AGENDA ITEM NO.

ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE
ON 14 February 2019

PART A: REPORT

SUBJECT: Treasury Management Strategy Statement and Annual Investment Strategy 2019/20

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)
DATE: January 2019
EXTN: 37861
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The purpose of this report is to present the Treasury Management Strategy Statement and Annual Investment Strategy 2019/2020 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

RECOMMENDATIONS:

The Committee is requested to recommend Full Council to:

(i) approve the Treasury Management Strategy for 2019/20;
(ii) approve the Annual Investment Strategy for 2019/20; and
(iii) approve the Prudential Indicators for 2019/20, 2020/2021 and 2021/22 as contained in appendix 1 and the body of the report.

BACKGROUND:

1 Introduction

1.1 Background

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

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

The contribution that the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

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

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported at this meeting (Agenda item 8 – previous item) and will go to Full Council on 13th March 2019.

1.2 Reporting Arrangements

1.2.1 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

a. **Prudential and Treasury Indicators and Treasury Strategy** (this report) - The first and most important report is forward looking and covers:

- the capital plans (including prudential indicators) (2.0);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time) (2.4);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators (3.0); and
- an investment strategy (the parameters on how investments are to be managed) (4.0).

b. A Mid-Year Treasury Management Report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. The Audit and Governance Committee will receive a mid-year report at its November meetings prior to approval by Full Council.

c. An Annual Treasury Report – This is a backward looking review document providing details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy which the Audit and Governance Committee will receive at its July meetings prior to approval by Full Council.

1.3 Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

1.3.1 **Capital issues**

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

1.3.2 **Treasury management Issues**

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Treasury Management Code, the CIPFA Prudential Code, MHCLG Investment Guidance and the MHCLG Minimum Revenue Provision (MRP) Guidance.

A Voluntary Repayment Provision (VRP) is sufficient as Arun's debt is all HRA. However, there is a possibility that the Council may wish to borrow for General Fund purposes at some point in the future and the MRP policy written as part of the 2018/19 Strategy (Appendix 2) is still in place with no revisions at this time. The policy will need to be reviewed at such time as the need to borrow has been agreed. There may also be further HRA borrowing relating to the current acquisition/new build programme.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies

to members responsible for scrutiny. Accordingly, all members were invited to attended a workshop presented by Link Asset Services (Treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. The latest session was held on 15th November 2018.

The training needs of treasury management officers are reviewed periodically and senior officers attend seminars at least once a year.

1.5 Treasury management consultants

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. Any commercial type investments will require specialist advisers in relation to this activity.

2 <u>The Capital Prudential Indicators 2019/20 to 2021/22</u> (Appendix 1)

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

2.1 Capital Expenditure.

This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Council's capital expenditure is considered as part of the budget setting process and a report for approval is going to Full Council on 20th February 2019.

Currently Arun's only borrowing relates to the HRA self-financing settlement. However, the Council now has a significant capital programme including HRA acquisition/new build, the Linear Park development and Keystone Centre. Much of this programme will be funded from capital receipts and revenue resources but it is likely that additional borrowing will be required at some point in the near future, however the source has not yet been identified.

The need to borrow is reviewed annually as part of the Treasury Management Strategy and budget setting process and will be dependent on the HRA Business Plan and the Capital programme.

The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need;

Capital Expenditure	**Actual 2017/18 £,000**	**Current Estimate 2018/19 £,000**	**Estimate 2019/20 £,000**	**Estimate 2020/21 £,000**	**Estimate 2021/22 £,000**
Non HRA	10,957	14,224	3,520	5,596	3,230
HRA	6,226	3,714	10,423	8,647	3,647
HRA settlement	-	-	-	-	-
Total	**17,183**	**17,938**	**13,943**	**14,243**	**6,877**
Financed by:					
Capital receipts (1-4-1)	10,425	4,842	1,500	1,500	0
Capital grants	734	1,919	1,500	1,500	1,500
Capital reserves	2,861	1,396	5,393	3,617	3,617
Revenue	649	8,158	2,050	1,336	1,760
	14,669	**16,315**	**10,443**	**10,743**	**6,877**
Net financing need for the year	**2,514**	**1,623**	**3,500**	**3,500**	**0**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. In 2016/17 a new Grounds Maintenance Contract and Combined Cleansing Contract was entered into. Under IFRIC 4, it has been deemed that both contracts contain finance leases.

