Draft Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

London Borough of Enfield

2020/21

Treasury Management Strategy - 2020/21

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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. Borrowing arises from spending on the Council's Capital Programme; this report should be considered alongside the Ten Year Capital Programme. The Authority has borrowed and/or invested substantial sums of money and is therefore exposed to potential 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 3.5%.

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 £1.3bn over the forecast 10-Year period. As can be seen in Table below, the Council's programme over the next 5 years is £1.56bn, of which £0.86bn is funded through borrowing.

Capital Expenditure	**2018/19 Actual**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 to 2029/30**	**10-Year Capital Programme**
	£m	£m	£m	£m	£m	£m	£m	**£m**	**£m**
General Fund (Ex. Meridian & Companies)	58.398	65.393	114.064	73.735	75.302	47.116	37.761	129.361	477.339
Companies	64.001	8.560	71.126	13.250	0.000	0.000	0.000	0.000	84.376
Meridian		44.453	125.959	149.467	63.534	26.672	25.826	128.493	519.951
HRA	71.152	97.066	144.564	127.362	194.154	173.093	97.160	436.651	1,172.984
Total	**193.551**	**215.472**	**455.713**	**363.814**	**332.990**	**246.881**	**160.747**	**694.505**	**2,254.650**
Financed by:									
External Grants & Contributions	(43.200)	(32.640)	(62.863)	(56.905)	(133.490)	(79.047)	(23.240)	(129.404)	(484.949)
Revenue Contributions	0.000	(11.282)	(30.120)	(7.454)	(6.385)	(5.570)	(8.872)	(14.705)	(73.106)
Capital Receipts	(19.100)	(31.535)	(55.545)	(44.118)	(44.910)	(67.751)	(73.512)	(186.486)	(472.322)
Earmarked Reserves	(58.300)	(14.296)	(1.860)	0.000	0.000	0.000	0.000	0.000	(1.860)
Impact on Borrowing	**72.951**	**125.719**	**305.325**	**255.337**	**148.205**	**94.513**	**55.123**	**363.910**	**1,222.413**

Table 1: Capital Expenditure & Financing (not including Pipeline)

3.3. This does not include projects that have not yet been approved or recommended in the 10-Year Capital Programme, as the Council is undertaking more research. Such an example is that Joyce & Snells General fund element is not included as the business case is in early development but the HRA element is included within the HRA business plan for 3500 new affordable homes. This would add an additional £0.3bn General Fund net spend to this table. As set out in **Table 2** below:

Table 2: Change in Capital Financing Requirement

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Companies	(1.3)	84.9	51.7	(2.9)	(2.9)	(3.0)	(3.0)	(3.1)	(3.5)	(3.5)	(3.7)	109.7
Meridian Water	34.5	34.0	57.8	6.2	4.1	4.9	4.3	(1.4)	(16.6)	(3.3)	9.7	134.2
Other GF*	18.5	108.1	59.4	87.2	42.7	39.4	189.6	(24.4)	(22.9)	(22.3)	(22.8)	452.5
HRA	48.9	49.0	63.4	94.5	94.0	6.0	104.0	54.0	0.0	0.0	0.0	513.8
Total	**100.6**	**276.0**	**232.3**	**185.0**	**137.9**	**47.3**	**294.9**	**25.1**	**(43.0)**	**(29.1)**	**(16.8)**	**1,210.2**

* Other General Fund over the ten years includes but is not limited to £71m spend on ICT, £18m spend on Reardon Court, £133m spend on Highways, Parks, Crematoria, Vehicle Replacement and Street Lighting, £48m spend on Montagu Industrial Estate and over £60m on Property Condition works and Investment.

3.4. 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 3** sets out the position over the forecasted period. It is worth noting that each year the Council sets aside a certain proportion of monies for borrowing via its Minimum Revenue Provision charge.

Table 3: Relation between Total Borrowing & Capital Financing Requirement.

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Change
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Companies	132.5	131.2	216.1	267.8	264.9	262.0	259.0	256.0	252.9	249.4	245.9	242.2	109.7
Meridian Water	273.6	308.1	342.1	399.9	406.1	410.2	415.1	419.4	418.0	401.4	398.1	407.8	134.2
Other GF*	388.4	406.9	515.0	574.4	661.6	704.3	743.7	933.3	908.9	886.0	863.7	840.9	452.5
HRA	157.7	206.6	255.6	319.0	413.5	507.5	513.5	617.5	671.5	671.5	671.5	671.5	513.8
Total	**952.2**	**1,052.8**	**1,328.8**	**1,561.1**	**1,746.1**	**1,884.0**	**1,931.3**	**2,226.2**	**2,251.3**	**2,208.3**	**2,179.2**	**2,162.4**	**1,210.2**
Net Borrowing	**814.0**	**975.0**	**1,254.0**	**1,486.0**	**1,672.0**	**1,809.0**	**1,857.0**	**2,152.0**	**2,177.0**	**2,134.0**	**2,105.0**	**2,088.0**	**1,274.0**

3.5. As at 31 December 2019 the Authority holds £911 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 approximately £200m 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 £1.4 billion. This is not considered to be likely at present.

3.6. Table 4 below shows how the interest is funded, broken down by fund. It is important to note that it is based on a 3.5% interest rate as the Council is being deliberately overly prudent. The Council is currently borrowing in the short term at approximately 1% and current rates for 20-25 years is 2.5% or at least £1m for every £100m borrowed. Therefore, as the Council borrows long-term for the Capital Programme and re-financing existing debt the Council will update the Treasury Management Strategy with revised (and reduced figures).

3.7. The impact on the General Fund in 2019/20 of £11.287m (made up of £4.473m MRP charge and £6.814m of interest payments) is therefore net of:

a) Housing Revenue Account recharge of £9.023m, which is funded by rents

b) Income generated by companies, which have separate sound business cases

c) Capitalised interest on Meridian Water, which will repaid by capital receipts and which is anticipated to be completely repaid by 2043/44 and the difference of which will then be used to finance other aspects of the Capital Programme.

Table 4: Breakdown of Indicative Interest rates (more detail in Appendix C)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Gross Interest	**30,084**	**36,198**	**43,974**	**50,557**	**55,630**	**58,614**	**63,724**	**70,300**	**68,779**	**66,556**	**65,077**
	0	0	0	0	0	0	0	0	0	0	0
HRA	(9,023)	(10,743)	(12,711)	(15,474)	(18,773)	(20,523)	(22,448)	(25,213)	(26,158)	(26,158)	(26,158)
Companies	(4,143)	(4,479)	(6,238)	(6,315)	(6,241)	(6,164)	(6,085)	(6,004)	(5,752)	(5,602)	(5,504)
Meridian	(10,104)	(11,984)	(14,186)	(16,316)	(16,605)	(16,835)	(17,080)	(17,205)	(16,868)	(16,229)	(16,283)
Investment Income	(255)	0	0	0	0	0	0	0	0	0	0
Interest Charged to General Fund	**6,814**	**8,992**	**10,839**	**12,452**	**14,011**	**15,092**	**18,111**	**21,878**	**20,001**	**18,567**	**17,132**
MRP	4,473	10,097	17,478	18,113	19,626	20,262	21,128	21,264	19,708	19,211	19,640
Total Financing Cost Charged to General Fund	**11,287**	**19,089**	**28,317**	**30,565**	**33,637**	**35,354**	**39,239**	**43,142**	**39,709**	**37,778**	**36,772**

3.8. The Council ensures that its borrowing can be financed by ensuring that there are appropriate budgets. Consequently, the Council is increasing capital financing budgets from £16.453m in 2019/20 to £39.528m in 2024/25. This increase of over £23m during the next five-year period in its Medium Term Financial Plan (MTFP) is to ensure the Council can afford its aspirations.

