REPORT TO:	**General Purposes and Audit Committee 6 December 2018**
SUBJECT:	**Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2018/2019 Mid-Year Review**
LEAD OFFICER:	**Executive Director of Resources (Section 151 Officer)**
CABINET MEMBER:	**Councillor Simon Hall Cabinet Member for Finance & Treasury**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:
Sound Financial Management. This report details the Council's Treasury Management activities during the first half of 2018/2019 and the Council's compliance with the 2017 Prudential Code for Capital Finance.

FINANCIAL SUMMARY: This report details the Treasury Management activities in the first half of 2018/2019 and demonstrates the Council's compliance with the 2017 Prudential Code for Capital Finance.

FORWARD PLAN KEY DECISION REFERENCE NO.:

1. RECOMMENDATIONS

1.1. The Committee are asked to note the contents of this report and to:

1.1.1 Endorse the continued implementation of the Council's Treasury Strategy Statement, Annual Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2018/2019 by the Executive Director of Resources (Section 151 Officer).

2. EXECUTIVE SUMMARY

2.1 This report accords with the CIPFA Code of Practice on Treasury Management (revised 2017). The Code recommends that members are informed of Treasury activities at least twice a year. The report:

- reviews the Council's treasury management activities for the first six months of the financial year 2018/2019;
- details those areas of activity that formed the basis of the Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement & Annual Investment Strategy 2018/2019 received by Full Council on **26 February 2018 (Minute 14/18c)**; and

- demonstrates the Council's compliance with the 2017 Prudential Code for Capital Finance ("The 2017 Code") in the first half of the year and sets out revised Prudential Indicators for 2018/2019.

3.1 BACKGROUND

3.1.1 The Council has adopted a Treasury Management Policy Statement, which sets out the basis on which treasury activities are to be conducted. This document is incorporated in the Council's Financial Regulations.

3.1.2 The Treasury Management Policy Statement sets out the arrangement for reporting to Members prior to the commencement of each financial year (a statutory requirement) on the treasury strategy for the year ahead, to receive a mid-year review of treasury activities and to receive a review of the previous year's activities.

3.1.3 The Council's treasury management objectives are to manage the cash flows, borrowing and investment requirements of the authority, its banking, money market and capital transactions; the effective control of the risks with those activities; and the pursuit of optimum performance consistent with those risks.

3.1.4 The Council's treasury management activities are regulated by statute, the 2017 Code and official guidance.

3.1.5 This report presents a mid-year review of 2018/2019's activities covering the following:

- An economic update for the first part of the financial year (Section 3.2);
- A review of the Council's investment portfolio (Section 3.3);
- A review of the Council's borrowing strategy (Section 3.4);
- Compliance with Prudential Indicators (Section 3.5);
- Repayment of Debt and Debt Rescheduling (Section 3.6);
- Minimum Revenue Provision (Section 3.7); and
- Performance Targets (Section 3.8).

3.1.6 A glossary of the terms and abbreviations used in this report is attached at **Appendix D.**

3.2 The Economy and Interest Rates

3.2.1 An understanding of the dynamics driving the economy is important to assess the impact of investment and borrowing decisions. The following section is informed by Link Asset Services, the Council's Treasury Management advisors. This discussion allows elected Members to undersatand better the decisions taken by the treasury team and assess the efficacy of those decisions.

3.2.2 The first half of 2018/2019 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.3% in 2018, the Bank of England's November Quarterly Inflation Report forecast that growth will pick up to 1.7% in 2019, albeit there were several caveats, mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

3.2.3 Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for February 2019 and then further increases in February 2020 and May 2021 to end 2021/2022 at only 1.50%.

3.2.4 As for the labour market, unemployment has continued at a 43-year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3-month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August 2018 as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

3.2.5 In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, the Council's central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

3.2.6 Interest rate forecasts as provided by the Council's independent treasury advisers, Link Asset Services, are detailed below.

Table 1: Economic Forecasts for End of Quarter (Q) – Link Asset Services 6 November 2018

	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20
Bank Rate	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%
10yr PWLB rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.90%	2.90%
25yr PWLB rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.10%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%

3.2.7 The flow of generally positive economic statistics after the end of the quarter ended 30 June 2018 meant that it came as no surprise that the MPC came to a decision on 2

August 2018 to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. The Council's advisers do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit and they also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

3.2.8 The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively. Nevertheless there are downside risks to the current forecasts for UK gilt yields and PWLB rates currently, including:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly centred on Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

3.2.9 There are also upside risks to current forecasts for UK gilt yields and PWLB rates: These include:

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

3.3 Investment Portfolio

3.3.1 The Council's investment policy is governed by Communities and Local Government Office (CLG) guidance which has been implemented in the Annual Investment Strategy approved by Full Council **on 26 February 2018 (Minute 14/18c)**. As set out in the strategy, the criteria for the investment of the Council's surplus funds are based on formal credit ratings issued by the FITCH International Rating Agency and supplemented by additional market data such as rating outlooks, the pricing of credit default swaps and bank share prices. The prime aim is to obtain capital security and then to secure the best rate of return. In addition to the FITCH rated institutions, all UK local authorities, and some public bodies comprise the Council's Approved Lending List.

