REPORT TO:	**General Purposes and Audit Committee 10 October 2018**
SUBJECT:	**Treasury Annual Review 2017/2018 and revised General Fund Minimum Revenue Provision (MRP) Policy**
LEAD OFFICER:	**Richard Simpson** **Executive Director of Resources (Section 151 Officer)**
CABINET MEMBER:	**Councillor Simon Hall, Cabinet Member for Finance & Resources**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management. This report details the Council's Treasury Management activities during 2017/2018 and the Council's compliance with the Prudential Code for Capital Finance. The report also proposes a revision to the Council's General Fund Minimum Revenue Provision (MRP) Policy.

FINANCIAL SUMMARY: This report details the Treasury Management activities in 2017/2018 and demonstrates the Council's compliance with the Prudential Code.

FORWARD PLAN KEY DECISION REFERENCE NO.:

For general release

1. RECOMMENDATIONS

1.1. The Committee are asked to:

1.1.1 Note the contents of this report;

1.1.2 Endorse the Treasury Annual Review 2017/2018 and the continued implementation of the Council's Treasury Strategy 2018/2019 by the Executive Director of Resources (Section 151 Officer); and

1.1.3 RECOMMEND to Cabinet that they recommend to full Council the adoption of the revised Minimum Revenue Provision (MRP) policy statement appended to this report (Appendix E) (required by SI 2008/414)

2. EXECUTIVE SUMMARY

2.1. The Council's treasury management activities for the previous year are reviewed on an annual basis to take account of changes and updates in treasury practices and to ensure that best practice is incorporated within all areas of treasury management. This report:-

- Reviews the Council's treasury management activities for the year 2017/2018;

- Detail those areas of activity that formed the basis of the Treasury Strategy Statement and Annual Investment Strategy 2017/2018 received by Full Council **on 27 February 2017 (Minute A16/17 refers)**;

- Demonstrates the Council's compliance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance and adherence with the Prudential Indicators set; and

- Sets out a revised Minimum Revenue Provision Policy Statement required by SI 2008/414.

3. BACKGROUND

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

3.1.1. The Treasury Policy Statement sets out the minimum reporting requirements to Members as being the following reports:

- An annual treasury strategy report prior to the commencement of each financial year (a statutory requirement) on treasury strategy for the year ahead.
- A mid-year treasury update report.
- An annual review of the previous year's treasury activities.

3.1.2. The Council's treasury management objectives are to manage the cash flows, borrowing and investment requirements of the Authority with minimum risk and to achieve this by minimising the Council's exposure to adverse movements in interest rates whilst maximising investment yield to enhance the Council's finances.

3.1.3. The Council's treasury management activities are regulated by statute, the CIPFA Code of Practice for Treasury Management and official guidance.

3.1.4. This report presents a review of 2017/2018's activities based on the following:-

- The Economy and Interest Rates;
- Lending;
- Performance Targets;
- Borrowing;
- Compliance with Prudential Indicators; and
- Repayment of Debt and Debt Rescheduling.

In addition this report sets out a revised Minimum Revenue Provision (MRP) Policy Statement that reflects the wider range of capital projects undertaken by the Council.

3.1.5. 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. The outcome of the EU referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK GDP growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years. Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. Both measures were intended to stimulate growth in the economy. This gloom was overdone as the UK economy turned in a G7 leading growth rate of 1.8% in 2016, (actually joint equal with Germany), and followed it up with another 1.8% in 2017, (although this was a comparatively weak result compared to the US and EZ).

3.2.2. During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

3.2.3. Consequently, market expectations during the autumn rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The MPC meeting of 14 September 2017 provided a shock to the markets with a sharp increase in tone in the minutes where the MPC considerably hardened their wording in terms of needing to raise Bank Rate very soon. The 2 November 2017 MPC quarterly Inflation Report meeting duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be the only move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years. The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were pessimistically weak while there was little evidence of building pressure on wage increases despite remarkably low unemployment. The MPC forecast that CPI would peak at about 3.1% and chose to look through that breaching of its 2% target as this was a one off result of the devaluation of sterling caused by the result of the EU referendum. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. So this all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years.

3.2.4. However, GDP growth in the second half of 2017 came in stronger than expected, while in the new year there was evidence that wage increases had started to rise. The 8 February 2018 MPC meeting minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years.) This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

3.2.5. PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

3.2.6. As for equity markets, the FTSE 100 hit a new peak near to 7,800 in early January before there was a sharp selloff in a number of stages during the spring, replicating similar developments in US equity markets.

3.2.7. The major UK landmark event of the year was the inconclusive result of the general election on 8 June 2017. However, this had relatively little impact on financial markets. However, sterling did suffer a sharp devaluation against most other currencies. Brexit negotiations have been a focus of much attention and concern during the year and will continue to be throughout 2017/18.

3.2.8. The manufacturing sector has been the bright spot in the economy, seeing stronger growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

3.3. Lending

3.3.1. The Council's investment policy is governed by the Department of Communities and Local Government (DCLG) guidance. It had been drawn up to provide maximum security for the Council's funds. 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, 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. The rating criteria for approved counterparties is as follows:

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 1 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 1 for Support Rating AA or above Sovereign Rating

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

Approved Organisations not meeting the above credit ratings
Part Nationalised UK Banks
All UK Local Authorities
AAA rated Money Market Funds as rated by FITCH & one other rating agency.
Debt Management Office

The Council's Lending List Criteria and the authorised list of counterparties as at **31 August 2018**, which incorporates the new ratings, is detailed in **Appendix A.**

3.3.2. The principle of obtaining capital security and then of securing the best rate of return underpins all treasury investment decisions. The market that exists to support local authorities understands this and has evolved to develop products to match these requirements. Without in any way compromising the commitment to these principles the treasury team continues to explore the merits and associated risks of alternatives to plain time- and call-deposits that match their security characteristics.