3.9. As can be seen in the table below, the Council is able to draw down on the Capital Financing Reserves that it prudently put aside to mitigate any impact on revenue.

If the Capital Programme was delayed or the Council was able to borrow at rates below 3.5% for an extended period of time, it would have the ability to release these reserves for other purposes. This is particularly important with the continual demographic pressures that Councils face.

3.10. The table below **(Table 5)** shows the Capital Financing charges to the General Fund budget. As can be seen in 2019/20, the Council puts £5.166m into reserve, followed by £0.767m before starting draw out £3.752m in 2021/22. Under the current capital programme projections, reserves would increase to £31.02m to 2029/30 and stay positive the entire 10-year period.

Table 5: Capital Financing Impact on General Fund Revenue Budget

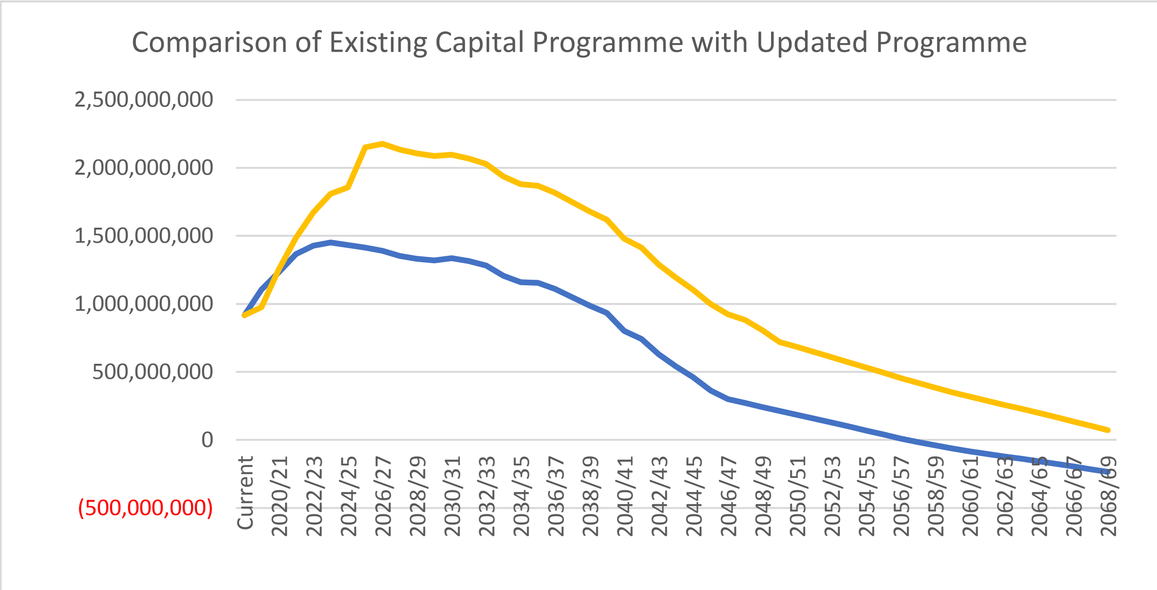
(net of recharges to companies, HRA and Meridian Water, I.e. General Fund impact)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Interest Charged to General Fund	6,814	8,992	10,839	12,452	14,011	15,092	18,111	21,878	20,001	18,567	17,132
MRP	4,473	10,097	17,478	18,113	19,626	20,262	21,128	21,264	19,708	19,211	19,640
Total Financing Cost Charged to General Fund	**11,287**	**19,089**	**28,317**	**30,565**	**33,637**	**35,354**	**39,239**	**43,142**	**39,709**	**37,778**	**36,772**
Budget	**16,453**	**19,856**	**24,565**	**30,085**	**34,728**	**39,528**	**39,528**	**39,528**	**39,528**	**39,528**	**39,528**
Variance	**(5,166)**	**(767)**	**3,752**	**480**	**(1,091)**	**(4,174)**	**(289)**	**3,614**	**181**	**(1,750)**	**(2,756)**
Reserves	**28,220**	**28,987**	**25,235**	**24,755**	**25,846**	**30,020**	**30,309**	**26,695**	**26,514**	**28,264**	**31,020**

3.11. To ensure the financing position is sustainable, the Council also chooses to have both a 5 Year MTFP and 10 Year Capital Programme and to project capital financing costs in the TMSS over 10 years. The Council carefully takes time to analyse how its debt is repaid. In Chart 1 below, the light blue line shows the current programme and the orange line shows the inclusion of all items within the Capital Programme. The graph below reflects the current plans of the Council and assumes that the Council does not choose to speed up its debt repayments by increasing asset sales or leasing finished assets.

3.12. Every year, the Council refreshes its 10-Year Capital Strategy, ensuring that it focusses on the Corporate Priorities and that the programme is affordable, which can mean deleting items, reprofiling as well as adding new items. (Note, Joyce & Snells General Fund costs are not included as the scheme is still in its early stages of development). More sensitivity analysis is being undertaken to evaluate the impacts of changes in interest rates. Note, assumptions for Capital Programme financing and models such a Meridian Water is based on 3.5% which exceeds the current borrowing rates available to build in this risk. It is important to recognise that as the Council has locked in much of its debt for decades to come that the impact relates to the additional capital expenditure it is undertaking and in the re-financing of existing loans. Moreover, the ability to borrow in the short term at sub 1% rates in the local government market means that the short term impact of interest rate changes is relatively small. However, in the longer term the impact on the capital financing budgets can be significant.

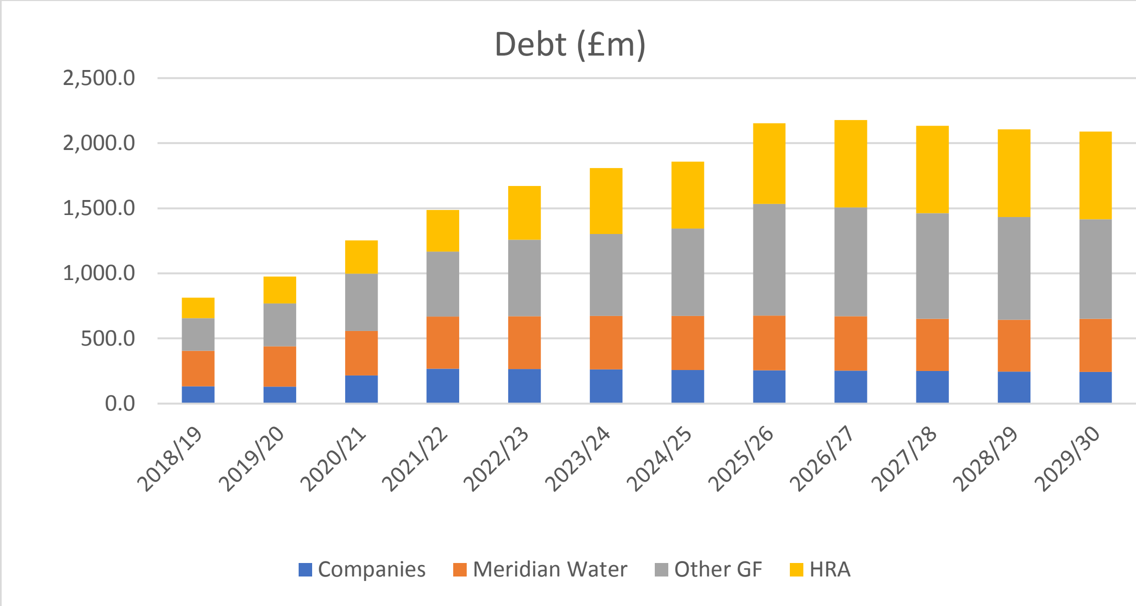
Chart 1: Borrowing Profile over 50 Years



3.13. It is also worth understanding the split of the Council's borrowing between the four main categories (Meridian Water, Companies, HRA and Other General Fund). It is worth noting that increasingly the Housing Revenue Account and non-Meridian Water General Fund capital expenditure will drive the Group Borrowing over the next 10 years.