3.3.2 The criteria used by the Council in order to assess the Counterparties in order to determine who it can lend to is given in the table below:

Table 2: Lending List Criteria

List	Credit Ratings Criteria
A	**FITCH rating in each of the following categories:-** F1+ on Short Term AA or above Long Term aa- or above Viability Rating 5 for Support Rating AA+ or above Sovereign Rating
B	**FITCH Rating in each of the following categories:-** F1+ on Short Term AA- or above on Long Term a+ or above Viability Rating 5 for Support Rating AA+ or above Sovereign Rating

Approved Organisations
All Non-UK Banks that meet the FITCH ratings as set out above
All UK Building Societies that meet the FITCH ratings as set out above
UK Banks that meet the FITCH ratings as set out above

Approved Organisations not meeting the above credit ratings
Part Nationalised UK Banks
All UK Local Authorities
AAA rated Money Market Funds
Debt Management Office (DMO)

3.3.3 The Council's authorised list of counterparties as at 30 September 2018 is detailed in **Appendix A.** The list and the counterparty limits applicable have been drawn up to provide maximum security for the Council's funds. The principle of ensuring capital security and then of securing the best rate of return underpins all treasury investment decisions. When setting the present strategy allowance was made to enable investment in a range of other instruments that offered the potential for slightly better returns at commensurate levels of risks. Officers continually monitor the market for appropriate products. A list of the Specified and Non-Specified investments that Officers are permitted to undertake in-house, which was approved by Full Council on **26 February 2018 (Minute 14/18c),** is detailed in **Appendix B.**

3.3.4 The financial year 2018/2019 continues the challenging investment environment and it remains very difficult to earn the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

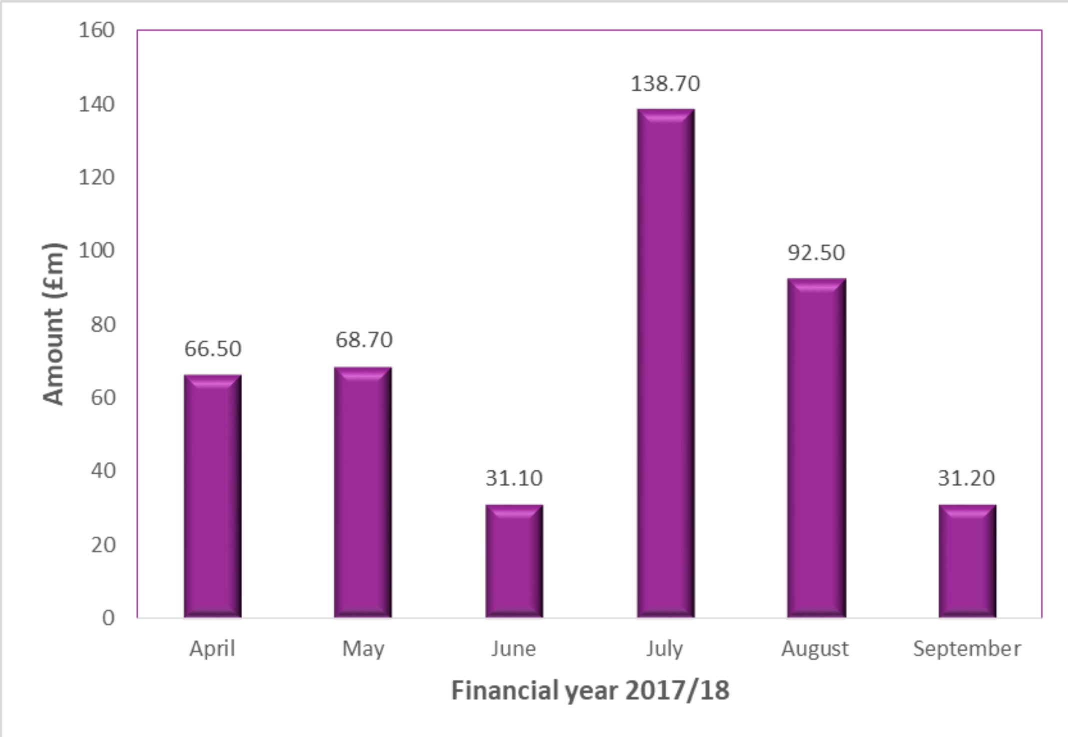
3.3.5 Investment activity in the first half of 2018/2019 conformed to the approved strategy and the Council experienced no liquidity issues in the year to date with an average monthly balance of £86.9m being maintained in temporary investments. Part of this sum is made up of core balances such as provisions and reserves set aside and cash balances that can if necessary be invested for longer periods to take advantage of favourable interest rates and to limit exposure to the risk of future rate movements.

3.3.6 Available funds were invested for differing periods, to match anticipated movements in the Council's daily cash flows commensurate with achieving best value and based on forecasts of interest rate trends. The primary aim is to ensure the capital security of the Council's investments and then to secure the best rate of return.