The Council is asked to approve the CFR projections in Appendix 1 also shown below:

CFR at 31 March	**Actual 2017/18 £,000**	**Current Estimate 2018/19 £,000**	**Estimate 2019/20 £,000**	**Estimate 2020/21 £,000**	**Estimate 2021/22 £,000**
Capital Financing Requirement					
General Fund	-3,594	-3,799	-4,009	-4,223	-4,442
HRA	55,401	53,694	52,425	52,305	52,069
Total CFR	**51,807**	**49,895**	**48,416**	**48,082**	**47,627**
Movement in CFR	**(1,030)**	**(1,912)**	**(1,479)**	**(334)**	**(455)**

Movement in CFR represented by					
Leasing arrangements (GF)	372	0	0	0	0
HRA unfinanced	2,340	1,837	2,275	3,500	3,500
Less MRP/VRP	(3,742)	(3,749)	(3,754)	(3,834)	(3,955)
Movement in CFR	**(1,030)**	**(1,912)**	**(1479)**	**(334)**	**(455)**

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Fund balances	17.3	13.0	11.7	9.0	7.4
Earmarked Reserves	18.4	19.1	18.2	17.2	16.2
Capital Receipts	5.0	2.6	2.9	2.2	1.5
Other	1.7	2.0	2.0	2.0	2.0
Total core funds	**42.4**	**36.7**	**34.8**	**30.4**	**27.1**
Under/over borrowing	18.3	23.3	11.2	10.6	1.9
Expected investments	**60.7**	**60.0**	**46.0**	**41.0**	**29.0**

2.4 Minimum revenue provision (MRP) policy statement

Councils are required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

The Council does not currently have any General Fund debt and therefore is not statutorily required to make Minimum Revenue Provision (MRP) in respect of its CFR, but there is a requirement for a charge for depreciation to be made. It is considered prudent to make VRP in respect of the PWLB maturity loans funding the HRA self-financing settlement payment. The table shows the VRP reducing the CFR. The VRP is incorporated in the HRA Business Plan and in the 2019/20 HRA budget. If borrowing is taken out for general fund in 2019/20, the MRP policy will need to be reviewed.

MRP Overpayments

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 there were no VRP overpayments.

2.5 Affordability Prudential Indicators

The report covers the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator contained in Appendix 1.

Ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	Actual 2017/18 %	Current Estimate 2018/19 %	Estimate 2019/20 %	Estimate 2020/21 %	Estimate 2021/22 %
Non-HRA	-2.24	-1.79	-2.32	-2.32	-2.32
HRA	32.82	33.17	32.97	31.75	30.99

3 Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appoporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's Treasury Investment and debt portfolio position at 31 March 2018 and 31 December 2018 summarised below;

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.18	31.3.18	31.12.18	31.12.18
Treasury investments	£000	%	£000	%
banks	43,000	71%	48,000	86%
building societies - unrated	5,000	8%	0	0%
building societies - rated	0	0%	0	0%
local authorities	2,000	3%	2,000	4%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	5,730	9%	710	1%
Total managed in house	**55,730**	**92%**	**50,710**	**91%**
property funds	5,000	8%	5,000	9%
Total managed externally	**5,000**	**8%**	**5,000**	**9%**
Total treasury investments	**60,730**	**100%**	**55,710**	**100%**
Treasury external borrowing				
PWLB	53,180	100%	53,180	100%
Total external borrowing	**53,180**	**100%**	**53,180**	**100%**
Net treasury investments / (borrowing)	**7,550**	**0**	**2,530**	**0**

The investments held at 31st December 2018 are shown in Appendix 3.

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council is technically in an over borrowed position as the only borrowing relates to the HRA Self-Financing settlement (£70.9m now £53.18m). Prior to this borrowing being undertaken, the Council had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. As a consequence of these factors, the Council's gross debt currently exceeds its CFR.

The Group Head of Corporate Support reports that the Council complied with the prudential indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

3.2.1 **The Operational Boundary.**

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

The Council is requested to approve an operational boundary of £58M in Appendix 1 (2019/20).

3.2.2 **The Authorised Limit for external debt.**

A further key prudential indicator represents a control on the maximum level of borrowing.