3.3.3. The expectation for interest rates within the treasury management strategy for 2017/2018 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31 March 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

3.3.4 In this scenario, the treasury strategy was to run down the investment cash supporting Council' reserves and postpone borrowing where possible to avoid the cost of holding higher levels of investments and to reduce counterparty risk. Despite the rise in interest rates during the year this strategy remained valid and any borrowing undertaken was for the long term with the PWLB where rates were volatile, but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

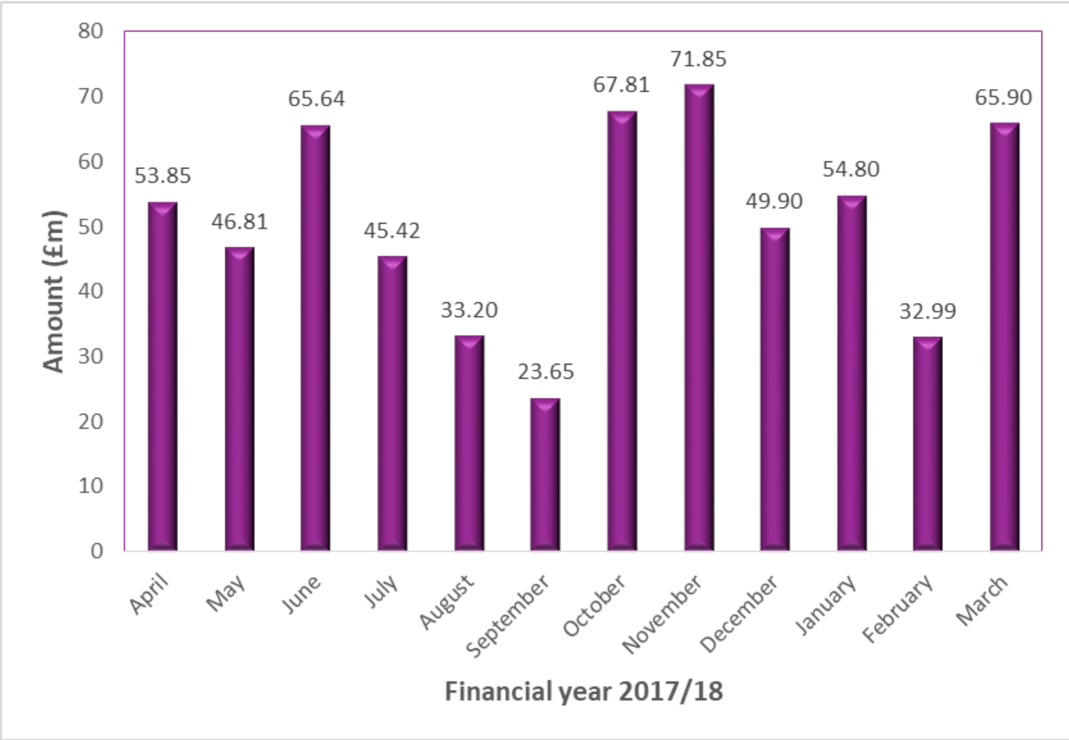
3.3.5 Funds to meet normal expenditure requirements were held on the money markets for daily liquidity and any additional funds were invested for differing periods between three and twelve months, to match anticipated movements in the Council's cash flows commensurate with achieving best value and based on forecasts of interest rate trends. The primary aim is to ensure capital security and the liquidity needs of the Council are met followed by securing the best rate of return.

3.3.6 Investment of the Council's cash balances is governed by the Guidance on Local Government Investments which has been issued by the Department for Communities and Local Government.

3.3.7 The guidance requires certain investment policy parameters to be set within the annual Treasury Management 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 For the year 2017/2018, investment activity conformed to the approved strategy and the Council experienced no liquidity issues in the year . The temporary investments balance at the start of year was £104.745m and this was reduced to £34m at the end of the year. The £34m held at 31 March 2018 was invested as follows: UK local authorities £5.0m and AAA rated Money Market Funds £29.0m. Deposits totalling £611.792m were invested and the Council maintained an average monthly balance of £76.895m.

Investments made in 2017/2018



3.3.9 In placing these deposits, the treasury team will speak to a number of money brokers and institutions to secure the best deals. The bulk of these deals were made directly with the deposit taking bank, other local authorities or placed with one of the AAA rated Money Market Funds.

3.3.10 During the year the Council paid a further £13.5m for its commitment to the second Real Lettings Property Fund Limited Partnership. The Council now has an investment of £30m in Reals Lettings 1 Fund Limited Partnership and £15m in Real Lettings 2 Fund Limited Partnership. Both funds have a 7-year life offering investors the opportunity to invest in a diversified portfolio of London residential property and aim to deliver a minimum return of 5% per annum. For Croydon, these investments also provide added benefit in that the properties purchased offer affordable accommodation for former homeless people or those at risk of homelessness, who cannot access social housing. Returns generated by the investments serve to boost the Council's overall income now and in the future.