3.14. Meridian Water has a business plan in place which repays all debt by 2043/44; the Council lends to the Companies at rates higher than it borrows and therefore, the company borrowing does not have an adverse impact on the revenue budget; the HRA borrowing is supported through the 30 year HRA business plan and in part, some of the General Fund borrowing increases income and reduces expenditure.

Chart 2: Borrowing Net Of Investments



3.15. 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.

3.16. **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.

3.17. **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.

3.18. **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.

3.19. 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.

3.20. **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)
ix. LEEF/EIB
x. Insurance Funds

3.21. **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

3.22. The Authority has previously raised the majority of its long term borrowing from the PWLB. However, this is now under review in light of the 100 basis point increase in the margin applied to loan rates that happened in October. If an exception is not made for regeneration and housing schemes, then the Council will need to seek other opportunities, as LB Enfield could borrow from the marketplace. Furthermore, there is currently less than £10 billion capacity for local government and set against the context of known requirements for other organisations, such as the North London Waste Authority's borrowing requirements in excess of £1 billion, LB Enfield may find itself unable to borrow large sums from the PWLB.

3.23. To borrow efficiently, Enfield may need to have a credit rating and Arlingclose believe that there will likely be a 'stratification of funding costs between "strong" and "weak" authorities. Due to the ambition of the authority, it is unlikely to attract the lowest rates . This may affect the investment models for projects, if they involve greater levels of debt, regardless of the investment return. This will form part of the next steps.

3.24. **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.

3.25. There were risks as entering into such a loan agreement previously would make the Council joint and severally liable if another Council was to breach its loan commitments. In simple terms, it might be forced to repay part of the loan repayments of another local authority if they were not able to make repayments. However, this was dropped in April 2019.

3.26. **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.

3.27. **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. Currently, due to historically low interest rates and the high cost of premature redemption by PWLB, this is not viewed as a likely option for the near future.

3.28. **Other Options**: As the Table below indicates, there are a lot of options available to the Council, which the Council has not previously used, such as leasing assets in an income strip arrangement for a shorter period than the asset life (30 years) in order to retain the asset for the Council, while reducing the debt. The reason that the Council needs to consider the wider range of options increasingly is that with its ambitious capital programme, costs may go up with greater borrowing if it is forced to borrow from the private sector.

Table 6: Borrowing Options

	PWLB	Short Term LA	Commer-cial Paper	LA Bills	Long Term LA	Bank Loans	Private Place-ment	MBA	Public Bonds	Income Strip
Size	Any	<£10m	£100m	<£10m	<£10m	>£5m	>25m	?	>£200m	>20m
Interest	V, F	V	V	V	V, F	V, F, I	V, F, I	F?	F, I	F,V, I
Maturity	<50yr	<1yr	<1yr	<1yr	?	<10yr	10 to 50yr	?	10yr +	10yr +
Repayment	M, A	M	M	M	M, A	M, A	M, A	M?	M, A	M, A
Tradeable	No	No	Yes	Maybe	Maybe	Maybe	Maybe	Yes	Yes	No
Credit Assessment	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Legal Documents	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Process	Easy	Easy	Inten-sive	Mod-erate	Mod-erate	Mod-erate	Mo-derate	Inten-sive	Inten-sive	Intens-ive
Margin	Highest	Low	Low	Low	Medium	Medium	Medium	Medium	Medium	Higher

3.29. The Council has recently been refinancing short term loans with longer term loans, locking in the very low rates that were on offer until November 2019. However, as its investments reduce to near zero, it may be forced to increase short term ones again while it takes time to determine as to how it will finance the Capital Programme.

4. Investment Approach

4.1. The Council invests primarily via its capital programme. This is because during this era of low interest rates, treasury returns on cash balances tend to be lower and its cost effective to develop the Council's estate with such low revenue charges for interest. However, this does not mean that there is no limit to borrowing. As the Council is primarily a borrower for social purposes and less for commercial investment, the returns are lower and the Council's Treasury Advisors, Arlingclose, have advised us that it would become increasingly difficult to borrow and/or expensive as it approaches £2 billion in today's monetary terms. Ultimately, the Council prudently budgets at a 3.5% interest rate as this rate is close to its historical rate of borrowing and is also the current Treasury (HMT) Discount Rate.

4.2. As such, the Council will limit itself to a hard cap of £2 billion plus inflation from 2020/21 onwards. In practice, it would also like to maintain a £0.2 billion gap below that in case any urgent needs are determined. For instance, previously the Council needed to find resources for fire prevention works and inevitably new unanticipated priorities will be uncovered.

4.3. There is the related challenge of officer capacity and capability to manage the capital programmes that needs to be recognised. Currently, the organisation is heavily reliant on a few key officers and agency staff in critical roles. In particular, Finance, Legal, Property and Regeneration are gradually developing new skillsets that will take time to embed. The Capital Programme must be understood against the backdrop of the development of existing staff and the practical capacity limits on the authority to support the range of schemes against the service demands, especially in social care.

4.4. Overall, the Council's investment approach is aligned with its corporate priorities and as such regenerating the Borough and delivering affordable homes form the largest part of its capital programme and its borrowing requirements. That is not to say that investment in new schools, highways and transport improvements and internal investment to support productivity improvements are not included. It is just that the latter, with the exception of those necessary for operations (ICT, centralisation of office buildings), tend to be heavily grant funded or are less resource intensive.

4.5. The Council's investment in social and affordable housing in the Borough can be demonstrated in Meridian Water and other planned schemes such as Joyce & Snells. However, as social housing struggles to cover the capital financing costs (interest and principal repayments), even with grants, the Council has to be innovative in ensuring it can achieve on its aspirations.

4.6. Over the next six to nine months, the Council will be reviewing the financing arrangements and delivery models of the Capital Programme as it seeks to maximise the leveraging of its balance sheet, while minimising the risk it undertakes. There is a clear intent for this review to be reported to Council with the mid year Treasury Management report and to be undertaken under the context of retaining and developing existing assets, whenever it is in the best interests of the Borough.

4.7. The next year will also the development of a fully fledged property strategy that examines all existing assets for their investment potential as compared with their realisable market value. Currently, the Council has limited data as to the most efficient 'sweating' of assets. The Asset Management Software that is being commissioned by Property should support the considered decision making necessary to maximise the assets of the Council's estates.

5. Treasury Investment Strategy

5.1. 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.