3.3.7 Investment of the Council's cash balances is governed by the guidance on Local Government Investments which has been issued by the Ministry of Housing, Communities and Local Government (MHCLG). This guidance requires certain investment policy parameters to be set within the annual Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement and Annual Investment Strategy approved by Council. Investment activity during the year conformed to this approved strategy and sufficient liquidity was maintained for the Council's cash flow requirements.

3.3.8 In aggregate for the first half of 2018/2019, deposits totalling £428.7m were invested and the Council maintained an average monthly balance of £86.9m yielding an investment rate of return of 0.66% compared to the LIBID 7 day rate of 0.44% for the period. Investments outstanding at 30 September 2018 were £120.5m. These were invested as follows: £60 with Non-UK banks, £50.0m with other local authorities and £10.5m with AAA rated Money Market Funds.

<u>Chart 1: Investments made in 2018/2019</u>



3.4 Borrowing

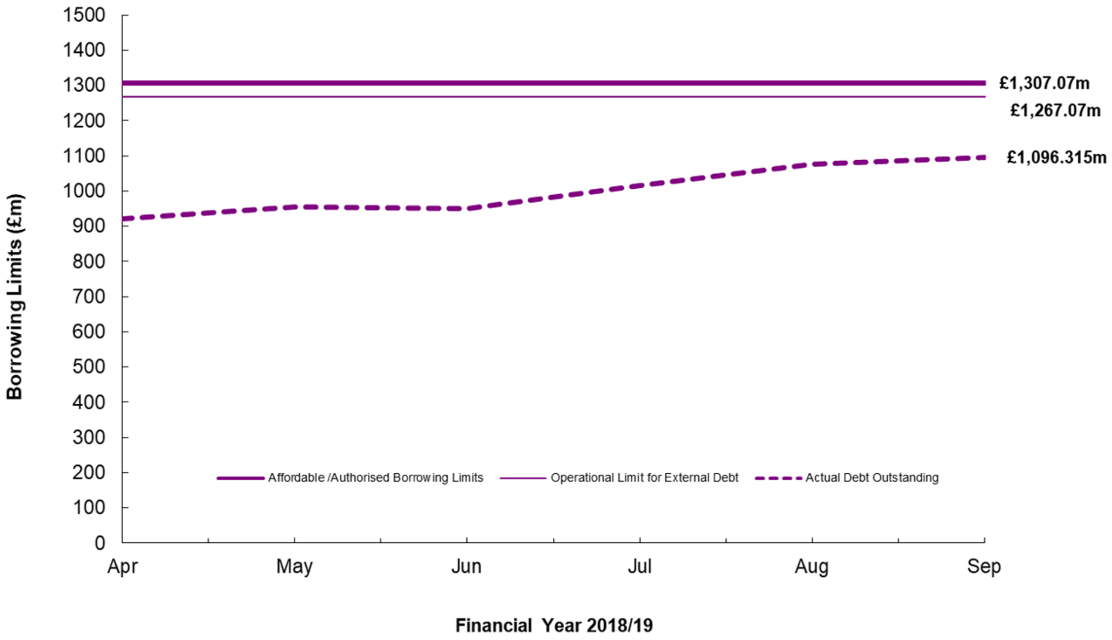
3.4.1 The Council set borrowing limits that were approved by **Full Council on 26 February 2018 (Minute A14/18C refers)** for the year 2018/2019 as part of the legislative constraints specified in Section 3 of the Local Government Act 2003 which require the Council to determine and keep under review how much it can afford to borrow.

The limits were:

Operational Limit for External Debt	£1,267.067m
Affordable Borrowing Limit	£1,307.067m
Authorised Borrowing Limit	£1,307.067m

The chart below shows the actual debt in the first half of 2018/2019 in relation to the borrowing limits applicable at the time.

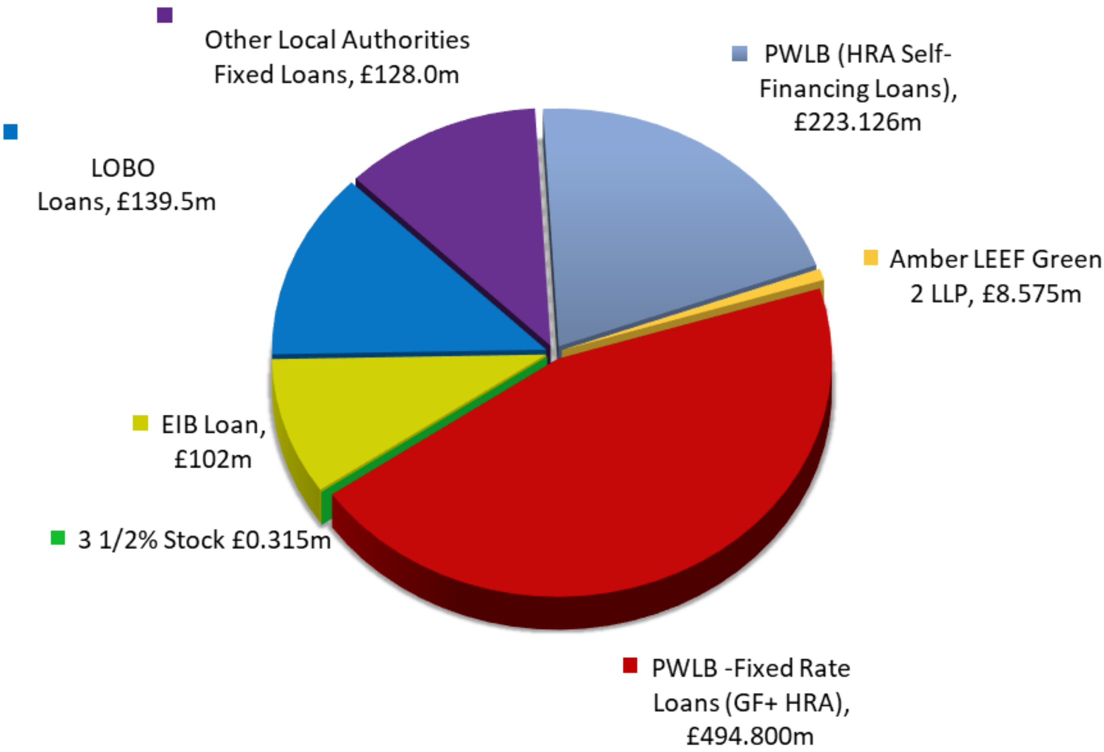
Chart 2: Actual Debt in 2018/2019 in comparison to the Operational, Affordable and Authorised Borrowing Limits for the year