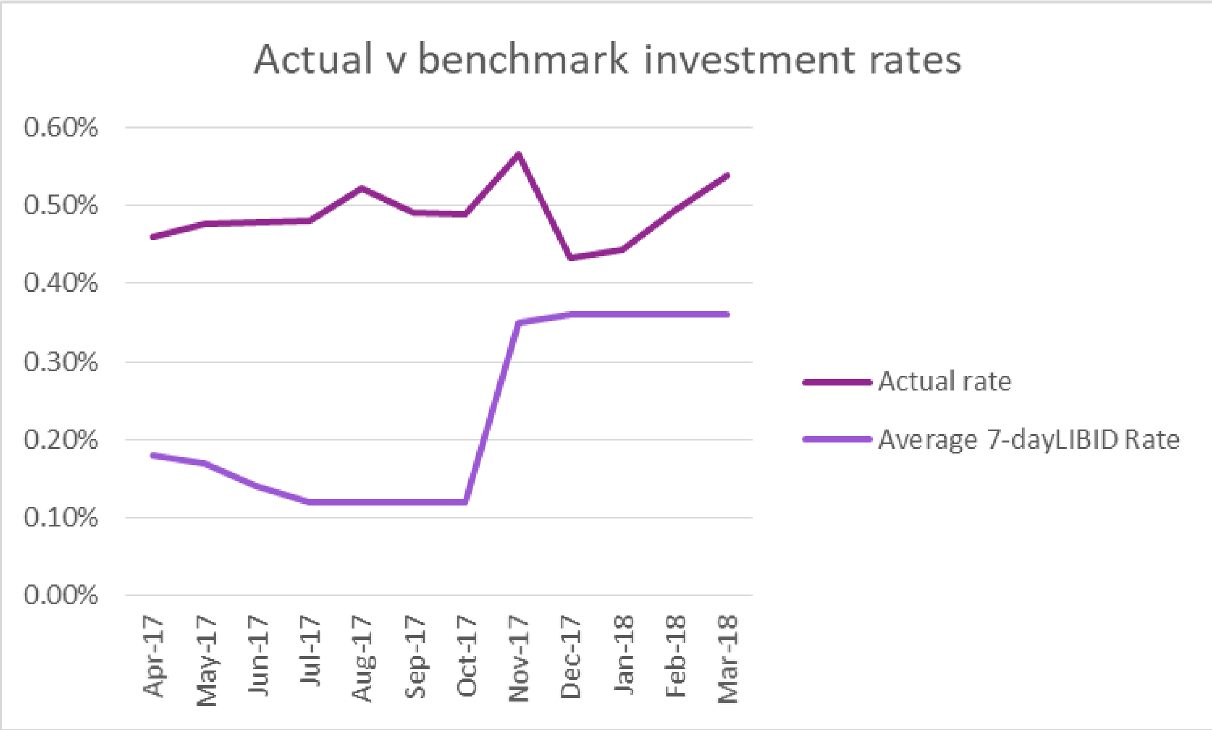
3.4 Performance Targets

3.4.1 The gross investment income earned by the Council for the financial year 2017/2018 was £0.37m. This sum included interest accrued on investments made in 2016/2017 that matured in 2017/2018, representing an overall return of 0.48% against a benchmark (7 Day LIBID) return of 0.29% for the financial year.

3.4.2 The average 7-day London Interbank Bid (LIBID) can be used as a benchmark against which investment returns can be measured. This is generally accepted as a reasonable proxy for cash. Investments were restricted to the duration limits recommended by the Council's Treasury Advisers, Capita Asset Services and only made with institutions on the Council's authorised lending list.

3.4.3 The graph below details the rate of investment returns achieved on investments made each month in 2017/2018 compared to the benchmark average 7-day LIBID rate for the month.

Actual investment rates achieved compared to the average 7-Day LIBID rates 2017/2018



3.4.4 This financial environment remains challenging. With interest rates in the UK, Europe and the US remaining at historically low levels returns on investments are paltry. On the other hand the cost of debt is low and the cost of the debt portfolio is one of the lowest across London. There still remains a margin between the interest payable and receivable, known as the cost of carry. In order to mitigate this cost as far as is possible cash balances have been run down and borrowing therefore only taking up as required.