5.2. The level of cash deposit will fluctuate during the course of the year. During 2019/20, the Authority on average held £60m in investments. However, this position is unlikely to continue in the forthcoming year, as the Council runs down its investments rather than undertake borrowing, as it waits to discover whether the 1% increase in borrowing is a permanent change or whether there will be a housing related lower rate of interest. Appendix C sets the position as at 31 December 2019. The year-end actual invested cash balance is anticipated to be in line with the previous year of £15m, as the Council prefers to have some cash easily accessible.

5.3. **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.

5.4. **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.

5.5. **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.

5.6. **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.

5.7. **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).

5.8. **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.

5.9. **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.

5.10. **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.

5.11. **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.

5.12. **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.

5.13. 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.

5.14. **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.

5.15. **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.

5.16. 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.

5.17. **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.

5.18. 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.

5.19. **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.

5.20. **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.

6. Treasury Management Indicators

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

6.2. **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

6.3. **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

6.4. **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	+£4.0m
Upper limit on one year revenue impact of a 1% <u>fall</u> in interest rates	-£4.0m

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

6.6. **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%

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

6.8. **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	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£15m	£15m	£15m

7. <u>Related Matters</u>

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

7.2. **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).

7.3. 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.

7.4. 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.

7.5. **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.

7.6. **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. This is currently under review, as going forward keeping the historical HRA debt separate seems appropriate but it would be simpler and cheaper for both funds for the remaining debt to be split on a financing requirement basis, as it would prevent unnecessary borrowing.

7.7. **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.

7.8. **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.

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

7.10. 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

7.11. **Lending to Schools with the HSBC Banking Scheme**: Where LA 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.

8. Other Options Considered

8.1. 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	Debt interest costs will	Increases in debt interest

variable loans instead of long-term fixed rates	initially be lower	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 be a major influence on the Authority's Treasury Management Strategy for 2020/21.

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%.

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.

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.

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.

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.

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.

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

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.

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 , the need for greater clarity on Brexit next steps 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.

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.

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

Appendix B

Arlingclose Economic and Interest Rate Forecast November 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. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitionary 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.

- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, 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 on General Election outcomes and 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.

Risk

1. The table below sets out and assumes:

   PWLB Certainty Rate (maturity loans) = Gilt yield + 1.80%

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

	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**

Appendix C

Existing Investment & Debt Portfolio Position

Treasury Management: Borrowing Summary				
Type of Loan	**1st April 2019**	**New Borrowing**	**Repaid Borrowing**	**31st December 2019**
	£000's	**£000's**	**£000's**	**£000's**
Short-terms loans	**145,000**	84,000	(156,000)	**73,000**
PWLB	**673,846**	140,000	(11,628)	**817,218**
European Investment bank	**8,921**	-		**8,921**
Commercial Loan	**0**	-		**0**
LEEF	**4,157**	-	(317)	**3,840**
Local Authority	**13,000**	-	(5,000)	**8,000**
SALIX	**101**		(34.)	**67**
Total*	**845,025**	**224,000**	**(172,979.0)**	**911,046**

Investments

Treasury Management: Investment Summary				
Type of Loan	**1st April 2019**	**30th June 2019**	**30th Sept. 2019**	**31st Dec 2019**
	£000's	**£000's**	**£000's**	**£000's**
On-call accounts	**30,000**	27,900	24,600	**21,750**
Money Market Funds (MMFs)	**20,000**	36,200	54,500	**17,300**
	50,000	**64,100**	**79,100**	**39,050**

Detailed Breakdown of Interest and MRP Impact on Budgets

This table breaks down the interest charges as to how they are funded. It also shows the impact on the General Fund, and how the underspends and overspends are managed through reserve.

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Interest	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**
Maturity	16,652	16,548	16,441	16,352	16,352	16,352	16,352	16,352	16,317	15,958	15,902
EIP	2,108	2,335	2,167	1,998	1,845	1,708	1,573	1,438	1,303	1,168	1,033
Annuity	7,581	7,889	7,567	7,233	6,885	6,524	6,149	5,759	5,355	4,934	4,497
Short-Term	705	86	0	0	0	0	0	0	0	0	0
EIB	279	363	352	340	327	314	301	286	271	256	239
LEEF	88	102	83	63	43	22	3	0	0	0	0
Future Borrowing (assumed flat)	2,671	8,875	17,364	24,571	30,178	33,694	39,346	46,465	45,533	44,240	43,406
Gross Interest	**30,084**	**36,198**	**43,974**	**50,557**	**55,630**	**58,614**	**63,724**	**70,300**	**68,779**	**66,556**	**65,077**
HRA	(9,023)	(10,743)	(12,711)	(15,474)	(18,773)	(20,523)	(22,448)	(25,213)	(26,158)	(26,158)	(26,158)
Companies	(4,143)	(4,479)	(6,238)	(6,315)	(6,241)	(6,164)	(6,085)	(6,004)	(5,752)	(5,602)	(5,504)
Meridian	(10,104)	(11,984)	(14,186)	(16,316)	(16,605)	(16,835)	(17,080)	(17,205)	(16,868)	(16,229)	(16,283)
Investment Income	(255)	0	0	0	0	0	0	0	0	0	0
Interest Charged to General Fund	**6,814**	**8,992**	**10,839**	**12,452**	**14,011**	**15,092**	**18,111**	**21,878**	**20,001**	**18,567**	**17,132**
MRP	4,473	10,097	17,478	18,113	19,626	20,262	21,128	21,264	19,708	19,211	19,640
Total Financing Cost Charged to GF	**11,287**	**19,089**	**28,317**	**30,565**	**33,637**	**35,354**	**39,239**	**43,142**	**39,709**	**37,778**	**36,772**
Budget	**16,453**	**19,856**	**24,565**	**30,085**	**34,728**	**39,528**	**39,528**	**39,528**	**39,528**	**39,528**	**39,528**
Variance	**(5,166)**	**(767)**	**3,752**	**480**	**(1,091)**	**(4,174)**	**(289)**	**3,614**	**181**	**(1,750)**	**(2,756)**
Reserves	**28,220**	**28,987**	**25,235**	**24,755**	**25,846**	**30,020**	**30,309**	**26,695**	**26,514**	**28,264**	**31,020**

Prudential Indicators Appendix D

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.

Capital Expenditure	**2018/19 Actual**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 to 2029/30**	**10-Year Capital Programme**
	£m	£m	£m	£m	£m	£m	£m	**£m**	**£m**
General Fund (Ex. Meridian & Companies)	58.398	65.393	114.064	73.735	75.302	47.116	37.761	129.361	477.339
Companies	64.001	8.56	71.126	13.250	0.000	0.000	0.000	0.000	84.376
Meridian		44.453	125.959	149.467	63.534	26.672	25.826	128.493	519.951
HRA	71.152	97.066	144.564	127.362	194.154	173.093	97.160	436.651	1,172.984
Total	**193.551**	**215.472**	**455.713**	**363.814**	**332.990**	**246.881**	**160.747**	**694.505**	**2,254.650**
Financed by:									
External Grants & Contributions	(43.200)	(32.640)	(62.863)	(56.905)	(133.490)	(79.047)	(23.240)	(129.404)	(484.949)
Revenue Contributions	0.000	(11.282)	(30.120)	(7.454)	(6.385)	(5.570)	(8.872)	(14.705)	(73.106)
Capital Receipts	(19.100)	(31.535)	(55.545)	(44.118)	(44.910)	(67.751)	(73.512)	(186.486)	(472.322)
Earmarked Reserves	(58.300)	(14.296)	(1.860)	0.000	0.000	0.000	0.000	0.000	(1.860)
Impact on Borrowing	**72.951**	**125.719**	**305.325**	**255.337**	**148.205**	**94.513**	**55.123**	**363.910**	**1,222.413**

Prudential Indicator: Capital Financing Requirement (CFR)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historical 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 2019/20.