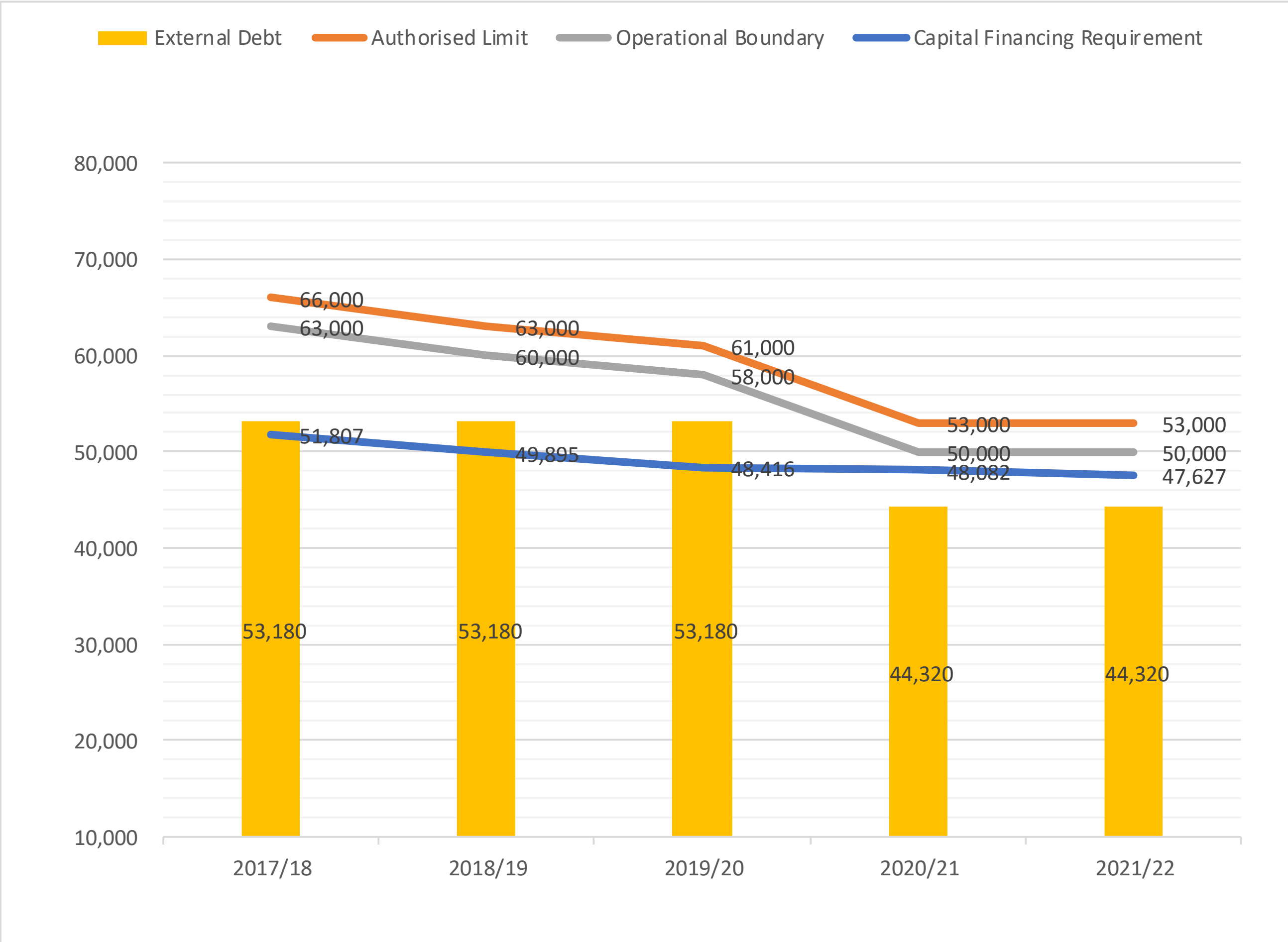
This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

(i) This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

(ii) The Council is asked to approve an Authorised Limit of £61M (appendix 1 2019/20).

3.2.3 In October 2018 the Government announced the abolition of the HRA debt cap. Prior to this date there was a statutory limit to each housing authority's HRA CFR (Arun - £81.63M).

3.2.4 The chart below shows the Councils projection of CFR and borrowing.



The bars in the chart above show the actual external debt (£53M-44M) and does not include and potential future borrowing.

3.3 Prospects for Interest Rates

3.3.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 4 draws

together two views of the forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Link Asset Services central view.

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

3.3.2

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018.

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing Strategy

3.4.1 As stated in 2.1, The Council has a significant capital programme including HRA acquisition/new build, Linear Park development and Keystone Centre.

The level of expenditure within the HRA will almost certainly require additional borrowing. This will be reflected in the HRA 10 year financial model which will form an integral part of the Business Plan. The HRA business plan will include a programme of new build/stock acquisition, in addition to ongoing maintenance and decent homes programme.

The source of any of this potential borrowing has not been identified at the time of writing. There may also be a requirement to borrow for other new projects / opportunities, but this would need to be dependent on a viable business case which fully justifies the investment.

The Council's borrowing strategy will give consideration to new borrowing in the following order or priority;

1) Internal borrowing, by running down cash balances and foregoing interest earned at historically low rates, as this is the cheapest form of borrowing, however, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years;

2) PWLB borrowing – the Certainty Rate is available to the Council at 0.2% below the normal terms;

3) Short dated borrowing from the money markets, most probably other local authorities;

There may however be an occasional need to borrow for liquidity purposes especially as the Council no longer has an overdraft facility. The facility was removed as banking costs made it very expensive and rather than incurring any costs for the facility, the treasury team now maintain an approx. £200k balance in the account daily (earning interest at the bank of England base rate -10bp, currently 0.65%) to cover any potential issues.