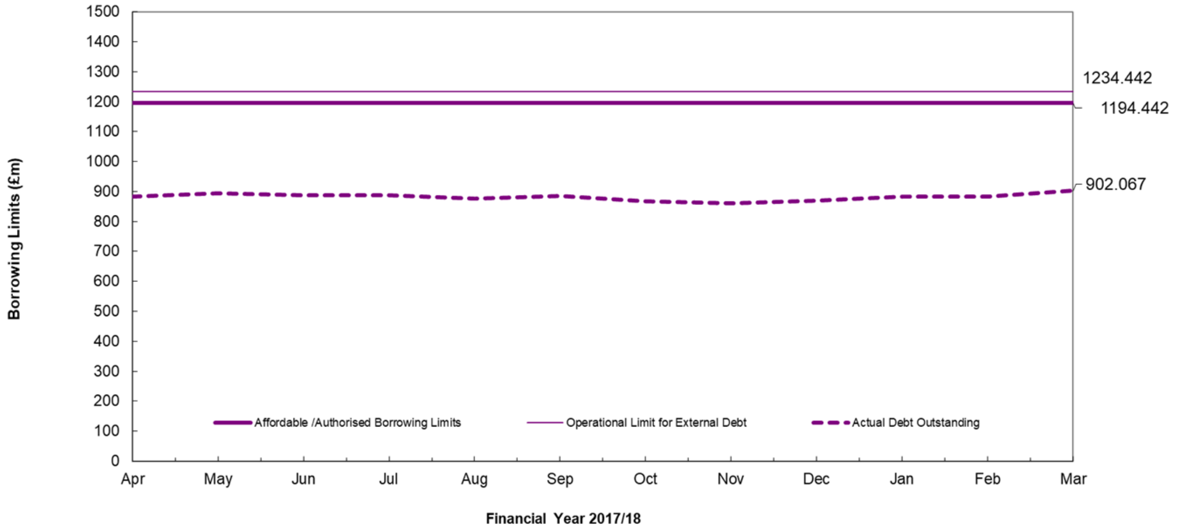
3.5 Borrowing

3.5.1 The Council set borrowing limits that were approved by **Full Council on 27 February 2017 (Minute A16/17 refers)** for the year 2017/2018 as part of the legislative constraints specified in Section 3 of the Local Government Act 2003 which requires the Council to determine and keep under review how much it can afford to borrow. These sums were:

Operational Limit for External Debt	£1,194.442m
Affordable Borrowing Limit	£1,234.442m
Authorised Borrowing Limit	£1,234.442m

3.5.2 The chart below shows the actual debt in 2017/2018 in comparison to the above borrowing limits.

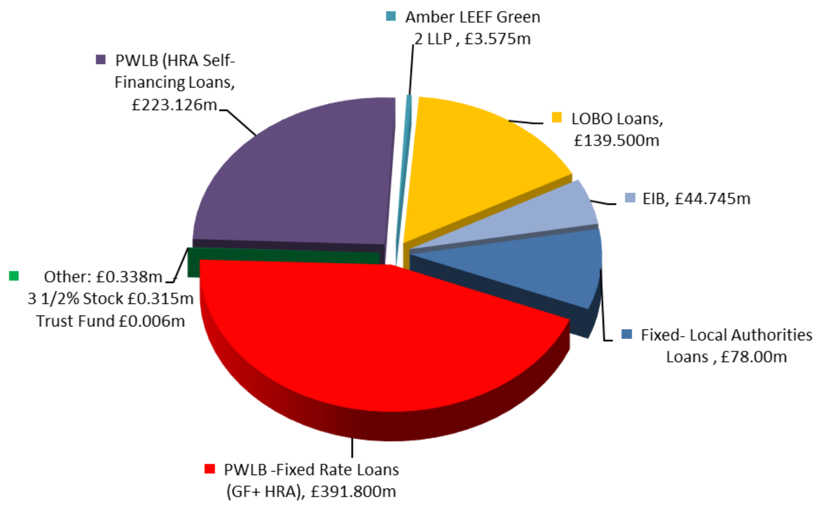
Actual Debt in 2017/2018 in comparison to the Operational, Affordable and Authorised Borrowing Limits for the year

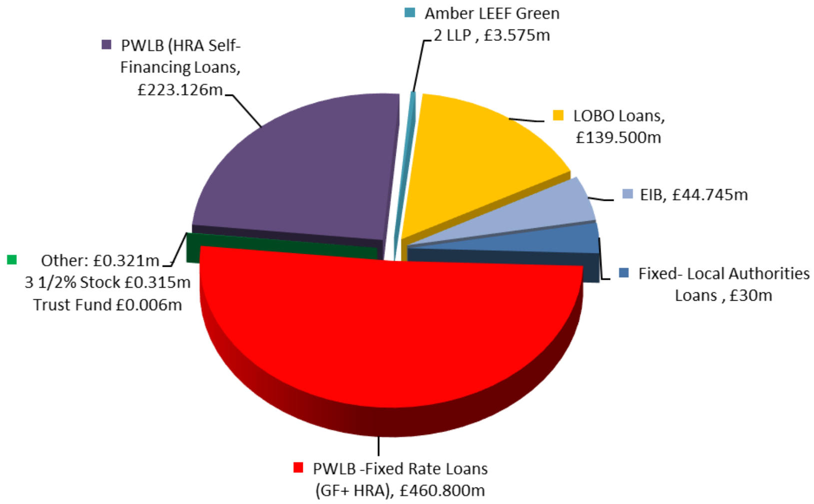


3.5.3 The Authorised Limit sets the maximum amount that the Council can borrow for capital and revenue purposes. This ceiling was not exceeded and the Council's overall borrowing as at 31 March 2018 stood at £902.067m. The maturity profile of the Council's debt is shown in **Appendix B**. The Operational Limit was also observed.