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**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Capital Financing Requirement	952.2	1,052.8	1,328.8	1,561.1	1,746.1	1,884.0	1,931.3	2,226.2	2,251.3	2,208.3	2,179.2	2,162.4
PFI and Finance Leases	44.6	42.9	41.3	39.7	38.0	36.3	34.5	32.7	30.9	29.1	27.2	25.2
Total Capital Debt Requirement	**996.8**	**1,095.7**	**1,370.1**	**1,600.8**	**1,784.1**	**1,920.3**	**1,965.8**	**2,258.9**	**2,282.2**	**2,237.4**	**2,206.4**	**2,187.6**
External Borrowing	850.8	975.0	1,254.0	1,486.0	1,672.0	1,809.0	1,857.0	2,152.0	2,177.0	2,134.0	2,105.0	2,088.0
Other Long-Term Liabilities	44.6	42.9	41.3	39.7	38.0	36.3	34.5	32.7	30.9	29.1	27.2	25.2
Total Debt	**895.4**	**1,017.9**	**1,295.3**	**1,525.7**	**1,710.0**	**1,845.3**	**1,891.5**	**2,184.7**	**2,207.9**	**2,163.1**	**2,132.2**	**2,113.2**

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**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	1,067	1,200	1,450	1,750	1,900	2,000	2,000	2,200	2,200	2,200	2,200	2,200
Other Long Term Liabilities	75	75	75	75	75	75	75	75	75	75	75	75
Total Operating Limit	**1,142**	**1,275**	**1,525**	**1,825**	**1,975**	**2,075**	**2,075**	**2,275**	**2,275**	**2,275**	**2,275**	**2,275**

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.

Operating Boundary	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	1,147	1,300	1,500	1,800	1,950	2,050	2,050	2,300	2,300	2,300	2,300	2,300
Other Long Term Liabilities	100	100	100	100	100	100	100	75	75	75	75	75
Total Operating Limit	**1,247**	**1,400**	**1,600**	**1,900**	**2,050**	**2,150**	**2,150**	**2,375**	**2,375**	**2,375**	**2,375**	**2,375**

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 and the gross revenue budget for the General Fund and the Housing Revenue Account, respectively. 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 Ration of Financing Costs to:	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
General Fund Net Revenue Stream	4.8%	8.2%	12.1%	12.9%	13.9%	14.3%	15.6%	16.8%	15.2%	14.2%	13.6%
Housing Revenue Account Gross Revenue Budget	19.4%	22.1%	25.2%	23.9%	22.5%	22.2%	20.5%	19.1%	18.0%	17.8%	18.5%

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) For borrowing by companies for housing assets for onward rental, due regards has been given to the MHCLG guidance but due to the nature of the assets, a 75-year asset life is considered appropriate.

   d) While no MRP is required to be charged in respect of assets held within the Housing Revenue Account, the Council may provide for a voluntary MRP charge so that all schemes undertaken are viable (i.e. repay all their debt over an appropriate period) and so that the HRA maintains borrowing capacity for future years.

e) Capital expenditure financed from borrowing incurred during one financial year will not be subject to an MRP charge until the asset moves into operation, except where the Section 151 officer deems it appropriate to charge it an earlier date.

f) 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.

g) From 1 April 2020 onwards, asset lives for MRP charges will be charged on the following basis, except for schemes in which the asset is already in operation:

i) ICT equipment – 5 years

ii) Vehicles – 10 years

iii) Highways & Transport Assets – 25 years

iv) Parks & Landscape – 25 years

v) Investment Assets – 40 years unless a business can be made that there is a residual value that means a longer asset life is possible

vi) School buildings and community assets – 40 years unless a business case for a specific asset justifies a different lifespan

vii) Housing Assets – 75 years

viii) Leased Assets on the basis of the lease asset unless the above categories have a smaller asset life

ix) All capital expenditure schemes less than £50k will be charged immediately to revenue

h) 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.

i) Unless a specific justification for another MRP rate is given, the Council's hurdle rate for investment of 3.5% shall be used.

Date of implementation and estimated MRP

5 This policy will take effect from 2020/21. 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:

	Est. CFR 31 Mar 2020 £m	**Est. MRP 2019/20 £m**
General Fund		
Capital expenditure before 1 April 2008 and Supported capital expenditure from 1 April 2008 to 31 Mar 2011	144.4	3.9
Unsupported capital expenditure after 31 Mar 2008	326.7	8.6
Land acquisition for regeneration and disposal	308.1	-
Loans to Council owned companies (met by repayments from the companies)	131.1	-
Total General Fund	**910.3**	**12.5**
HRA		
Assets in the Housing Revenue Account	124.8	-
HRA subsidy reform payment	32.9	-
New Capital Spend	48.8	-
Total Housing Revenue Account	**206.5**	**0.0**
PFI	**42.9**	**1.5**
Total	**1,159.7**	**14.0**
PFI Contract Payment		**(3.2)**
Overprovision set aside in MRP Reserve		**(9.8)**
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.

Appendix G

Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.
Asset backed security (ABS)	A bond that pays to investors the return received on its collateral.
Authorised limit	The maximum amount of debt that a local authority may legally hold, set annually in advance by the authority itself. One of the Prudential Indicators.
BACS	Bankers' automated payment system. UK bulk payments system allowing transfers between bank accounts with two days' notice, for a small charge.
Bail-in	A bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings rather than the government or taxpayers.
Bail-out	A bailout is a colloquial term for the provision of financial help to a corporation or country which otherwise would be on the brink of failure or bankruptcy.
Bank	Regulated firm that provides financial services to customers. But see also Bank of England.
Bank of England	The central bank of the UK, based in London, sometimes just called "the Bank". See also Monetary Policy Committee and PRA.
Bank Rate	The official interest rate set by the Monetary Policy Committee, and the rate of interest paid by the Bank of England on commercial bank deposits. Colloquially termed the "base rate".
BCA	Baseline credit assessment - a credit rating agency's risk assessment of a bank's intrinsic credit risk, before considering the impact of junior debt and external support.
Bid	A bid to buy a security at a certain price (the bid price), or a bid to borrow money at a certain interest rate (the bid rate). See also offer.
Bill	A certificate of short-term debt issued by a company, government, or other institution, which is tradable on financial markets
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets.
Bond fund	A collective investment scheme that invests mainly in bonds.
Bookrunner	Investment bank that maintains the book of orders from potential investors for a new bond or share issue.
Borrowing	Usually refers to the stock of outstanding loans owed and bonds issued.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.
Broker	Regulated firm that matches either borrowers and lenders (a money broker) or buyers and sellers of securities (a stockbroker) with each other in order to facilitate transactions.
Brokerage	Fee charged by a broker, normally paid by the borrower.
Call account	A deposit account that can be called back, normally on

