Harlow Council
Treasury Management Strategy Statement 2014/15

Contents

Summary of the Report

1. This Strategy Statement sets out the Council's capital plans and treasury management issues in accordance with proper practice.

2. This Treasury Management Strategy Statement (TMSS) provides an update on external economic conditions impacting on the Council and focuses on the major issues affecting its borrowing and investments.

3. The Council uses treasury management advisors to help its decision making, keeping officers up to date with economic developments and providing training and support. Arlingclose Limited was appointed in December 2012 following a competitive process.

4. Economic background and commentary is provided by Arlingclose throughout this Statement. Primarily, interest rates remain low with the Bank of England indicating that there is unlikely to be a base rate change, above 0.5%, until 2016 at the earliest. This means that interest earnings on investments remain low and continue to converge towards or below the base rate. Similarly, borrowing rates remain low, which has represented a net benefit to the General Fund budget.

5. As stewards of public finance, the Council will continue to take all practical steps to protect its investment portfolio. In this respect, emphasis remains in this order of priority:
   - **Security:** reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments.
   - **Liquidity:** ensuring that investments are not committed for excessive time-periods in order to facilitate the Council's cashflow requirements and to reflect the risk of not having immediate access to funds.
   - **Yield:** obtaining a reasonable return on investments.

6. An added complication over the last year has been the well-publicised difficulties experienced by the Cooperative Bank which faced a substantial re-capitalisation in December 2013. Its Credit Rating was assigned "junk status" in May 2013 when the news broke and our advisors urged Councils no longer to invest money with the Bank. Officers took immediate steps to discontinue holding funds overnight in its Business Reserve Account. Officers later made contingency plans to safeguard against losses which might have resulted from the sudden closure of the bank if its investors failed to support the re-capitalisation ('bail-in') proposals. In November the Cooperative Bank announced a planned withdrawal from the local authority market, which means that Harlow Council will seek new bankers in the near future. However, until the Credit Rating recovers to an acceptable level the Council will use the Cooperative Bank for banking purposes only, and the Cooperative Bank has stated its commitments to honour existing contracts.

Introduction

7. Harlow Council has adopted the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

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

9. This report fulfils the Council's legal obligation under the 'Local Government Act 2003' to have regard to both the CIPFA Code and the DCLG Guidance.

10. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

External Context (supplied by Arlingclose):
Economic background:

11. The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain knock-outs. Unemployment was 7.7% in August 2013, but is not forecast to fall below the threshold until 2016, due to the UK's flexible workforce.

12. The flow of credit to households and businesses is slowly improving but is still below 2008, pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

13. Stronger growth data in 2013 (0.4% in Q1 – to March 2013, 0.7% in Q2 – to June 2013 - and 0.8% in Q3 – to September 2013) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

14. In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve (the Fed) and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

Credit outlook:

15. The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which suffered a haircut on its conversion bail-in to alternative securities and/or equity. There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

Interest rate forecast:

16. Arlingclose's forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon, as the table in Annex A below shows. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%.

17. A more detailed economic and interest rate forecast provided by the Council's treasury management advisor is attached at Annex A.

18. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.48%. No new external long-term loans are currently planned to be taken out in 2013/14 or 2014/15.

Local Context

19. The Council currently has £211.837m of borrowing and £34.555m of investments. This is set out in further detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1. Balance Sheet Summary Analysis

As at Financial Year-end (31 March)	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
	£m	£m	£m	£m
General Fund CFR	27.835	27.547	28.510	29.585
HRA CFR	198.307	198.307	198.307	198.307
Total CFR	226.142	225.854	226.817	227.892
Less: Existing profile of borrowing	(211.837)	(211.837)	(211.837)	(211.837)
Less: Other long-term liabilities	(0.626)	(0.194)	(0.084)	(0.084)
Cumulative Maximum External Borrowing Requirement	**13.679**	**13.823**	**14.896**	**15.971**
Usable Reserves	(27.377)	(26.430)	(24.391)	(21.891)
Cumulative Net Borrowing Requirement/ (Investments)	**(13.698)**	**(12.607)**	**(9.495)**	**(5.920)**

20. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

21. CIPFA's 'Prudential Code for Capital Finance in Local Authorities' recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during that period.