The Council's external debt at 1st April 2017 and 31st March 2018 is detailed graphically as follows:

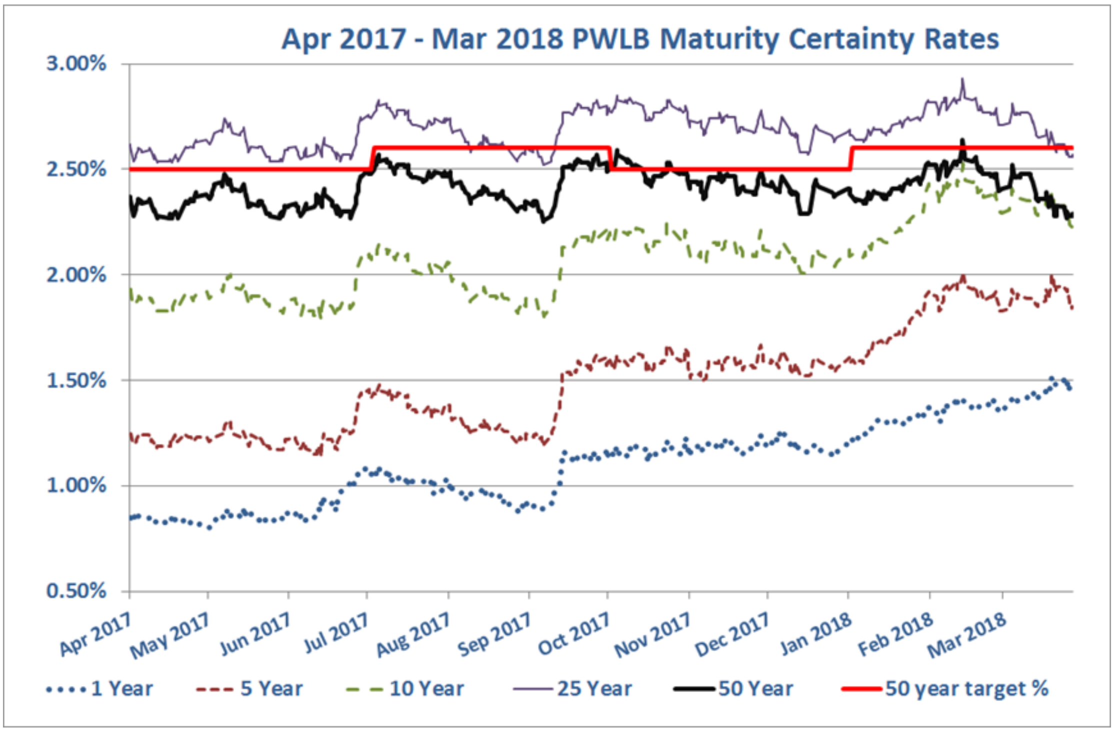
External Debt as at 1 April 2017 (£881.067m)





External Debt as at 31 March 2018 (£902.067m)

3.5.4 The Council is able to borrow at the PWLB certainty rate. The 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March. During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4. The graph below shows PWLB rates for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



3.5.5 During the year the overall borrowing increased by £21.0m. This low increase in borrowing was because the Council reduced its cash investments, using them to finance capital expenditure. During the second half of the year short term interest rates increased while long term rates were volatile, but still at low levels. The Council preferred any new borrowing to be long term with the PWLB and so, at the end of the year borrowing from other Local Authorities was £30m, a fall of £48m from the previous year and long term borrowing with the PWLB increased by £69m to £683.926m. Loans taken up from the PWLB were as follows:

Principal	Start date	Type	Maturity date	Interest rate
£25m	27/12/2017	Fixed rate	28/06/2065	2.45%
£25m	23/01/2018	Fixed rate	30/10/2064	2.42%
£25m	23/03/2018	Fixed rate	30/04/2066	2.37%

The Council ensured borrowing was undertaken below the PWLB target (certainty) rates referred to in section 3.5.4.

3.5.6 The Council's treasury strategy for 2017/2018 was approved by Full Council **on 27 February 2017 (Minute A16/17 refers)**. Within the report were detailed the different borrowing strategies available, of which temporary borrowing and borrowing from other local authorities were options. Borrowing undertaken for up to 364 days is termed temporary borrowing and this form of borrowing is also being offered by other local authorities at rates between 0.15% for one month to 0.50% for 364 days. Temporary borrowing can be used for cash flow purposes pending a more advantageous time to borrow long term. To maximise savings on the interest payable on the Council's external debt, the Treasury Section has in 2017/2018 mainly used internal cash balances whenever possible along with a combination of temporary borrowing and PWLB borrowing for longer periods.

3.5.7 The interest rate payable on the Council's long term fixed rate debt has remained consistently below the average of the peer group respondents to the CIPFA benchmarking club. The Councils cost of borrowing for 2017/18 was 3.54% compared to the peer group at 3.80% To provide some context if the Council's long term cost of debt was at the London average an additional £2.35m would need to be found each year. Currently the Council can borrow at levels below the average rate, and therefore the cost of new debt and of refinancing debt as it matures lowers the average rate payable. The average rate payable is likely to continue to fall in the near term as rates are still at historic lows despite the move to an upward path.

3.6 Compliance with Prudential Indicators

3.6.1 December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. Officers will report to members when the implications of these new codes have been assessed as to the likely impact on this Authority.

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

3.6.3 The purpose of the Prudential Indicators set 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.

3.6.4 The Prudential Indicators set by this Authority for 2017/2018 and the actual outturn figures are detailed in **Appendix C.**

3.7 **Repayment of Debt and Debt Rescheduling**

3.7.1 In 2017/2018, as a result of both the high premiums attached to the premature repayment of debt there were minimal opportunities for the rescheduling of the Council's long term debt and therefore none was undertaken.