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

3.4.2 **Maturity structure of borrowing**

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the treasury indicators and limits in Appendix 1 also shown below:

Maturity structure of fixed interest rate borrowing 2019/20			
	Actual at 31/03/19	**Lower**	**Upper**
Under 12 months	16.66%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	16.66%	0%	50%
5 years and within 10 years	0%	0%	60%
10 years and above	66.68%	0%	100%

The Council currently has no variable rate borrowing and no plans to have in 2019/20.

3.5 Policy of Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.6 Debt Rescheduling

The only loans that the Council currently hold are those taken to fund the housing reform payment.

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However any savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Full Council at the earliest meeting following its action.

3.7 Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

4 <u>Annual Investment Strategy</u>

4.1 Investment Policy – management of risk

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 6 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (Appendix 1).

6. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (Appendix 8).

7. All investments will be denominated in **sterling**.

8. The Council may invest in investments that are termed "alternative investments". These include, but are not limited to, things such as renewable energy bonds (Solar farms). These are asset backed bonds, offering good returns, and will enable the Council to enter new markets, thus furthering the diversification of our investment portfolio with secured investments and enhancing yield. Any investments entered into of this type will be subject to a full due diligence review prior to investment.

9. As a result of the change in accounting standards for 2018/19 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

This authority will however, also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

The Council does not strictly adhere to the advisor's suggested lending list and durations, but does take account of the advice offered before making any investment decisions. The Council will take advantage of attractive rates available from counterparties of high creditworthiness for longer periods while interest rates remain low and the forecast for a rate hike is not till June 2019 (25bp).

4.2 Non Treasury Investments

Although not classed as treasury management activities, the Council may also purchase property for investment purposes and may also make loans and investments for service purposes.

These will be subject to to the Council's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

4.3 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Council achieves a high credit quality by using a minimum rating criteria (where rated). It does not use the approach suggested by CIPFA of using the lowest common denominator method of selecting counterparties as some rating agencies are more aggressive in giving low ratings than others. The Council applies a majority rule where a counterparty would be removed immediately from the lending list if 2 or more rating agencies downgrade the counterparty below the minimum criteria. The Council's minimum criteria can be seen in Appendix 7.

This Council supplements credit ratings using the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

All credit ratings are monitored weekly and the Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

The current list of approved counterparties is included in Appendix 7. Lloyds being the incumbent bank, has no limit however the Council will only invest £11M in term deposits with them.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.4 Country and sector limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

The exception to this policy is the UK, which is currently rated AA by all 3 rating agencies. If the UK's credit rating should fall below the minimum criteria set above, investment will continue to be made in UK financial institutions if after careful consideration it is deemed appropriate to do so.

The code recommends that Councils take country limits into consideration in order to spread risk. In practice most investments tend to be made in the UK due to the restricted number of quality counterparties available to the Council and it is not proposed to set country limits at this time.

The Council does not currently use sector limits e.g. banks v. building societies due to the limited number of quality counterparties available. The Council has a limit of between £4M and £12M (see Appendix 6 and 7 for investment categories) which can be invested with a single counterparty (or group) depending on the credit quality of the counterparty.

Every effort will be made to spread the maturity profile of investments to compensate for the lack of sector or country spreads (due to limited counterparties).

4.5 Investment Strategy

The Council does not utilise external fund managers, but reserves the option to do so in the future should this be deemed to be appropriate. Should consideration be given to exercising this option in the future, the relevant Committee will be advised of the reason for doing so.

The Council's funds are therefore all managed in-house although £5M is invested in a property fund run by CCLA (Churches, Charities and Local Authorities). The average level of funds available for investment purposes is currently £60M (as at 31 December 2018). These funds are partially cash-flow derived and there is a core balance of approximately £47M which is available for investments over a year (maximum 5 years or 25 years for property funds). The core balance is comprised of funds that are available due to a number of factors including the setting aside of funds to repay the HRA loans (£3.5M) for when they become repayable, the Earmarked Reserves, Capital Receipt, General Fund and HRA balances which were £18.4M, £5M, £12.4M and £6.6M at 31 March 2018 respectively.

The Council currently only has the £5m in the CCLA property fund spanning the financial year and the are no forward commitments (deals) for the financial year 2019/20.

Investment returns expectations.
On the assumption that the UK and EU agree a Brexit deal in spring 2019, then Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by

quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 - 0.75%
- 2019/20 - 1.25%
- 2020/21 - 1.50%
- 2021/22 - 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	Now
2018/19	0.75%
2019/20	1.00%
2020/21	1.50%
2021/22	1.75%
2022/23	1.75%
2023/24	2.00%
Later years	2.50%

- 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 dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

The Council's budgeted rate of return for 2019/20 is 1.24% based on 1.19% on funds that are already invested; 4.35% for the property fund (£5M); 0.93% for the remaining core balances; and 0.65% for short term cash flow derived balances. The total investment income budget for 2019/20 is £596,000. The budget is based on investments up to one year particularly in category's 4 & 7 and longer investments in Category 1, 2, 3 and 6. (Category 1 being the highest rated banks and 6 being part nationalised banks). Category 5; the Councils Bank (Lloyds) is a mixture of the above but also notice accounts (32 Day Notice and 95 Day Notice) enabling the Council to achieve slightly enhanced rates compared to Money Market Funds (MMFs).

