged at ½% above the prevailing bank rate.

7. <u>Were Other Options Considered</u>

7.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance 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

Economic Context

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 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

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

Appendix B

Arlingclose Economic and Interest Rate Forecast December 2018

Underlying assumptions:

1. Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.

2. The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.

3. Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.

4. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

5. Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.

6. Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.

7. Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

8. The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

9. Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

Risk

10. The table below sets out and assumes:

PWLB Certainty Rate (maturity loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (maturity loans = Gilt yield + 0.60%

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.13**
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	**-0.85**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.90**	**0.95**	**1.10**	**1.30**	**1.40**	**1.40**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.27**
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.76**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.70**	**1.60**	**1.50**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.40**
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.77**
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.50**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.33**
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.66**
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.50**	**1.65**	**1.70**	**1.80**	**1.80**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	**-0.71**
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**2.00**	**2.10**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.18**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.90**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.99**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**

Appendix C

Existing Investment & Debt Portfolio Position

Treasury Management: Borrowing Summary				
Type of Loan	**1st April 2018**	**New Borrowing**	**Repaid Borrowing**	**31st December 2018**
	£000's	**£000's**	**£000's**	**£000's**
Short-terms loans	**68,000**	115,000	(48,000)	**135,000**
PWLB	**556,752**	60,000	(4,534)	**612,218**
European Investment bank	**9,238**	-	(317)	**8,921**
Commercial Loan	**30,000**	-	-	**30,000**
LEEF	**4,626**	-	(469)	**4,157**
Local Authority	**28,000**	-	(15,000)	**13,000**
SALIX	**153**	300	(52)	**401**
Total*	**696,769**	**175,300**	**(68,372)**	**803,697**

Investments

Treasury Management: Investment Summary				
Type of Loan	**1st April 2018**	**30th June 2018**	**30th Sept. 2018**	**31st Dec 2018**
	£000's	**£000's**	**£000's**	**£000's**
On-call accounts	**15,000**	10,150	20,350	**30,350**
Money Market Funds (MMFs)		10,000	-	**35,000**
	15,000	**20,150**	**20,350**	**65,350**

Prudential Indicators

This report covers the requirements of the 2017 CIPFA Prudential Code to set prudential indicators. This item should be approved by the full Council before the start of the new financial year which is a legislative requirement. The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Prudential Indicator: Capital Expenditure

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. In considering the affordability of its capital plans, the Council is required to consider all of the resources currently available to it/estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years.

Financing of Capital Expenditure	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Total General Fund & HRA Expenditure	**184.1**	**303.0**	**207.9**	**189.7**
Funded From:				
Grants & Contributions	(31.7)	(31.8)	-	-
Revenue Funding	(8.2)	(11.2)	(6.2)	(4.5)
Capital Receipts	(13.7)	(11.4)	(12.7)	(15.6)
Earmarked Reserves	(60.8)	(45.5)	(24.0)	(14.8)
Financing Requirement	**69.7**	**203.1**	**164.8**	**154.8**
Companies Finance Requirement	**5.4**	**43.4**	**11.1**	**47.5**
Total Financing Requirement	**75.1**	**246.5**	**175.9**	**202.3**

Prudential Indicator: Capital Financing Requirement (CFR)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. 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 four years. The tables and graph below show that the Council expects to comply with this recommendation during 2018/19.

Estimated Capital Financing Requirement	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Capital Programme	402.8	500.5	513.0	504.4
Commercial Housing and Regeneration	401.5	484.1	578.7	742.3
Housing Revenue Account	**157.7**	**219.7**	**276.7**	**305.2**
Total Capital Financing Requirement	**962.0**	**1,204.3**	**1,386.4**	**1,551.9**

Gross Debt and the Capital Financing Requirement
In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Estimated Debt	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Capital Financing Requirement	962.0	1,204.3	1,368.4	1,551.9
PFI and Finance Leases	44.6	42.9	41.3	39.7
Total Capital Debt Requirement	**1,006.6**	**1,247.2**	**1,409.7**	**1,591.6**
External Borrowing	860.0	1,100.0	1,260.0	1,437.0
Other Long-Term Liabilities	44.6	42.9	41.3	39.3
Total Debt	**904.6**	**1,142.9**	**1,301.3**	**1,476.7**

Prudential Indicator: Operational Boundary
The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst-case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operating Boundary	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m
Borrowing	1,067	1,200	1,350	1,500
Other Long Term Liabilities	75	75	75	75
Total Operating Limit	**1,142**	**1,275**	**1,425**	**1,575**

Prudential Indicator: Authorised Limit
A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this

limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Authorised Limit	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£m	**£m**	**£m**	**£m**
Borrowing	1,147	1,300	1,500	1,700
Other Long-Term Liabilities	100	100	100	100
Total Authorised Limit	**1,247**	**1,400**	**1,600**	**1,800**

Prudential Indicator – Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream for the General Fund and the Housing Revenue Account. It also exemplifies the element of housing rental that relates to financing costs, this calculation is notional and assumes all other things are equal.

Estimated Ratio of Financing Costs to Net Revenue Stream	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	%	**%**	**%**	**%**
General Fund	6.7	8.3	10.4	12.9
Housing Revenue Account	15.4	18.4	20.7	20.7

Appendix E

Annual Minimum Revenue Provision Statement (With effect from 1 April 2019)

1 When 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 for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance).