3.7.2 The borrowing strategy adopted in 2017/2018 ensures that debt will mature over a spread of future years so as to avoid 'clustering' and thus exposure to any future in-year events.

3.8 **Markets in Financial Instruments Directive**

3.8.1 The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions have with local authorities from that date. This has had little effect on this Authority apart from having to fill in forms sent by each institution dealing with this Authority and for each type of investment instrument we use, apart from for cash deposits with banks and building societies.

3.9 Minimum Revenue Provision Policy Statement

3.9.1 Minimum Revenue Provision (MRP), often referred to as a 'provision for the repayment of debt', is a charge to revenue in relation to capital expenditure financed from borrowing or through credit arrangements.

3.9.2 The annual MRP charge was previously determined under Regulation but is now determined under Guidance ('the Guidance') issued by the Secretary of State in February 2008. There is now a statutory duty, embodied within Statutory Instrument 2008 No.414 s 4, which lays down that:

> ***'A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.'***

3.9.3 MRP only applies to the General Fund. There is no requirement to make a MRP charge for the Housing Revenue Account (HRA).

3.9.4 Along with the above duty, the Government issued guidance in February 2008 which requires that a statement on the Council's policy for its annual MRP should be submitted to Full Council for approval before the start of the financial year to which the provision will relate. The current MRP Statement was agreed by full Council at its February 2018 meeting.

3.9.5 The Executive Director of Resources is responsible for ensuring that accounting policies and the MRP policy complies with the statutory Guidance in determining a prudent level of MRP.

3.9.6 The 2018/2019 Minimum Revenue Provision Statement, has been reviewed to reflect current practices in respect of loans and also investment properties The revised MRP Policy Statement for 2018/2019 is attached at Appendix E.

4 CONSULTATION

4.1 Full consultation 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.

The effect of the decision

5.2 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).

Risks

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

Options

5.4 These are fully dealt with in this report.

Savings/ future efficiencies

5.5 This report sets out the treasury activities in 2017/2018 and demonstrates the Council's compliance with the Prudential Code and the limits set in both the Code and the Treasury Strategy Statement and the Annual Investment Strategy 2017/2018 report presented to Members **on 27 February 2017 (Minute A16/17 refers)**

Approved by: Lisa Taylor, Director of Finance, Investment and Risk

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Solicitor to the Council comments the Local Government Act 1972, Section 151 provides each local authority has a statutory duty to make arrangements for the proper administration of its financial affairs. The Council's Chief Financial Officer appointed under Section 151 is responsible for reporting to the committee on the activities of the treasury management operation.

6.2 The Council is under a duty to manage its resources prudently and all treasury activity must comply with a variety of professional codes, statues and guidance.

6.3 The Council has adopted the CIPFA Treasury Management Code of Practice in Public Services and a Treasury Management Policy Statement which is referred to in the Council's Constitution Financial Regulations Part 4H.

Approved by: Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

7. HUMAN RESOURCES IMPACT

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

Approved by: Sue Moorman, 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 Disability 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.

BACKGROUND DOCUMENTS:
CIPFA's Prudential Code for Capital Finance in Local Authorities 2017 edition.
CIPFA's Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes – 2017 edition.
CLG's Guidance on Local Government Investments March 2004.

Appendices

Appendix A: Authorised Lending List
Appendix B: Long-term debt profile
Appendix C: Prudential Indicators
Appendix D: Glossary
Appendix E: Minimum Revenue Provision Policy Statement

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

Appendix A

LONDON BOROUGH OF CROYDON

Authorised Lending List Criteria as at 31 August 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				
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					AA+

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
Cooperative Rabobank **(Netherlands)**	10,000,000	AA-	F1+	a+	5	AAA
DBS Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
National Australia Bank **(Australia)**	10,000,000	AA-	F1+	aa-	1	AAA
Nordea Bank **(Sweden)**	10,000,000	AA-	F1+	aa-	5	AAA
Overseas Chinese Banking Corporation Ltd **(Singapore)**	10,000,000	AA-	F1+	aa-	1	AAA
Skandinaviska Enskilda Banken AB	10,000,000	AA-	F1+	aa-	5	AAA
Swedbank AB **(Sweden)**	10,000,000	AA-	F1+	aa-	5	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

LIST A

LIMITS TO INDIVIDUAL ORGANISATIONS
Maximum Investment Limit - £20m apart from the limits on the institutions noted below.

CREDIT RATINGS

FITCH Rating in each of the following categories:	F1+ on Short Term Rating AA or above Long Term Rating aa- or above Viability Rating 5 or above for Support Rating AA+ or above Sovereign Rating

APPROVED ORGANISATIONS MEETING CREDIT RATINGS
ALL NON – UK BANKS that meet the FITCH ratings set out above.
ALL UK BUILDING SOCIETIES that meet the FITCH ratings set out above.
UK BANKS that meet the FITCH ratings set out above.
AAA RATED MONEY MARKET FUNDS - £15M LIMIT
DEBT MANAGEMENT OFFICE – NO LIMIT

APPROVED ORGANISATIONS NOT MEETING THE ABOVE CREDIT RATINGS
PART NATIONALISED UK BANKS – Limits as noted below:
ROYAL BANK OF SCOTLAND GROUP PLC - £25M LIMIT