The Council currently uses two types of Pooled Funds, Property Funds and MMFs. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. MMFs are used for short term of daily surplus of cash as they provide instant liquidity with high quality counterparties at a return comparable to (if not better than) other fixed deposits of short term duration. (0.65%-0.78%)

The MMFs are "triple A" rated, liquid, and most will now be LVNAV (Low Volatility net asset value). This is a change from the previous constant net asset value (CNAV) as a result of the MMF reform where typically for every pound of principal invested you got a pound back. It is not guaranteed, but offers better protection than using the VNAV (Variable net asset value) MMFs.

The Money Market Reform Regulations were published in the EU Official Journal in July 2017. This formally begins the compliance process for new funds, however the regulation came into force on 21st July 2018 in relation to existing funds. The Council will look to place investments in MMF's as below; but most will now be LVNAV due to the reform;

- CNAV – Constant net asset value
- LVNAV – Low volatility NAV
- VNAV – Variable net asset value

Most CNAV funds will become Low Volatility NAV (LVNAV) funds. LVNAV MMFs are permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the fund does not deviate from the dealing NAV by more than 20 basis points.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicators and limits in appendix 1 (shown below):

Maximum principal sums invested > 365 days			
£m	**2019/20**	**2020/21**	**2021/22**
Principal sums invested > 365 days	18	15	10

For its cash flow generated balances, the Council will seek to utilise its interest bearing bank account, notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

4.6 Investment risk benchmarking
This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID uncompounded.

4.7 End of year investment report
At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.8 Scheme of delegation
Please see Appendix 9.

4.9 Role of the section 151 officer
Please see Appendix 10.

Contact: Sian Southerton ext 37861 sian.southerton@arun.gov.uk

2. PROPOSAL(S): To approve all 3 recommendations.		
3. OPTIONS: The Treasury Management Strategy is legislative and under the Local Government act 2003 and therefore the only option is follow the proposal.		
4. CONSULTATION:		
Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		√
Relevant District Ward Councillors		√
Other groups/persons (please specify)	√ Treasury Advisors	
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: **(Explain in more detail at 6 below)**	**YES**	**NO**
Financial	√	
Legal		√
Human Rights/Equality Impact Assessment		√
Community Safety including Section 17 of Crime & Disorder Act		√
Sustainability		√
Asset Management/Property/Land		√
Technology		√
Other (please explain)		
6. IMPLICATIONS: Approval will enable the Council to comply with legislation and provide a Treasury Service		

7. REASON FOR THE DECISION:

Statutory and the limits set, safeguard the Council against financial losses.

8. BACKGROUND PAPERS:

CIPFA'S Treasury Management in the Public Services: Code of Practice (2017)

(Link not available as copyright)

The Prudential Code for Capital Finance in Local Authorities (2017) Guidance notes (2018) *(Link not available as copyright)*

The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content)

Prudential and treasury indicators

APPENDIX 1

1. PRUDENTIAL INDICATORS	2017/18	2018/19	2019/20	2020/21	2021/22
Extract from budget and rent setting report	**Actual**	**Probable outturn**	**Original**	**Original**	**Original**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure					
Non – HRA	10,957	14,224	3,520	5,596	3,230
HRA	6,226	3,714	10,423	8,617	3,647
TOTAL	**17,183**	**17,938**	**13,943**	**14,243**	**6,877**
Ratio of financing costs to net revenue stream					
Non – HRA	-2.24%	-1.79%	-2.32%	-2.32%	-2.32%
HRA	32.82%	33.17%	32.97%	31.75%	30.99%
Capital Financing Requirement as at 31 March					
Non – HRA	-3,594	-3,799	-4,009	-4,223	-4,442
HRA	55,401	53,694	52,425	52,305	52,069
TOTAL	**51,807**	**49,895**	**48,416**	**48,082**	**47,627**
Annual change in Cap. Financing Requirement					
Non – HRA	3,685	167	-210	-214	-219
HRA	-1,172	-1,707	-1,269	-120	-237
TOTAL	**-2,513**	**-1,540**	**-1,479**	**-334**	**-456**

2. TREASURY MANAGEMENT INDICATORS	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Probable outturn	Original	Original	Original
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
Borrowing	66,000	63,000	61,000	53,000	53,000
Other long term liabilities	0	0	0	0	0
TOTAL	**66,000**	**63,000**	**61,000**	**53,000**	**53,000**
Operational Boundary for external debt					
Borrowing	63,000	60,000	58,000	50,000	50,000
other long term liabilities	0	0	0	0	0
TOTAL	**64,000**	**60,000**	**58,000**	**50,000**	**50,000**
Actual external debt	53,180	53,180	53,180	44,320	44,320
Maximum HRA Debt Limit	81,630	N/a	N/a	N/a	N/a
Upper limit for total principal sums invested for over 365 days (£m)	**26**	**22**	**18**	**15**	**10**
-	- -	-	-		