	instant access.
Cap	Derivative option that requires payment when a variable, such as an interest rate, rises above a certain level. Can be embedded in a floating rate loan or deposit to prevent the variable rate rising above a certain limit. See also collar and floor.
Capital	(1) Long-term, as in capital expenditure and capital receipt. (2) Principal, as in capital gain and capital value. (3) Investments in financial institutions that will absorb losses before senior unsecured creditors.
Capital expenditure	Expenditure on the acquisition, creation or enhancement of fixed assets that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments.
Capital finance	Arranging and managing the cash required to finance capital expenditure, and the associated accounting.
Capital finance regulations	Legislation covering local authorities' activities in capital finance, treasury management and accounting. Separate regulations are published for the four nations of the UK.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Capital markets	The markets for long-term finance, including bonds and shares. See also money markets.
Capital receipt	Cash obtained from the sale of an item whose purchase would be capital expenditure. The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent.
Capital strategy	An annual report required by the Prudential Code that sets out a local authorities' high-level plans for capital expenditure, debt and investments and its Prudential Indicators for the forthcoming financial year.
Cash plus fund	A collective investment scheme similar to a money market fund but with a WAM up to around six months.
Central bank	A government agency responsible for setting interest rates, regulating banks and maintaining financial stability.
CET1	Core equity tier 1 - the purest form of capital for a financial institution, which is available to absorb losses while it remains a going concern, usually expressed as a ratio to risk weighted assets.
Certainty rate	Discount on PWLB rates for new loans borrowed, available to all local authorities that provide a forecast for their borrowing requirements.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest

	rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
CHAPS	Clearing House Automated Payment System. UK payments system for same-day transfer between bank accounts, commonly used for treasury management payments.
CIPFA The Chartered Institute of Public Finance and Accountancy	The professional body for accountants working in the public sector. CIPFA also sets various standards for local government – see Treasury Management Code and Prudential Code.
Constant net asset value (CNAV)	A money market fund where the net asset value is held at a constant £1 per share providing the value of the underlying investments is between 99.5p and 100.5p per share. Since 2019, this style of fund is restricted to those that only invest in government securities.
Collar	A combination of a cap and floor, so that the variable moves within a certain range only. Where the premium payable on the cap is equal to the premium receivable on the floor, it is known as a zero-cost collar.
Collateral	Assets that provide security for a loan or bond, for example the house upon which a mortgage is secured.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Commercial investment	An investment whose main purpose is generating income, such as investment property.
Commercial property	Land and buildings used by businesses, as opposed to households.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Country limit	The maximum amount an investor is willing to lend to all counterparties based in a foreign country, in order to manage credit risk.

Coupon	The contractual interest rate payable on a bond, as a percentage of the nominal amount. This normally reflects market conditions when the bond was originally issued.
Covenant	A clause in a loan contract where the borrower makes certain commitments, for example to maintain a particular financial ratio or to publish regular financial statements. Breach of a covenant is usually classed as a default.
Covered bonds	Bond issued by a financial institution that is secured on that institution’s assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from bail-in.
Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programmes offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Custodian	Regulated firm that provides custody.
Custody	The safekeeping of securities that are dematerialised, i.e. no longer held in paper form, including the vast majority of bonds and shares traded on financial markets.
Debt	(1) A contract where one party owes money to another party, such as a loan, deposit or bond. Contrast with equity. (2) In the Prudential Code, the total outstanding borrowing plus other long-term liabilities.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government’s Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Default	Failure to meet an obligation under a debt contract, including the repayment of cash or compliance with a covenant, usually as a result of being in financial difficulty (rather than an administrative oversight).
Deflation	Negative inflation, which central banks are keen to avoid since households tend to delay spending waiting for prices to fall further, leading to further deflation.

Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Depositary	Regulated firm that performs safeguarding, record keeping and ownership verification of a collective investment scheme's assets, including those which are not held in custody.
Derivative	Financial instrument whose value is derived from an underlying instrument or index, such as a swap, option or future. Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying. See also embedded derivative and hedge.
Discount	(1) The amount that the early repayment cost of a loan is below its principal, or the price of a bond is below its nominal value. See also premium. (2) To calculate the present value of an investment taking account of the time value of money.
Discount rate	The interest rate used in a present value calculation. Diversification The spreading of risk across a variety of exposures in order to reduce the risk. For example, investing in a range of counterparties to limit credit risk or borrowing to a range of maturity dates to limit refinancing risk.
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling local authorities to deposit cash at very low credit risk. Not available in Northern Ireland.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Dove	Monetary policy maker with a preference for lower interest rates. See also hawk.
Duration	In relation to a bond or bond fund, the weighted average time of the future cash flows from today, usually expressed in years. The longer the duration, the more the price moves for a given change in interest rates.
ECB	European Central Bank – the central bank of the Eurozone, based in Frankfurt, Germany.
EIB	European Investment Bank – a supranational bank owned by the member states of the European Union that mainly lends within the Union.
EIP	Equal instalments of principal. A method of repaying a loan where the principal is repaid over the life of the loan, in equal instalments. Interest payments reduce over time as the principal is repaid.
EIR	Effective interest rate - IFRS term for the average interest rate on a financial instrument, including the effect of premiums, discounts and fees. For a simple deposit or loan, the EIR is usually equal to the contractual interest rate; for a bond the EIR is usually equal to the yield.

Embedded derivative	A derivative that is combined into another financial instrument, such as the options embedded in a LOBO.
ESG	Environmental, social and governance considerations.
Equity	(1) The residual value of an entity's assets after deducting its liabilities. (2) An investment in the residual value of an entity, for example ordinary shares.
Equity fund	A collective investment scheme that mainly invests in company shares.
Ex-dividend date	The first date that a share or unit is traded without the right to receive the next dividend. The price therefore falls by the amount of the dividend.
FATCA	Foreign Account Tax Compliance Act – a US regime applicable worldwide to limit tax evasion by US citizens. Local authorities are classed as exempt beneficial owners under FATCA.
Fair value	IFRS term for the price that would be obtained by selling an investment, or paid to transfer debt, in a market transaction.
FCA	Financial Conduct Authority – UK agency responsible for regulating financial markets and the conduct of financial institutions, brokers, custodians, fund managers and treasury management advisors.
Federal Reserve	The central bank of the USA, often just called "the Fed".
Fiscal policy	Measures taken by government to boost or slow the economy via taxation and spending decisions. Fiscal loosening or easing refers to cuts in taxes or increases in spending, while fiscal tightening refers to the opposite. See also monetary policy.
Financial institution	A bank, building society or credit union. Sometimes the term also includes insurance companies. Financial instrument IFRS term for investments, borrowing and other cash payable and receivable.
Financing costs	In the Prudential Code, interest payable on debt less investment income plus premiums less discounts plus MRP.
Floating rate note (FRN)	A bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR.
Floor	Derivative option that requires payment when a variable, such as an interest rate, falls below a certain level. Can be embedded in a floating rate loan or deposit to prevent the variable rate falling below a certain limit. See also cap and collar.
Foreign exchange (FX) risk	The risk that unexpected changes in foreign exchange rates cause a loss. Rarely an issue for local authorities since they are unable to borrow and tend not to invest in foreign currency.
Forward deal	An arrangement where a loan or deposit is arranged in advance of the cash being transferred, with the advance period being longer than the standard period (if any) for such a transaction.
Financial Services Compensation Scheme	UK deposit guarantee scheme that will compensate most depositors up to £85,000 in the event of a bank failure. However, most public sector organisations, financial institutions and collective investment schemes are excluded from receiving compensation.