LIST B

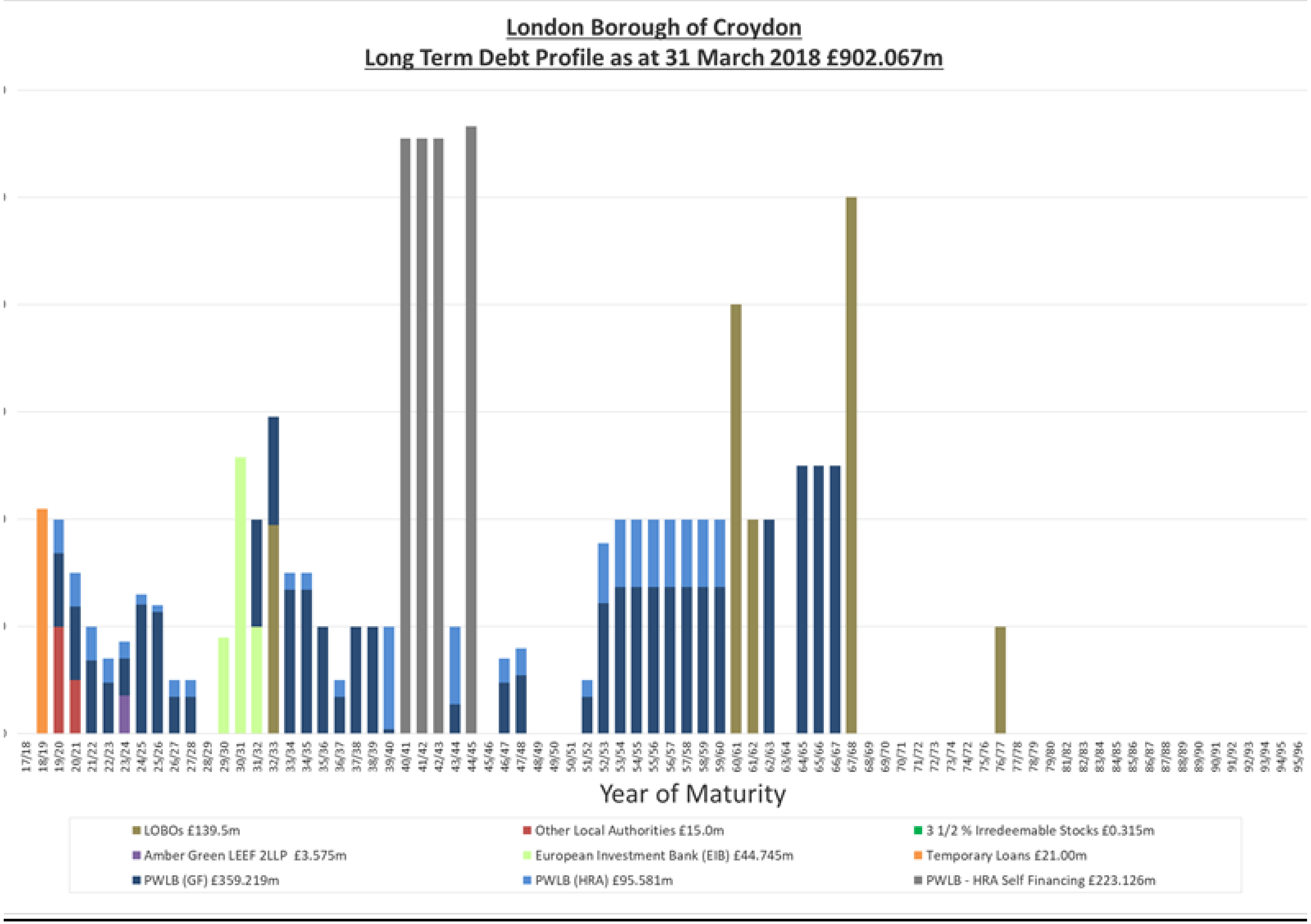
LIMITS TO INDIVIDUAL ORGANISATIONS
Maximum Investment Limit - £10m

CREDIT RATINGS

FITCH Rating in each of the following categories:	F1+ on Short Term Rating AA- or above on Long Term Rating a+ or above Viability Rating 5 or above for Support Rating AA+ or above Sovereign Rating

APPROVED ORGANISATIONS MEETING CREDIT RATINGS
ALL NON – UK BANKS that meet the FITCH ratings set out above.
ALL UK BUILDING SOCIETIES that meet the FITCH ratings set out above.
UK BANKS that meet the FITCH ratings set out above
ALL UK LOCAL AUTHORITIES

Appendix B



London Borough of Croydon
Long Term Debt Profile as at 31 March 2018 £902.067m
17/18
18/19
19/20
20/21
21/22
22/23
23/24
24/25
25/26
26/27
27/28
28/29
29/30
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87/88
88/89
89/90
90/91
91/92
92/93
93/94
94/95
95/96
Year of Maturity
LOBOs £139.5m
Other Local Authorities £15.0m
3 1/2 % Irredeemable Stocks £0.315m
Amber Green LEEF 2LLP £3.575m
European Investment Bank (EIB) £44.745m
Temporary Loans £21.00m
PWLB (GF) £359.219m
PWLB (HRA) £95.581m
PWLB - HRA Self Financing £223.126m