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/19	lower limit	upper limit
under 12 months	16.66%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	16.66%	0%	50%
5 years and within 10 years	0%	0%	60%
10 years and above	66.68%	0%	100%

APPENDIX 2

Minimum Revenue Provision Policy

1. Introduction

1.1 CLG's Guidance on Minimum Revenue Provision (issued in 2012 but currently out for consultation) places a duty on local authorities to make a prudent provision for debt redemption. Where the Council finances capital expenditure by debt it must set aside resources to repay that debt in later years. The amount charged to revenue for the repayment of this debt is known as the Minimum Revenue Provision (MRP). The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

1.2. From 2007/08 onwards there has been no statutory minimum and the requirement is simply for local authorities to make a prudent level of provision, and the government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The guidance gives local authorities more freedom to determine what would be a prudent level of MRP.

1.3. The CLG guidance requires the authority to approve an annual MRP statement, and recommends 4 options for calculating a prudent amount of MRP, for approval by Full Council in advance of the year to which it applies. Any subsequent revisions to that policy should also be approved by Full Council.

2. Details of DCLG Guidance on MRP

2.1. The statutory guidance issued by DCLG sets out the broad aims of a prudent MRP Policy as being "to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant." It then identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.

2.2. The four MRP options available are:

- **Option 1**: Regulatory Method - is the previous statutory method, which is calculated as 4% of the Council's General Fund Capital Financing Requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

- **Option 2**: CFR Method - Option 2 differs from Option 1 only in that the smoothing factors are removed. Option 2 has been included by DCLG to provide a simpler calculation for those councils for whom it would have a minimal impact, but the draft guidance does not expect it to be used by councils for whom it would significantly increase MRP.

- **Option 3**: Asset Life Method – MRP is charged over the expected useful life of the asset either in equal instalments or using an annuity method whereby the MRP increases in later years.

- **Option 4**: Depreciation Method - MRP is charged over the expected life of the asset in accordance with depreciation accounting. This would mean that the rate at which the MRP is charged could increase (or, more rarely, decrease) from year to year.

  The guidance clearly states this does not preclude other prudent methods to provide for the repayment of debt principal.

2.3 Under the statutory guidance, it is recommended that local authorities use Options 3 or 4 for all prudential borrowing and for all borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments). Authorities may use any of the four options for MRP for their remaining borrowing to fund capital expenditure.

2.4. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also mentions that Option 3 could be used for this type of debt.

2.5 The guidance also allows authorities to take a MRP Holiday where assets do not become operational for perhaps 2 or 3 years or longer. It proposes that MRP would not be charged until the year following the one in which the asset became operational.

3. Details of Statute - Part 4 Section 23 b of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

3.1 In deciding on the appropriate level of MRP to charge and the most appropriate method of financing the capital programme, the Council needs to have regard to the wider legislation regarding the use of capital receipts.

3.2 Statute gives local authorities the option to apply capital receipts to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

3.3 Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years.

4. 2018/19 MRP Policy

For 2018/19 it is recommended the Council adopt the following MRP policy:

- MRP will be charged utilising **option 3** for assets which have been funded from prudential borrowing.
- MRP will only be charged in the year following the asset becoming operational.
- If capital receipts are utilised to repay debt in year, the value of MRP chargeable will be reduced by the value of the receipts utilised.
- Whether an annuity or equal instalment method is adopted for option 3 will be dependent on the most financially beneficial method as determined by the Chief Financial Officer
- For PFI and Finance lease liabilities an MRP charge will be made to match the value of any liabilities that have not been funded from capital receipts.
- The Chief Finance Officer will determine annually the most prudent use of Capital Receipts, taking into account forecasts for future expenditure and the generation of further receipts.
- There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited due to HRA self-financing settlement and provision has been made within the business plan to show that it can pay down the remaining debt over the life of the business plan.
- Any major revisions to this policy will be presented to Full Council for approval.