FSMA	Financial Services and Markets Act 2000, the main piece of UK legislation regulating financial services.
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two.
Future	A derivative whose payments depend on the future value of a variable.
Fund manager	Regulated firm that manages collective investment schemes. Gate Restriction on the subscription or redemption of shares or units in a collective investment scheme.
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
General Fund	A local authority reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing. See also Housing Revenue Account.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Gilt yield	Yield on gilts. Commonly used as a measure of risk-free long-term interest rates in the UK
Guarantee	An arrangement where a third party agrees to pay the contractual payments on a loan to the lender if the borrower defaults. Haircut A reduction in the value of a bond or deposit as the result of a bail-in or other restructuring of the counterparty.
Hawk	Monetary policy maker with a preference for higher interest rates. See also dove.
Hedge	An arrangement where one instrument (typically a derivative) is used to offset the variability in another instrument. For example, an interest rate swap where interest is receivable at a variable rate can be an effective hedge for a variable rate loan.
Hedge accounting	Optional IFRS accounting arrangements to ensure that the accounting impact of a hedge matches the economic impact.
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Impairment	A reduction in the value of an investment caused by the counterparty being in financial difficulty.
Income return	Return on investment from dividends, interest and rent but excluding capital gains and losses. See also total return.
Income strip	Long-term lease arrangement where the tenant pays index-linked rent and has an option to buy back the property at the end of a lease for a nominal payment. Effectively a form of loan finance.
Inflation risk	The risk that unexpected changes in inflation rates cause an

	unplanned loss, for example by costs rising faster than income.
Interest	Compensation for the use of cash paid by borrowers to lenders on debt instruments.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
Interest rate risk	The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.
Interest rate swap	A derivative where the parties swap a fixed and a variable interest rate on an agreed nominal sum for an agreed period of time. Widely used to manage interest rate risk.
Internal borrowing	A local government term for when actual “external” debt is below the capital financing requirement, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.
Inverted yield curve	Yield curve where yields decrease over time, suggesting that short-term interest rates will fall in future. A possible indicator of a recession. See also normal yield curve.
Investment bank	A bank that provides services including issuing new securities in the primary market and arranging company mergers and acquisitions. Investment banks may also undertake proprietary trading, i.e. investing the bank’s own money with a view to making a profit.
Investment grade	Entities and securities with a credit rating of BBB- and above, and therefore relatively unlikely to default.
Investment guidance	Statutory guidance issued by MHCLG and the devolved governments on local government investments. Local authorities are required by law to have regard to the relevant investment guidance.
Investment property	Land and buildings that are held purely for rental income and/or capital growth. Investment properties are not owner-occupied and provide no direct service benefit.
Investment strategy	A document required by investment guidance that sets out a local authority’s investment plans and parameters for the coming year. Sometimes forms part of the authority’s treasury management strategy.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.
Junior creditor	Creditor that ranks below senior unsecured creditors but above equity investors in the event of a bank insolvency or bail-in, for example, subordinated bonds.
Lease	A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of debt.
Lessee	Party to a lease contract that uses an asset owned by the

	lessor.
Lessor	Party to a lease contract that own an asset but permits another (the lessee) to use it.
Leverage ratio	A measure of financial strength of a financial institution, calculated as tier 1 capital divided by total assets plus lending commitments.
Liability benchmark	Term in CIPFA’s Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare against the actual and forecast level of borrowing.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other, traditionally 0.125% lower than LIBOR.
LIBOR	London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022.
Liquidity risk	The risk that cash will not be available to meet financial obligations, for example when investments cannot be recalled and new loans cannot be borrowed.
Loan	Contract where the lender provides a sum of money (the principal) to a borrower, who agrees to repay it in the future together with interest. Loans are not normally tradable on financial markets. There are specific definitions in government investment guidance.
Loan commitment	An arrangement where a lender is committed to lend a loan if the borrower requests it.
Loans CFR	The capital financing requirement less the amount met by other long-term liabilities; i.e. the amount to be met by borrowing.
LOBO	Lender’s option borrower’s option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower’s interest rate risk and the loan should therefore attract a lower rate of interest initially.
Local indicators	Prudential indicators or treasury management indicators that are not required by the relevant code of practice but have been designed locally to meet similar purposes.
Local infrastructure rate	Discount on PWLB rates for new loans borrowed, available to local authorities that have been successful in a bidding round.
Long-term	Usually means longer than one year. Long-term rating A credit rating, assessing of the risk of default over the long-term. Where an agency publishes a range of long-term ratings, Arlingclose reports the rating most relevant to wholesale depositors. See also short-term rating.
LVNAV	Low volatility net asset value – the most common type of money market fund introduced in 2019 that can be bought and sold for £1 per share providing that the true net asset value is between 99.8p to 100.2p.
Mark to market	A process by which investments are revalued to market prices, usually with the entity accounting for the capital gain

	or loss as income or expenditure.
Market risk	The risk that movements in market variables will have an unexpected impact. Usually split into interest rate risk, price risk and foreign exchange risk.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Maturity	(1) The date when an investment or borrowing is scheduled to be repaid. (2) A type of loan where the principal is only repaid on the maturity date.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. MHCLG
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
MiFID	The second Markets in Financial Instruments Directive - a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Money Market Fund (MMF)	A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy	Measures taken by central banks to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite. See also fiscal policy and quantitative easing.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates. Responsible for implementing monetary policy in the UK by changing Bank Rate and quantitative easing with the aim of keeping CPI inflation at around 2%.
Money markets	The markets for short-term finance, including deposits and T-bills.
Money Markets Code	Code of practice issued by the Bank of England for the operation of the London money market, which is mostly unregulated by MiFID II.
Municipal bond	Bond issued or guaranteed by local authorities.
Municipal bonds agency (MBA)	Company that issues bonds in the capital market and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.
NDA	Non-disclosure agreement. Contract where two organisations agree not to disclose each other's confidential information. Often required at the start of commercial loan negotiations.
Negative Pledge	Covenant where a borrower agrees to not to pledge certain assets as collateral for other loans.
Net asset value (NAV)	The current value of a fund's assets, net of its liabilities, usually expressed as an amount per share or unit.
Net borrowing	Borrowing minus treasury investments.
Net revenue stream	In the Prudential Code, income from general government

	grants, Council Tax and rates.
Normal yield curve	A yield curve where yields increase over time, which is the more common shape. See also inverted yield curve.
Nominal	The face value of a bond or share, often quite different from the market value.
Note	Another term for a bond.
Notice account	A deposit account where the cash can be called back after a given notice period.
Non Specified Investments	Government term for investments not meeting the definition of a specified investment or a loan upon which limits must be set. Since 2018, the term does not apply to treasury investments in England.
Non treasury investment management practices (NTIMPs)	Document required by the Treasury Management Code setting out a local authority's detailed processes and procedures for commercial investments and service investments.
OCF	Ongoing charges figure – amounts charged to collective investment scheme that reduce the return for investors. Includes the AMC plus direct charges such as brokerage.
OEIC	Open-ended investment company, a type of collective investment scheme that is structured as a company, where investors buy shares in the company.
Offer	An offer to sell a security at a certain price (the offer price or ask price), or an offer to lend money at a certain interest rate (the offer rate).
Other long term liabilities	Prudential Code term for credit arrangements.
Operational boundary	A prudential indicator showing the most likely, prudent, estimated level of external debt, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.
Operational risk	The risk that fraud, error or system failure leads to an unexpected loss.
Option	A derivative where the holder pays a premium to have the right, but not the obligation, to buy or sell a security or enter into a defined transaction.
PRA	Prudential Regulation Authority – the part of the Bank of England that regulates UK banks.
Present value	The value today of a series of future cash flows, calculated using a discount rate.
Premium	(1) The amount that the early repayment cost of a loan is above the principal (for example cost of early repayment of loan to PWLB to compensate for any losses that they may incur), or the price of a bond is above its nominal value. (2) The initial payment made under a derivative.
Price risk	The risk that unexpected changes in market prices lead to an unplanned loss. Managed by diversifying across a range of investments.
Primary market	A financial market where securities are initially issued, and investors buy from issuers or their agents. See also secondary market.
Principal	The amount of money originally lent on a debt instrument.
Private finance initiative	A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30