Appendix C

PRUDENTIAL INDICATORS FOR 2017/2018

		2017 / 2018	2017 / 2018	Notes
	PRUDENTIAL INDICATORS	**Budget** **£'000**	**Actual** **£'000**	1
1.	**Prudential Indicators for Capital Expenditure**			
1.1	Capital Expenditure General Fund HRA	 386,774 27,051	 106,909 32,889	
	Total	413,825	139,798	
1.2	In year Capital Financing Requirement General Fund HRA	 355,227 0	 58,401 0	
	Total	355,227	58,401	2
1.3	Capital Financing Requirement as at 31 March 2018 – **balance sheet figures** General Fund (net of Minimum Revenue Provision (MRP) costs) HRA	 966,083 322,497	 633,633 322,497	
	Total	1,288,580	956,130	3
2	**Prudential Indicators for Affordability**			
2.1	Ratio of financing costs to net revenue stream General Fund HRA	 13.00% 16.50%	 10.25% 13.20%	 4 5
2.2	General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum). - In year increase	£14.32	£15.17	6
2.3	HRA impact of Prudential (unsupported) borrowing on housing rents (per annum)	0	0	
3	**Prudential Indicators for External Debt**			
3.1	Borrowing Requirement External Debt brought forward 1 April External Debt carried forward 31 March	 881,067 1,215,067	 881,067 902,067	 7
	Additional borrowing requirement/undertaken	334,000	21,000	

Appendix C

4	**Prudential Indicators for Treasury Management**			
4.1	Borrowing limits - upper limit for fixed interest rate exposure expressed as:-			
	Net principal re fixed rate borrowing / investments	1,234,442	762,567	
4.2	Borrowing limits - upper limit for variable rate exposure expressed as:-			
	Net principal re variable rate borrowing / investments	20%	15.5%	
4.3	Lending limits - upper limit for total principal sums invested for over 364 days expressed as a % of total investments	30%	0%	

Notes:

1. Actual is based upon the audited accounts for 2017/2018.

2. Long term funding of £58.401m was used to finance capital expenditure in the year all of which was for the General Fund (GF).

3. The Capital Financing Requirement (CFR) reflects the local authority's underlying need to borrow for a capital purpose.

4. This reflects the impact on the GF of the Council's external debt. The GF's net revenue stream consists of the amount to be met from government grants and local taxpayers. The GF's ratio of financing cost was lower than estimated as a result of the new borrowing undertaken at lower than estimated interest rates.

5. This reflects the impact on the HRA of the Council's external debt. The HRA's net revenue stream consists of rental income received and other income as shown in the HRA accounts.

6. This represents the extra annual levy on a Band D tax bill arising from the take up of GF unsupported borrowing.

7. The external debt brought forward as at 1 April 2018 includes the £223.126m that the Council's HRA borrowed on 28/3/2012 to exit the national HRA Subsidy system. This amount, known as the HRA Self Financing settlement sum, was paid over by the Council to the Government.

Appendix D

GLOSSARY OF TERMS USED IN THE TREASURY ANNUAL REVIEW REPORT

Affordable Borrowing Limit and Authorised Limit for external debt	The maximum amount the Council can borrow for capital and revenue purposes, allowing a prudent margin for unexpected events. The Affordable Borrowing Limit reflects a level of borrowing which, while not desirable, is affordable in the short term. The Council does not have the power to borrow above the Authorised Limit.
Capital Financing Requirement	A calculated notional figure that represents the authority's underlying need to borrow to finance capital expenditure. Note that this does not necessarily mean that this is the sum borrowed.
CIPFA	The Chartered Institute of Public Finance and Accountancy. The leading professional accountancy body for the public services.
CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes Fully Updated Edition 2011	The professional code governing treasury management, which was approved by Full Council on 29 February 2016 (Minute A19/16 refers).
Debt Management Office (DMO)	The Debt Management Office (DMO) is an Executive Agency of Her Majesty's Treasury. The DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds. The majority of the Council's debt is arranged through the DMO (see PWLB below).
European Central Bank (ECB)	The European Central Bank (ECB) is the central bank for Europe's single currency, the Euro. The ECB's main task is to maintain the Euro's purchasing power and thus price stability in the Eurozone. The ECB also sets the bank lending rate across the Eurozone.
European Union (EU)	The European Union (EU) is a politico- economic union of 28 member states that are primarily located in Europe.
European Investment Bank (EIB)	The European Investment Bank (EIB) is owned by the 28 EU countries. It borrows money on the capital markets and lends it at a low interest rate to projects that improve infrastructure, energy supply or environmental standards both inside the EU and in neighbouring or developing countries.

FITCH	An internationally recognised rating agency which is used and approved by the Council's Treasury Advisers, Capita Asset Services. Standard & Poor's and Moody's are also rating agencies.
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.
Lenders Option / Borrowers Option Loans (LOBO's)	A form of 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 exercises the option to change the interest rate the borrower can then decide whether to accept the new terms or repay the loan. These can offer more attractive rates to the borrower than conventional lending.
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.
Monetary Policy Committee (MPC)	Interest rates are set by the Bank of England's Monetary Policy Committee (MPC). The MPC sets an interest rate it judges will enable the inflation target to be met (2% per annum currently). The Bank's Monetary Policy Committee (MPC) is made up of nine members - the Governor, three Deputy Governors for Monetary Policy, Financial Stability and Markets & Banking, the Bank's Chief Economist and four external members appointed directly by the Chancellor.
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.(see Affordable & Authorised limits above).
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 2018/19 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.