Borrowing Strategy

22. The Council currently holds £211.837m of loans, which is unchanged on the previous year, as part of its strategy for funding previous years' capital programmes and finance HRA 'self-financing' debt. The balance sheet forecast in table 1 shows that the Council does not expect to need to borrow in 2014/15. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £260m.

23. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

24. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates

currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

25. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2014/15 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

26. In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

27. The approved sources of long-term and short-term borrowing are:
    - Public Works Loan Board
    - UK local authorities
    - any institution approved for investments (see below)
    - any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
    - UK public and private sector pension funds
    - capital market bond investors
    - special purpose companies created to enable joint local authority bond issues.

28. The Council has predominantly raised its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

29. Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

<u>Debt Rescheduling:</u>

30. The PWLB allows councils to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

Investment Strategy

Introduction

31. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £18.8m and £41.9m. It is anticipated that the maximum range of investments will reduce in the forthcoming year because 2013/14 has proved unique in that the Council has mobilised a larger housing capital programme to achieve, by April 2015, decent homes for all of its Council properties. The appointment of contractors, establishing pilot programmes of work, and the logistical organisation of delivery are all factors in which cash flow has temporarily been favourable to the Council.

32. Both the CIPFA Code and the DCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

33. The Council may invest its surplus funds with any of the counterparties in table 2 below, subject to the cash and time limits shown.

Table 2: Approved Investment Counterparties

Counterparty		**Cash limit**	**Time limit**
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£4m each (Group: £5m in total)	6 months (max 190 days)
	AA+		
	AA		
	AA-		
	A+		
	A		
	A-		
The Council's current account bank (Cooperative Bank plc) not meeting the above criteria. (See also paragraph 36)		£2m (£3m during the Christmas period)	next day
UK Central Government: Debt Management Office Deposit Facility		£20m	364 days maximum
UK Local Authorities (irrespective of credit rating)		£5m each	364 days maximum
UK Building Societies without three credit ratings		£1m each	1 year
Money market funds and other pooled funds		£4m each	n/a
All other specified investments (see para. 44 below)		£3m	Next day

34. The monetary limits will exclude any interest that may be credited to any fund, account or investment balance by the borrower / counterparty, including amounts of interest due on deposits rolled over to new maturity dates. However, in the event that accumulated interest takes an investment balance over the relevant monetary limit that accumulated interest shall not exceed £50,000 in total. It will therefore be necessary for accumulated interest to be repaid to the Council's own bank account from time to time.

35. There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the 'Banking Reform Act 2014' and the EU 'Bank Recovery and Resolution Directive' are implemented.

36. In addition, the Council may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Council's treasury management adviser.

<u>Current Bankers:</u>

37. The Council currently maintains its main bank accounts with Cooperative Bank plc which is currently rated considerably below the minimum A(-) rating in table 2. Ordinarily the Council would continue to deposit surplus cash with Cooperative Bank plc providing that investments can be withdrawn on the next working day. In practice, however with a current credit rating of Caa1, (which is below BBB(-), the lowest investment grade rating,) the Council has suspended overnight deposits and will use the Cooperative Bank for banking purposes only.

<u>Building Societies:</u>

38. The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors. The Council will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

<u>Money Market Funds:</u>

39. These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and

0.20% per annum are deducted from the interest paid to the Council. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Other Organisations:

40. The Council may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser. They may also be made on a secure loan basis.

Risk Assessment and Credit Ratings:

41. The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
    - no new investments will be made,
    - any existing investments that can be recalled or sold at no cost will be, and
    - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

42. Where a credit rating agency announces that a A(-) rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative"), so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments:

43. The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an

organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

44. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments:

45. The DCLG Guidance defines specified investments as those:
- denominated in Pounds Sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations as those having a credit rating of A(-) or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A(-) or higher.

Non-specified Investments:

46. Any investment not meeting the definition of a specified investment is classed as non-specified. Non-specified investments are not envisaged to be used during 2014/15, unless approved under a consultation process including the Head of Finance, Corporate Management Team and the Portfolio Holder for Resources. Should such a decision be taken, the following table provides an indication of the types of investments that would be used. Because of the specialised management requirements and trading mechanisms, such investments would be made using external fund managers or specialist advice. (The Council defines "high credit quality" organisations as those having a credit rating of A(-) or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.)