3.4.2 The Authorised Borrowing Limit which sets the maximum amount that the Council can borrow for capital and revenue purposes has not been exceeded. The Council's overall borrowing as at 30 September 2018 stood at £1,096.3m. There is therefore considerable headroom between this level of debt and the Authorised Borrowing Limit. This borrowing will be taken up as required, (based on an analysis of capital expenditure over the several components of the capital programme) and when it is judged appropriate.

3.4.3 The Council’s long term debt as at 30 September 2018 is detailed graphically as follows:

Chart 3: Long Term and Short Term Debt as at 30 September 2018



3.4.4 Between the end of September and the drafting of this report the Council refinanced £100m of LOBO loans debt with £100m of PWLB borrowing as described in section 3.6.1.

3.4.5 When taking up the remainder of this year's borrowing requirement the Council's Treasury Section will examine all the options available. The Council will use a mixture of long term borrowing from the PWLB, short term borrowing from other Local Authorities and internal balances to fund the remaining borrowing requirement for the year. Borrowing undertaken will be taken to fit into the Council's existing debt maturity profile to ensure an even distribution of maturities in future years. **Appendix C** displays the movements in the PWLB interest rates for the 5-year, 10-year, 25-year and 50-year loan periods during the first half of 2018/2019.

3.4.6 The Council's effective interest payable on long term debt currently stands at 3.54%.

3.5 Compliance with Prudential Indicators

3.5.1 The Prudential Code for Capital Finance in Local Authorities was updated in 2017. It serves as a professional code of practice to support local authorities in complying with Part 1 of the Local Government Act 2003. The Code requires the continual monitoring of the Prudential Indicators set by the Council.

3.5.2 The purpose of the Prudential regime is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position.

3.5.3 The authority is compliant with the Prudential Indicators set by this Authority for 2018/2019.

3.6 Repayment of Debt and Debt Rescheduling

3.6.1 With Public Works Loan Board (PWLB) rates low in the first half of 2018/2019 and with high premiums being attached to the premature repayment of existing PWLB debt, opportunities for debt restructuring were minimal and therefore none was undertaken. However in October 2018 an opportunity arose to repay £100m of the Council's Lender Option Borrower Option (LOBO) loans held with Natwest Bank and refinance the debt by borrowing more cheaply from the PWLB. The Council took this opportunity which will lead to savings in excess of £21m (£8m when discounted using the Green Book rate of 3.5%) over the life of the remaining loans.

3.6.2 Further debt repayment / restructuring will only be done following external advice and only if it was proved beneficial for the Council. The Council's debt profile is structured so that loans mature over a spread of future dates. This takes advantage of the best rates offered at the time and ensures that refinancing risks are controlled. There is the risk however that when the Authority needs to take out a replacement loan, the market rates could have moved against the Council's position.

3.7 Minimum Revenue Provision

3.7.1 As part of the annual review of the 2017/2018 Minimum Revenue Provision Statement, the Council's General Purposes and Audit Committee approved a revised Annual Minimum Revenue Provision Statement on 10 October 2018. The revised Minimum Revenue Provision Statement is attached in **Appendix E.**

3.7.2 The Government has issued guidance on Commercial Investment Strategies, providing a link between the Capital Strategy and the Minimum Revenue Provision Statement. Further, CIPFA issued a statement (October 2018), on *Borrowing in Advance of Need and Investments in Commercial Property*. Although the date of publication of these updates fall outside the timescale covered by this report it would be appropriate to note the implications here. A fuller treatment will be included in the report included in the budget papers in February 2019. Both the Prudential Code and the Statutory Guidance on Local Government Investments (3rd Edition) (Statutory Investment Guidance) issued by the Ministry for Housing, Communities and Local Government are very clear that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Nevertheless, Local authority investment powers are for any purpose relevant to its functions and for the purposes of the prudent management of its financial affairs.