INVESTMENTS at 31st December 2018

Appendix 3

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	671	Goldman Sachs International	27/03/2018	03/01/2019	£1,000,000.00	1.175
Fixed Term Deposit	629	Close Brothers Ltd	26/01/2017	04/01/2019	£1,000,000.00	1.05
Fixed Term Deposit	663	Goldman Sachs International	11/01/2018	10/01/2019	£1,000,000.00	0.99
Fixed Term Deposit	684	Santander	06/07/2018	21/01/2019	£1,000,000.00	0.80
Fixed Term Deposit	665	Lloyds Bank PLC	31/01/2018	31/01/2019	£2,000,000.00	0.85
Fixed Term Deposit	687	Development Bank of Singapore (DBS	09/08/2018	11/02/2019	£1,000,000.00	0.91
Fixed Term Deposit	680	Qatar National Bank	05/06/2018	14/02/2019	£2,000,000.00	1.14
Fixed Term Deposit	686	Qatar National Bank	16/07/2018	14/02/2019	£1,000,000.00	1.20
Fixed Term Deposit	599	Natwest Markets (was RBS)	31/03/2016	18/02/2019	£2,000,000.00	1.50**
Fixed Term Deposit	667	Qatar National Bank	01/03/2018	28/02/2019	£1,000,000.00	1.20
Fixed Term Deposit	668	Close Brothers Ltd	02/03/2018	04/03/2019	£1,000,000.00	1.00
Fixed Term Deposit	689	Development Bank of Singapore (DBS	06/09/2018	06/03/2019	£3,000,000.00	0.95
Fixed Term Deposit	634	Close Brothers Ltd	17/03/2017	15/03/2019	£1,000,000.00	1.00
Fixed Term Deposit	670	Goldman Sachs International	19/03/2018	18/03/2019	£1,000,000.00	1.20
Fixed Term Deposit	672	Qatar National Bank	28/03/2018	27/03/2019	£1,000,000.00	1.32
Fixed Term Deposit	691	Development Bank of Singapore (DBS	01/10/2018	01/04/2019	£2,000,000.00	0.950
Fixed Term Deposit	637	Close Brothers Ltd	18/04/2017	10/04/2019	£1,000,000.00	1.00
Fixed Term Deposit	692	Development Bank of Singapore (DBS	22/10/2018	23/04/2019	£2,000,000.00	0.95
Fixed Term Deposit	693	Leeds County Council	26/10/2018	26/04/2019	£2,000,000.00	0.85
Fixed Term Deposit	675	Goldman Sachs International	08/05/2018	07/05/2019	£2,000,000.00	1.10
Fixed Term Deposit	676	Qatar National Bank	09/05/2018	09/05/2019	£1,000,000.00	1.31
Fixed Term Deposit	677	Goldman Sachs International	23/05/2018	22/05/2019	£1,000,000.00	1.10
Fixed Term Deposit	620	Natwest Markets (was RBS)	19/08/2016	19/08/2019	£2,000,000.00	1.10*
Fixed Term Deposit	688	Qatar National Bank	30/08/2018	30/08/2019	£2,000,000.00	1.35
Fixed Term Deposit	690	Close Brothers Ltd	17/09/2018	17/09/2019	£1,000,000.00	1.10
Fixed Term Deposit	694	Goldman Sachs International	08/11/2018	07/11/2019	£2,000,000.00	1.305
Fixed Term Deposit	695	Santander	16/11/2018	18/11/2019	£2,000,000.00	1.25
Fixed Term Deposit	696	Qatar National Bank	20/11/2018	19/11/2019	£2,000,000.00	1.49
Fixed Term Deposit	697	Qatar National Bank	06/12/2018	05/12/2019	£1,000,000.00	1.50
Fixed Term Deposit	698	Barclays	06/12/2018	05/12/2019	£2,000,000.00	1.04
Fixed Term Deposit	699	Close Brothers Ltd	19/12/2018	18/12/2019	£2,000,000.00	1.25
Fixed Term Deposit	700	Close Brothers Ltd	21/12/2018	20/12/2019	£1,000,000.00	1.25
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	4.4***
Money Market Fund	100500	Federated			£710,000.00	0.76
Callable deposit	44446	Lloyds 95DN			£2,000,000.00	0.80
					£55,710,000.00	

* Yr 1 - 0.8%, Yr 2 - 0.95%, Yr 3 - 1.10%
**Yr 1 -1.20%, Yr 2-1.35%, Yr 3 - 1.50%
*** Approximate rate

Interest Rate Forecast 2019 - 2022

APPENDIX 4

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-	-	-	-	-

APPENDIX 5

ECONOMIC BACKGROUND (as at 21/1/19)

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and is likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK. The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase 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 declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate.

As for the **labour market** figures in October**,** unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, 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 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This 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 was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. It is unclear at the time of writing, how this situation will move forward. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November. However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the speed and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed's actions, the trade war between the US and China and an expectation that world growth will slow.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds
and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.2 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in 2020 which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has now substantially diminished.

The balance of risks to the UK

- 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.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, 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 in **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. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This can has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.

- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree by 29 March a compromise that quickly removed all threats of economic and political disruption and so led to an early boost to UK economic growth.
- **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.