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£1m
Total investments without credit ratings or rated below A(-)	£1m
Total investments in foreign countries rated below AA+	£1m
Loans made on a 'secured loan' basis	£4m
Total non-specified investments	£7m

Investment Limits:

47. The Council's revenue reserves available to cover investment losses are forecast to be £5.137m on 31 March 2014. In order to mitigate as far as possible the risk of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £4m. A group of banks under the same ownership or a group of funds under the same management will be subject to a maximum investment of £5m.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	£20m in total
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manger
Negotiable instruments held in a broker's nominee account	£1m per broker
Building Societies without three credit ratings	£1m in total
Loans to small businesses	£4m in total
Money Market Funds	£20m in total

Approved Instruments:

48. The Council may lend or invest money using any of the following instruments:
- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Council may demand repayment at any time (with or without notice),
- certificates of deposit (maximum 5 years),
- bonds, notes, bills, commercial paper and other marketable instruments (maximum 5 years), and
- shares in money market funds and other pooled funds.

49. This is summarised in Table 5 below.

Table 5: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	✗
Bonds issued by Multilateral Development Banks	✓	✓
Local Council Bills	✓	✗
Commercial Paper	✓	✗
Corporate Bonds	✓	✓
AAA-Rated Money Market Funds	✓	✗
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	✗

50. Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

Liquidity management:

51. The Council uses rudimentary but effective cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial strategy and cash flow forecast.

Treasury Management Indicators

52. Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposure	£242m	£246m	£248m
Upper limit on variable interest rate exposure	(-)£9m	(-)£7m	(-)£5m

53. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

54. Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	35%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Other Items

55. There are a number of additional items that the Council is obliged by CIPFA or DCLG to include in its Treasury Management Strategy.

56. Policy on Apportioning Interest to the HRA: On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools following self-financing borrowing taken at that time. Any subsequent new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured and interest transferred between the General Fund and HRA at the Council's average interest rate on investments.

57. Under self-financing Harlow Council's Housing Revenue Account Capital Financing Requirement (HRACFR) moved from (-)£10.53m to (+)£198.307m. The Localism Act 2011, section 171, also stipulated a maximum amount of borrowing allowed within the HRA, referred to as the 'limit of indebtedness'. Harlow Council's 'Limit of Indebtedness' is £208.837m which means a potential 'headroom' (the difference between the 'Limit of Indebtedness' and HRACFR) of £10.53m More

information is given in Appendix 6.2 of the HRA Business Plan 2013-2043.

58. Investment Training: The needs of the Council's treasury management staff for training in investment management are assessed on an ongoing basis when officers meet at regular intervals to discuss operational treasury management strategy, and additionally when the responsibilities of individual members of staff change.

59. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to undertake Continuing Professional Development in accordance with their respective professional accounting / finance qualification requirements.

60. Investment Advisers: The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

61. Investment of Money Borrowed in Advance of Need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

62. The total amount borrowed will not exceed the authorised borrowing limit of £260m. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

63. Policy on Use of Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the 'Localism Act 2011' removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

64. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

65. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Financial Implications

66. The budget for investment income in 2014/15 is £82,570, based on an average investment portfolio of £17.202m at an interest rate of 0.48%. The budget for debt interest paid in 2014/15 is £7.010m, based on an average debt portfolio of £211.837m at an average interest rate of 3.31%. (Details of HRA investment earnings and borrowing is given in the HRA Business Plan 2013-2043, Appendix 6.2.) If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

67. The DCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Portfolio Holder for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Annex A
Arlingclose Economic & Interest Rate Forecast December 2013

Underlying assumptions:

1. Growth continues to strengthen with the second estimate for Q3 (Jul – Sep 2013) growth coming in at an unrevised 0.8%. The service sector remains the main driver of growth, boosted by a contribution from construction.

2. The unemployment rate has fallen to 7.6%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.

3. The Consumer Prices Index (CPI) for November has fallen to 2.1%, a much more comfortable position for the Bank of England Monetary Policy Committee (MPC). Utility price increases are expected to keep CPI above the 2% target in 2014, before falling back again.