3.7.3 To this end the authority has invested in two commercial properties: the Croydon Park Hotel and the Colonnades Retail Leisure Park. Both of these have been purchased as commercial investments. The existing Asset Management Plan (incorporated within the Corporate Plan and Medium Term Financial Strategy) makes reference to investment assets and the need to review and develop a more formal policy and in the more recent Property Strategy one of the key financial objectives is to increase income through better use of the property portfolio. Paragraph 9 of the revised Minimum Revenue Provision Statement, attached as Appendix E, makes specific reference to this investment property portfolio. There is no provision set aside for the debts incurred to purchase these properties as the Council has the ability to sell these properties to repay any outstanding debt liabilities.

3.8 Performance Targets

3.8.1 The gross investment income earned by the Council for the financial year 2018/2019 is forecast to be £0.6m.

3.8.2 The Council's actual investment return for the first half of 2018/2019 was 0.66% compared to the benchmark average 7-day LIBID rate of 0.44%. Liquidity was maintained by investing in AAA rated Money Market funds at rates around 0.44% (averaged over the period), with some investments pitched over the 3-, 6- and 12-month period at rates over 0.60% to produce returns in excess to the benchmark rate.

4 CONSULTATION

4.1 Full consultation in respect of the contents of this report has taken place with the Council's Treasury Management Advisers, Link Asset Services in the preparation of this report.

5 FINANCIAL CONSIDERATIONS

5.1 Revenue and Capital consequences of this report are dealt within this report.

There are no additional financial considerations other than those identified in this report.

5.2 **The effect of the decision**

Approval of this report will endorse the continued implementation of the Council's Treasury Management Strategy by the Executive Director of Resources (Section 151 Officer).

5.3 **Risks**

There are no further risks issues other than those already detailed in this report**.**

5.4 **Options**

These are fully dealt with in this report

5.5 **Savings/ future efficiencies**

This report sets out the treasury activities in the first half of 2018/2019 and demonstrates the Council's compliance with the Prudential Code and the limits set in both the Code and the Treasury Management Strategy Statement, Annual Minimum Revenue Provision Policy Statement and the Annual Investment Strategy 2018/2019 report presented to Members on **26 February 2018 (Minute A14/18C)**.

Approved by: Lisa Taylor, Assistant Director of Finance and Deputy Section 151 Officer.

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1

Approved by:

7. HUMAN RESOURCES IMPACT

7.1 There are no immediate HR considerations that arise from the recommendation of this report for LBC staff.

Approved by: on behalf of Heather Daley, Director of Human Resources.

8. CUSTOMER IMPACT

8.1 There are no Customer impacts arising from this report.

9. EQUALITIES IMPACT ASSESSMENT (EIA)

9.1 Consistent with the requirements of equal opportunities legislation including the Public Sector Equality Duty, the Council carries out an equality impact assessment on new policies, or existing policies which are the subject of major change.

9.2 The Council's Capital and Revenue Budget 2017/2018 is not subject to an equality impact assessment. However, in those areas where the setting of the capital and revenue budget result in new policies or policy change, then it is the responsibility of the relevant service department to carry out an equality impact assessment which evaluates how the new or changed policy will impact on disadvantaged sections of the community, including disabled people. The impact assessment includes consultation with disabled people and user-led disabled people organisations.

10. ENVIRONMENT AND DESIGN IMPACT

10.1 There are no Environment and Design impacts arising from this report.

11. CRIME AND DISORDER REDUCTION IMPACT

11.1 There are no Crime and Disorder reduction impacts arising from this report.

12. HUMAN RIGHTS IMPACT

12.1 There are no Human Rights impacts arising from this report.

13. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

13.1 There are no specific Data Protection or Freedom of Information considerations arising from this report.

CONTACT OFFICER: Nigel Cook, Head of Pensions and Treasury, extn 62552

BACKGROUND DOCUMENTS:

(1) CIPFA's Prudential Code for Capital Finance in Local Authorities Fully Revised Second Edition 2009 and updated 2017 edition.
(2) CIPFA's Code of Practice for Treasury Management in the Public Services and Cross Sectoral Guidance Notes – Fully Revised Second Edition 2009 and updated 2017 edition.
(3) CLG's Guidance on Local Government Investments March 2004.

Appendix A

LONDON BOROUGH OF CROYDON
Authorised Lending List as at 30/09/2018 (Criteria as per FITCH)

LIST A

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Royal Bank Of Canada **(Canada)**	20,000,000	AA	F1+	aa	2	AAA
Svenska Handelsbanken AB (Sweden)	20,000,000	AA	F1+	aa	5	AAA
Morgan Stanley Money Market Fund	15,000,000	AAA				
Aberdeen Money Market Fund	15,000,000	AAA				
Goldman Sachs Money Market Fund	15,000,000	AAA				
JP Morgan Money Market Fund	15,000,000	AAA				
Deutsche Money Market Fund	15,000,000	AAA				
Insight Money Market Fund	15,000,000	AAA				
Royal Bank of Scotland Group Plc **(Part Nationalised) (UK)**	25,000,000	BBB+	F2	bbb+	5	AA
Debt Management Account **(UK Government Body)**	No Limits					