	years. Counts as a credit arrangement and debt.
Private placement	A loan or bond that is not traded on a financial market.
Professional client	MiFID II term for a client of a regulated firm that has a higher level of experience in financial markets than a retail client, and therefore needs a lower level of protection. Local authorities may "opt up" to be treated as professional clients if they meet certain requirements.
Property fund	A collective investment scheme that mainly invests in property. Due to the costs of buying and selling property, including stamp duty land tax, there is usually a significant fee charged on initial investment, or a significant difference between the bid and offer price.
Prudential borrowing	Another term for unsupported borrowing. Prudential Code Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code.
Prudential indicators	Indicators required by the Prudential Code and determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable.
PWLB	Public Works Loans Board - a statutory body operating within the DMO that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy in order to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money. Reversing QE by selling back bonds, or allowing them to mature without replacement, is sometimes called quantitative tightening.
Rating watch	A term used by credit rating agencies to indicate that a credit rating is under review, and that a change is likely within three months. The direction of potential change is usually indicated.
Realised gain or loss	Gain or loss that will not be reversed later, e.g. because the instrument has been sold. See also unrealised gain or loss. RCF Revolving credit facility.
Recession	A period of economic slowdown. The technical definition is two consecutive quarters of negative GDP growth.
Specified Investments	Investments that meet the Council's high credit quality criteria and repayable within 12 months.
Security	(1) A financial instrument that can be traded on a secondary market. (2) The concept of low credit risk. (3) Collateral.
Secured investment	An investment that is backed by collateral and is therefore normally lower credit risk and lower yielding than an equivalent unsecured investment.
Senior unsecured	Creditors that are not secured, but rank above junior creditors

	and equity in the event of insolvency or bail-in.
Service investments	Investments made to promote a local authority’s public service objectives, for example a loan to a local charity or shares in a local company.
Share	An equity investment, which usually also confers ownership and voting rights.
Share class	A class of shares in a collective investment scheme with a set AMC and minimum investment size.
Short bond fund	A bond fund with a duration of less than one year. Short-term Usually means less than one year.
Short-term rating	A credit rating, reflecting the risk of default within the next 13 months, usually linked directly to the long-term rating.
Soft loan	A loan made at below market interest rates. See also state aid.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
SORP	Statement of Recommended Practice – an old term for the Code of Practice on Local Authority Accounting in the United Kingdom.
Specified investments	Term used in government investment guidance for investments that are denominated in sterling, mature in less than a year, are not defined as capital expenditure, and are made with the UK government, another UK local authority or a high credit quality body, as defined by the local authority. Since 2018, the term does not apply to treasury investments in England.
Speculative grade	Investments with a credit rating of BB+ or below, and therefore more vulnerable to default than investment grade securities.
Stamp duty land tax (SDLT)	Tax levied on property transactions at between 0 and 15% of the purchase price. The rate on commercial property valued above £250,000 is 5%.
State aid	Financial assistance provided by the public sector to the private sector, such as grants and soft loans, which has the potential to distort competition and is therefore often, but not always, illegal.
Strategic bond fund	Bond fund with a duration of longer than one year.
Strategic funds	Collective investment schemes that are designed to be held for the long-term, comprising strategic bond funds, diversified income funds, equity funds and property funds.
Subordinated bonds	Bonds that rank below other bonds in the event of an insolvency or bail-in. They are therefore higher risk, but also higher yielding.
Subscription	The process of placing cash in a collective investment scheme and creating units or shares.
Support rating	A credit rating agency’s view on the likelihood and ability of parent companies or governments to provide external support to prevent a bank failure leading to losses for investors.
Supported borrowing	Borrowing for which the repayment costs are supported by government grant.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the

	purpose of promoting economic development
Swap	A derivative where the counterparties exchange cash flows, for example fixed rate interest and variable rate interest. See also interest rate swap.
Swap rate	The fixed rate on an interest rate swap. Commonly used as a measure of risk-free long-term interest rates.
Tap	Process by which additional amounts of an existing bond are issued.
Temporary borrowing	Borrowing with a term of less than one year. Term deposit A deposit that is repayable after a fixed period of time.
TMS	(1) Treasury management strategy. (2) Treasury management system.
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses. See also income return.
Transferred debt	Debt contractually held by one local authority but whose costs are borne by another authority, usually following local government reorganisation.
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Treasury investments	Investments made for treasury management purposes, as opposed to commercial investments and service investments.
Treasury management	The management of an organisation's cash flows, investment and borrowing, with a particular focus on the identification, control and management of risk. Specifically excludes the management of pension fund investments
Treasury management advisor	Regulated firm providing advice on treasury management, capital finance and related issues.
Treasury Management Code (TM Code)	CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.
Treasury management indicators	Indicators required by the Treasury Management Code to assist in the management of credit risk, interest rate risk, refinancing risk and price risk. Treasury management policy statement Document required by the Treasury Management Code setting out a local authority's definition of and objectives for treasury management.
Treasury management practices (TMPs)	Document required by the Treasury Management Code setting out a local authority's detailed processes and procedures for treasury management.
Treasury management strategy	Annual report required by the Treasury Management Code covering the local authority's treasury management plans for the forthcoming year.
Treasury management system	Computer programme for recording investments, borrowing, cash flow forecasts and market data to assist with treasury management operations.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unrealised gain or loss	Gain or loss that may be reversed later, e.g. from marking to

	market. Also called a paper gain or loss. See also realised gain or loss.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Council. Sometimes called prudential borrowing since it was not permitted until the introduction of the Prudential Code in 2004. See also supported borrowing.
Usable reserves	Resources available to finance future revenue and/or capital expenditure. Some usable reserves are ringfenced by law for certain expenditure such as on schools or council housing.
Vanilla	A simple instrument without any additional features such as embedded derivatives.
Volatility	A measure of the variability of a price or index, usually expressed as the annualised standard deviation.
WAL	Weighted average life – the average time to maturity of an investment portfolio, weighted by the size of the investment and normally expressed in days.
WAM	Weighted average maturity – the average time to the next interest rate reset on an investment portfolio, weighted by the size of the investment and normally expressed in days. A portfolio of fixed rate investments will have a WAM identical to its WAL.
Working capital	The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.
Yield	A measure of the return on an investment, especially a bond. The yield on a fixed rate bond moves inversely with its price.
Yield curve	A chart of yields or interest rates for similar instruments over a range of maturity dates. See also inverted yield curve and normal yield curve.