Specified and Non-Specified Investments **APPENDIX 6**

	specified	non-specified	Minimum Credit Criteria Fitch (and equivalent) / Minimum Criteria	Maximum Investment per Institution	Max. maturity period
Term deposits – Local Authorities **(category 1)**	✓	✓	--	£12M	5 years
Term deposits – banks and building societies **(category 1)**	✓	✓	Short-term F1+ Long-term AA-	£12M	5 years
Term deposits – banks and building societies **(category 2)**	✓	✓	Short-term F1 Long-term A+	£11M	3 years
Term deposits – banks and building societies **(category 3)**	✓	✓	Short-term F1 Long-term A-	£8M	2 years
Term deposits – building societies **(Category 4)**	✓	✓	Assets in Excess of £10 billion	£4M	1 year
Council's bank (for term deposits use appropriate category 1 to 3) **(category 5)**	✓	✓	n/a	No limit *Although category limit for term deposits*	As category 1 to 3
Term deposits – UK part nationalised banks **(category 6)**	✓	✓	Short-term F3 Long term BBB-	£11M	3 years
Callable deposits	✓	✓	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6
Forward deposits	✓	✓	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6
Alternative Investments – Asset Backed Bonds **(Category 8)**		✓	--	£4M	25 years
Debt Management Agency Deposit Facility **(category 9)**	✓	✓	--	No limit	Liquid

Bonds Issued by multilateral development banks **(category 10)**		✓	Long term AAA	£4M	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)					
Money Market Funds (CNAV, LVNAV & VNAV) Government Liquidity Fund **(category 7)**	✓		AAA	£4M	liquid
Property funds **(Category 11)**		✓	--	£6M	25 years

Specified Investments (these are considered low risk assets where the possibility of loss of principal or investment income is small):
All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

Non-Specified Investments: All such investments will be sterling denominated, with maturities in excess of 1 year, meeting the minimum 'high' rating criteria where applicable. A maximum of 60% will be in aggregate in non-specified investments.

Part nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they are no longer separate institutions in their own right, however, these institutions have effectively taken on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. It is therefore proposed to continue to keep the category of UK part nationalised banks for both specified and unspecified investments (category 6).

APPENDIX 7

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

DBS Bank Ltd (SING)
HSBC Bank plc (UK)
Oversea-Chinese Banking Corp Ltd (SING)
Svenska Handelsbanken (SW)
United Overseas Bank Ltd (SING)
First Abu Dhabi Bank (U.A.E)

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria			
	Fitch	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Goldman Sachs International Bank (UK)
Bank of Nova Scotia (CAN)
Standard Charted Bank (UK)
Qatar National Bank (Qatar)
National Westminster Bank PLC (RFB) (UK)
Royal Bank of Scotland PLC (RFB) (UK)

Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Nationwide Building Society (UK)
Santander (UK)
Close Brothers (UK)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year
Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

Category 5 - Council's Bank
NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Banking Group (Bank of Scotland / Lloyds)
Lloyds Bank Plc (RFB)
Lloyds Bank Corporate Markets Plc (NRFB)
Bank of Scotland PLC (RFB)

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years
banks effectively nationalised by UK government

		Long Term	Short Term
Min Criteria	**Fitch**	**BBB-**	**F3**
	Moody	**Baa3**	**P-3**
	S&P	**BBB-**	**A-3**

Royal Bank of Scotland plc (RFB) (UK)
National Westminster Bank plc (RFB) (UK)

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)

	Fitch	NAV
• Money Market Funds (MMF's), (CNAV, LVNAV, VNAV) & Enhanced MMF's		
• Government Liquidity Funds		
Limit of £4million for each institution		
Aberdeen Standard (GBP)	AAA	CNAV/LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	CNAV/LVNAV
Deutsche Banking Group	AAA	CNAV/LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	CNAV/LVNAV
Northern Trust	AAA	

Category 8 - Alternative Investments (Asset Backed Bonds) - 25 Years
Maximum investment £4 million

Category 9 - Debt Management Office
Debt management Account - NO LIMIT (UK Govt)

Category 10 - Bonds issued by multilateral development banks - 5 Years
Maximum investment £4 million AAA

Category 11 – Property Funds - 25 Years
Maximum investment £6 million

CCLA

Approved countries for investments

Based on a majority rule of available ratings.

AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.S.A. (S&P AA+)

AA+

- Finland

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium (S&P AA)
- Qatar

APPENDIX 9

Treasury management scheme of delegation

(i) Full Council

- approval of annual strategy
- budget consideration and approval
- receiving and reviewing monitoring and outturn reports on treasury management

(ii) Cabinet Member for Corporate Governance

- amendments to the annual treasury management strategy once approved by Full Council between its review in consultation with the Group Head of Corporate Support.

(iii) Audit and Governance Committee (responsibility for scrutiny)

- reviewing the treasury management policy and procedures and making recommendations to Full Council (the responsible body).
- Scrutiny of annual strategy prior to adoption by Full Council
- Scrutiny of monitoring and outturn reports
- receiving and reviewing reports on treasury management policies, practices and activities

APPENDIX 10

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of

  responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management.

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities

- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.