LIST B

Name	Credit Limit £	Long Term Rating	Short Term Rating	Viability Rating	Support Rating	Sovereign Rating
Australia & New Zealand Banking Group **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Bank Of Montreal **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Bank Of Nova Scotia **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Canadian Imperial Bank Of Commerce **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
Commonwealth Bank Of Australia **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
DBS Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
National Australia Bank **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Overseas Chinese Banking Corporation Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Toronto-Dominion Bank **(Canada)**	10,000,000	AA-	F1+	aa-	2	AAA
United Overseas Bank Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Westpac Banking Corporation **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
All UK Local Authorities	10,000000					

LOCAL GOVERNMENT INVESTMENTS (ENGLAND) SPECIFIED AND NON-SPECIFIED INVESTMENTS

a. **Specified Investments** - Where there is a change in the current investment policy this is specifically noted. All investments shall consist of investments under one year as follows:

- Debt Management Agency Deposits Facility (DMADF) which is currently available for investments up to six months.
- Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to one year.
- Term deposits with credit - rated deposit takers (banks and building societies) including callable deposits, with maturities up to one year.
- Certificate of Deposits issued by credit - rated deposit takers (banks and building societies) up to one year.
- AAA rated Money Market Funds (i.e. a collective investment scheme as defined in SI. 2004 No 534).
- Bonds issued by multinational development banks (as defined in SI 2004 No 534) with maturities under 12 months.
- Enhanced AAA rated Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds.
- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market.
- UK Government Treasury Bills which are debt instruments issued by the Government's Debt Management Office through weekly auctions. The bills are issued with maturities of one, three and six months.

b. **Non-Specified investments** - Local authorities now have specific powers to invest for periods in excess of one year. Previously such investments were not permissible, except in respect of the Council's Pension Fund (where specific legislation exists). It is recommended that these shall consist of:

- Term deposits with credit - rated deposit takers (banks and building societies) with maturities greater than one year. As a general rule they cannot be traded or repaid prior to maturity. The risk with these is that interest rates could rise after making the investment and there is also the potential that there could be a deterioration of the credit risk over a longer period. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Term Deposits with UK local authorities. This investment represents intra-authority loans i.e. from one local authority to another for the purpose of cash-flow management. The risk with these is that interest rates could rise after making the investment and it is therefore recommended that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. This risk is common to all term deposits whether with local authorities or other counterparties.

- Certificate of Deposits (C.D.) issued by credit - rated deposit takers (banks and building societies) with maturities greater than one year. With these investments there is a market or interest risk. Yield is subject to movement during the life of the CD, which could negatively impact on the price of the CD if traded early. It is recommended, therefore, that the use of this investment is limited to a maximum of five years and sold on maturity following advice from the Council's treasury management advisers.

- Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than one year. These have the potential of higher return than using a term deposit with a similar maturity. The risk is that only the borrower has the right to pay back the deposit, the lender does not have a similar call, as although the term is fixed only the borrower has the option to repay early. There is, therefore, no guarantee that the loan will continue to its maturity. The interest rate risk is that the borrower is unlikely to pay back the deposit earlier than the maturity date if interest rates rise after the deposit is made.

- Forward deposits with credit rated banks and building societies for periods greater than one year (i.e. negotiated deal period plus period of deposit). The advantage of the investment is that there is a known rate of return over the period the monies are invested which aids forward planning. The credit risk is that if the credit rating falls or interest rate rise in the interim period the deposit period cannot be changed. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Bonds issued by multilateral development banks (as defined by SI. 2004 No 534). These have an excellent credit quality and are relatively liquid. If they are held to maturity there is a known yield, which would be higher than that on comparable gilts. If traded, there could be a potential for capital gain or loss through appreciation or depreciation in value. The market or interest risk is that the yield is subject to movement during the life of the bond, which could impact on the price of the bond, i.e. if sold prior to redemption date. Given the potential for loss any investment would need to be based on the principle that they would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Enhanced Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds.

- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market. If held to maturity there is a known yield but if traded there could be a potential for capital gain or loss through appreciation or depreciation in value. Given the potential for loss, any investment would need to be based on the principle that UK government gilts would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. If held to maturity, these bonds represent the nearest to a risk-free investment.

- Property Funds. Property funds can provide stable returns in terms of fixed period rents, whether commercial or industrial rentals. Property funds can be regulated or unregulated. An investment in share or loan capital issued by a regulated property fund is not treated as capital expenditure but an investment in an unregulated fund would count as capital expenditure. Given the nature of the property sector, a longer-term time horizon will need to be considered for this type of investment.