2 The broad aim of the MHCLG Guidance is to ensure that debt is repaid 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.

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 incorporates options recommended in the Guidance as well as locally determined prudent methods. Council is asked to approve the continuation of the existing policy for the calculation of MRP, which is consistent with the guidance issued under the regulations and the introduction of the following:

a) the principle that the determination of a prudent amount of MRP for any given year will take account of payments made in previous years, and an assessment of whether those payments exceed what the current policy would require in terms of prudence;

b) For capital expenditure incurred before 1 April 2008, and for capital expenditure incurred from 1 April 2008 to 31 March 2011, and which is Supported Capital Expenditure (SCE), MRP will be calculated at 2% on a straight-line basis.

4 The approaches are therefore as follows, with effect from 1 April 2019.

a) For capital expenditure incurred before 1 April 2008, and for capital expenditure incurred from 1 April 2008 to 31 March 2011, and which is Supported Capital Expenditure (SCE), MRP will be calculated at 2% on a straight-line basis;

b) For unsupported borrowing incurred from 1 April 2008 onwards, MRP is calculated based on amortising the amount borrowed over the estimated lives of the assets acquired (or the enhancement made) as a result of the related expenditure using the annuity repayment method in accordance with MHCLG Statutory guidance.

c) No MRP will be charged in respect of assets held within the Housing Revenue Account.

d) Capital expenditure financed from borrowing incurred during one financial year will not be subject to a MRP charge until the following financial year.

e) Assets acquired with the intention of onward sale which will not be used in the delivery of services will not generally attract MRP as in these events the capital receipts generated by the loan and sale will be set aside to repay debt. Loans made to third parties to enable them to incur capital expenditure are repaid by the borrower and so MRP provision does not need to be made by the Council from Council Tax. In the case of loans for investment assets, a prudent amount will be set aside for MRP in accordance with Government Guidance based on asset life.

f) MRP in respect of PFI liabilities will be calculated by spreading the cost of the capital repayments included in the ongoing charges over the estimated life of the asset on an annuity basis.

Date of implementation and estimated MRP

5 This policy will take effect from 2019/20. Government Guidance requires that an annual statement on the Council's policy for its MRP should be submitted to Council for approval before the start of the financial year to which the provision will relate but that changes during the year are permitted if approved by full Council. Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2019, the MRP for 2019/20 is estimated as follows:

	Estimated CFR 31 Mar 2019 £m	**Estimated MRP 2019/20 £m**
General Fund		
Capital expenditure before 1 April 2008 and Supported capital expenditure from 1 April 2008 to 31 March 2011	141.0	3.9
Unsupported capital expenditure after 31 March 2008	261.8	8.6
Land acquisition for regeneration and disposal	260.0	-
Loans to Council owned companies (met by repayments from the companies)	141.5	-
Total General Fund	**804.3**	**12.5**
HRA		
Assets in the Housing Revenue Account	124.8	-
HRA subsidy reform payment	32.9	-
Total Housing Revenue Account	**157.7**	**0.0**
PFI	**44.6**	**1.6**
Total	**1,006.0**	**14.1**
PFI Contract Payment		**(3.2)**
Overprovision set aside in MRP Reserve		**(9.9)**

Charge to General Fund	1.0

Counterparties **Appendix F**

Approved Investment Counterparties and Limits

General Counterparty List	Credit Rating	Cash Limit	Max Time Limit
Banks Unsecured	AAA	£25m	5 years
	AA+		5 years
	AA		4 years
	AA-		3 years
	A+		2 years
	A	£15m	12 months
	A-		6 months
Banks Secured	AAA	£25m	20 years
	AA+	£15m	10 years
	AA		5 years
	AA-		4 years
	A+		3 years
	A		2 years
	A-		13 months
UK Government	AA+	Unlimited	50 years
Corporates	AA+	£5m	10 years
	AA		5 years
	AA-		4 years
Registered Providers	AA+	£5m	10 years
	AA		10 years
	AA-		10 years
Money Market Funds*	AAA	75% per fund (de minimus level £5m)	Next Day

* As from 21 July 2018, there will be three structural options for existing MMFs, these are as follows:
1. Public Debt Constant Net Asset Value ("CNAV") MMFs (mainly government assets)
2. Low Volatility NAV ("LVNAV") MMFs (market fund doesn't deviate by more than 20bps)
3. Variable NAV ("VNAV") MMFs (more fluctuating assets)

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

The following table provides additional information on the counterparties mentioned above

Table 7

Councils' Main Bank Account - HSBC	The Council banks with HSBC and will continue to bank with HSBC with a revised contract. At the current time, it does meet the minimum credit criteria of A- (or equivalent) long term. If the credit rating falls below the Council's minimum criteria A-, it will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements. If funds come into the bank account during the day (after daily dealing has been undertaken) and cannot be placed out with any other approved financial institutions, they can be placed into the HSBC Call Account to attract interest even if it breaches the counterparty limit (the matter will be reported to the Director of Finance, Resources & Customer Services). The temporary breach will be addressed on the next banking business day.
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.
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 highest 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.
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 an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
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 will only be made as part of a diversified pool in order to spread the risk widely.
Registered Providers	Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed
Money Market	Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the

Funds	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 aim for a constant net asset value 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.
Bond, Equity and Property Funds	These offer the potential for enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.