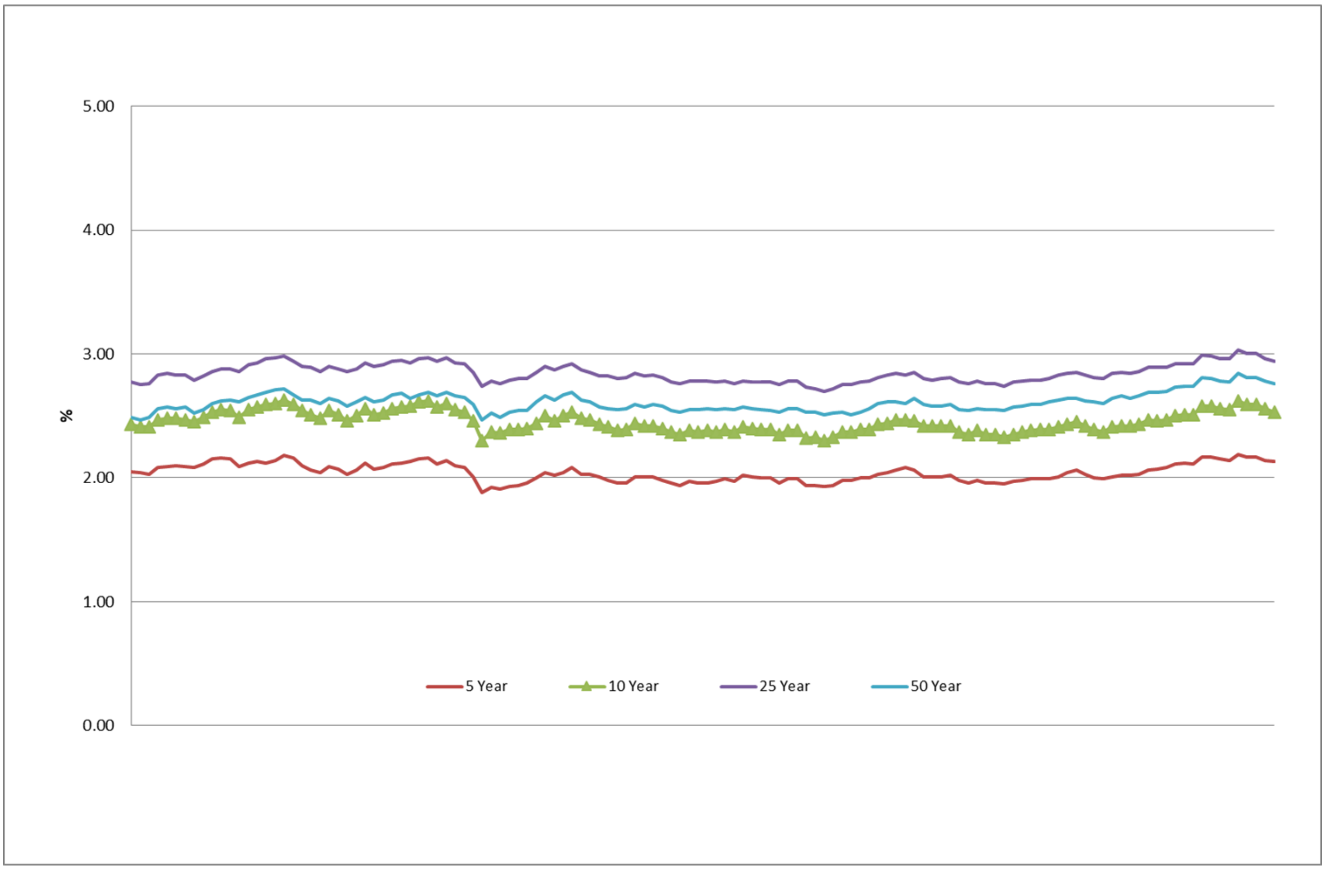
- Floating Rate Notes (FRNs). These are typically longer term bonds issued by banks and other financial institutions which pay interest at fixed intervals. The floating rate nature of these instruments reduces the exposure to interest rate risk as the interest rate is re-fixed at the beginning of every interest rate period. The option to redeem before maturity is available through the secondary market. It is recommended that investments in FRNs be restricted to those issued by institutions on the Council's authorised lending list, after consulting and taking advice from the treasury management consultants.

- Corporate Bonds are issued by corporate institutions for example General Electric, Vodafone, Volkswagen etc. They offer local authorities an alternative to the usual financial institutions. For Corporate Bonds, the minimum credit rating criteria of AA- should apply to fit within the Council's investment parameters.

- Covered Bonds. These are a type of secured bond that is usually backed by mortgages or public sector loans. An important feature of covered bonds is that investors have dual recourse, both to the issuer and to the underlying pool of assets.

Appendix C

PWLB Movement since 1 April 2018



Appendix D

GLOSSARY OF TERMS USED IN THE TREASURY MID-YEAR REVIEW 2018/2019 REPORT

Affordable Borrowing Limit and Authorised limit for external debit	The maximum amount the Council can borrow for capital and revenue purposes, allowing for unexpected events. It reflects a level of borrowing which, while not desirable, is affordable in the short term. This limit reflects the temporary nature of the borrowing.
Borrowing for Capital Purposes - Supported - Unsupported	 The amount of borrowing to finance capital projects for which the Government will give revenue support and specific grants. Additional borrowing the Council may wish to undertake, but for which there will be no financial contribution through the grant system.
CIPFA Treasury Management Code of Practice	The professional code governing treasury management, which the Council has formally adopted.
Capital Financing Requirement (CFR)	The authority's underlying need to borrow to finance capital expenditure.
Consumer Price Index (CPI)	This is a measure of the general level of price changes for consumer goods and services but excludes most owner occupier housing costs such as mortgage interest payments, council tax, dwellings insurance, rents depreciation and the like.
FITCH	An internationally recognised rating agency which is used and approved by the Council's Treasury Advisers, Capita Asset Services.
Gross Domestic Product (GDP)	Gross Domestic Product (GDP) is a measure of a country's economic activity, including all the services and goods produced in a year within that country.

The Green Book discount rate	The Green Book is guidance issued by HM Treasury on how to appraise policies, programmes and projects. It also provides guidance on the design and use of monitoring and evaluation before, during and after implementation. When appraising projects the Green Book uses a discount rate of 3.5%. This rate is commonly accepted as the rate to use when accessing the potential savings to be generated when considering the refinancing of debt.
G7	The Group of Seven (G7) is an informal bloc of seven industrialised democracies – the USA, Canada, France, Germany, Italy, Japan and the UK that meets annually to discuss issues such as global economic governance, international security and energy policy.
Lenders Option / Borrowers Option Loans (LOBO's)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period of time, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercise the option to change the interest rate the borrower can then decide whether to accept the new terms or repay the loan with no penalty.
London Interbank Bid Rate (LIBID)	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Minimum Revenue Provision (MRP)	The amount which must be set aside from revenue each year to cover future repayment of loans. There is no MRP requirement for HRA borrowing.
Net Revenue Stream (NRS)	The NRS for the General Fund is the "Amount to be met from Government Grant and Council Tax contributions", as shown in the consolidated revenue account. This represents the budget requirement for the Council. The NRS for the Housing Revenue Account is the amount to be met from net rent income as shown in the HRA accounts.
Operational boundary for external debt	The maximum amount of external debt according to probable events and consistent with the level of external debt projected in the estimates.
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.

Appendix E

MINIMUM REVENUE PROVISION POLICY STATEMENT

Effective from 2017/2018 and periods onwards.
Adopted February 2018, revised October 2018.

1. The Council has implemented the new Minimum Revenue Provision (MRP) Guidance from 2008/09, and have assessed their MRP for 2018/2019 in accordance with the main recommendations contained within the Guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003.

2. The Council's MRP Policy Statement for 2018/2019 is to be as follows:

2.1. For the proportion relating to historic debt (incurred up to 31 March 2008) and to Government-supported capital expenditure incurred since, the MRP policy will be to adopt Option 1 - the Regulatory Method by providing a fixed amount each financial year, calculated at 2% of the balance at 31 March 2015, reducing on a straight line basis so that the whole debt is repaid after 50 years.

2.2. For unsupported borrowing undertaken since 1 April 2008, reflected within the Capital Financing Requirement (CFR) debt liability at 31st March 2019, the MRP policy will be to adopt Option 3 – Asset Life Method – Annuity method from the Guidance. Estimated life periods will continue to be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the Guidance would not be appropriate.

3. As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

4. Where schemes are not fully completed at the end of the financial year, MRP charges will be deferred until the schemes are complete and the assets are operational.

5. MRP on Public Finance Initiative (PFI) schemes debt is to be charged on an annuity basis over the remaining life of each scheme.

6. The Council retains the right to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP).

7. There will be circumstances when the Council will not be making a provision for the repayment of debt.

8. The Authority will provide loans on a commercial basis which will be used to fund capital expenditure and thus should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the loans advanced and under the terms of the contractual loan agreements are due to be returned in full with interest paid. When these funds are returned to the Authority, the returned funds will be classed as a capital receipt and offset against the CFR, which will reduce accordingly. As this is in effect a temporary arrangement and the funds will be

returned to the Council in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The outstanding loan will be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will commence.

9. The Authority is purchasing commercial property to be held as part of its Investment Property Portfolio. The properties are held for investment purposes and are managed on a fully commercial basis. The purchase of these properties will be treated as capital expenditure and will increase the CFR. The Council is holding these properties solely for investment purposes and they are leased to tenants on a fully repairing basis. As the Council has the ability to sell these properties to repay any outstanding debt liabilities related to their purchase, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The market value of the assets will be reviewed on a regular basis and if the asset value significantly decreases, a prudent MRP policy will commence.

10. The Council’s cash investment in the Real Lettings Property Fund LP under a 7-year life arrangement is due to be returned in full at maturity with interest paid on outstanding balances annually. The cash investment will be treated as capital expenditure with the Council’s Capital Financing Requirement (CFR) increasing by this amount. At maturity, the funds returned to the Council will be treated as a capital receipt and the CFR will reduce accordingly. As this is a temporary arrangement over 6 years, and as the funds are to be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, and therefore no MRP application is required.

11. Loans borrowed from Amber Green LEEF 2LLP or an alternative source to fund energy efficiency and carbon reduction schemes at certain educational institutions within the Borough will be recovered in full from these institutions. As such, there is no need to set aside prudent provision to repay the debt liability in the interim period, and therefore no MRP application is required.