4. The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%.

5. The reduction in uncertainty and easing of credit conditions have begun to unlock demand, much of which has fed through to the housing market. In response to concerns over a house price bubble, the Bank of England announced a curtailment of the Funding for Lending Scheme (FLS), which will henceforth concentrate on business lending only.

6. The MPC will not hesitate to use macro prudential and regulatory tools to deal with emerging risks (such as curtailing the FLS). Absent risks to either price stability or financial stability, the MPC will only tighten policy when it is convinced about the sustained durability of economic growth.

7. Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Tapering of asset purchases will begin in Q1 2014 (Jan – Mar 2014). The US political deadlock over the debt ceiling will need resolving in Q1 2014.

8. The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their

coalitions). The European Central Bank (ECB) has discussed a third Long Term Refinancing Operation, as credit conditions remain challenging for European banks.

9. China data has seen an improvement, easing markets fears. Chinese leaders have signalled possible monetary policy tightening.

10. On-going regulatory reform and a focus on bail-in debt restructuring of is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.

<u>Forecast:</u>

11. Our projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.

12. We continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk													
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.90	0.95
Arlingclose Central Case	**0.45**	**0.45**	**0.50**	**0.55**	**0.65**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**
Downside risk			0.05	0.10	0.20	0.30	0.30	0.30	0.30	0.30	-0.35	-0.35	-0.35
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	**0.90**	**0.95**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**1.20**	**1.25**	**1.30**	**1.40**	**1.40**
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**	**1.85**	**1.95**	**2.10**	**2.30**	**2.50**	**2.50**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt yield													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**3.00**	**3.10**	**3.30**	**3.50**	**3.50**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.55**	**3.65**	**3.75**	**3.85**	**4.05**	**4.15**	**4.15**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.45**	**3.50**	**3.55**	**3.60**	**3.65**	**3.70**	**3.75**	**3.80**	**3.85**	**3.95**	**4.05**	**4.15**	**4.15**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

Annex B
Existing Investment & Debt Portfolio Position

	31.12.2013 Actual Portfolio £m	31.12.13 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	211.837	**3.31%**
Total External Borrowing	**211.837**	**3.31%**
Other Long Term Liabilities:		
Finance Leases	0.626	
Total Gross External Debt	212.463	
Investments:		
Short-term investments	34.558	**0.43%**
Long-term investments	0	
Total Investments	34.558	0.43%
Net Debt	177.905	

<u>Mortgage and other loans Rate</u>

Schedule 16 of The Housing Act 1985 specifies that local authorities must set the interest rate on mortgages arranged since October 1985 on an annual basis. Councils are required to charge the higher of:

i) The Standard National Rate, which is set by the Secretary of State (currently 3.13%), or
ii) The applicable local average rate, based on the Council's own borrowing costs and a small percentage (0.25%) for administration.

The interest rate chargeable is therefore 3.56%.

Annex C
Prudential Indicators 2014/15

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's 'Prudential Code for Capital Finance in Local Authorities' (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

<u>Estimates of Capital Expenditure:</u>

The Council's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the Capital Programme 2013/14-2018/19 report to Cabinet on 30 January 2014.

Capital Expenditure and Financing	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
General Fund	2.734	**3.393**	2.231	1.926
HRA	26.297	**26.549**	20.236	19.548
Total Expenditure	**29.031**	**29.942**	**22.467**	**21.474**
Capital Receipts	5.867	3.668	2.036	1.342
Government Grants	3.478	6.099	1.277	0.400
Reserves	19.661	18.850	17.565	17.860
Revenue	0.025	1.007	0.285	0.556
Borrowing *	0	0.318	1.304	1.316
Leasing and PFI	0	0	0	0
Total Financing	**29.031**	**29.942**	**22.467**	**21.474**

*Currently envisaged to be met by internal borrowing.

Estimates of Capital Financing Requirement:

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	**31.03.14 Revised £m**	**31.03.15 Estimate £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**
General Fund	27.835	27.547	28.510	29.585
HRA	198.307	198.307	198.307	198.307
Total CFR	**226.142**	**225.854**	**226.817**	**227.892**

The CFR is forecast to rise by £1.9m over the next three years as capital expenditure financed by debt (e.g. capital receipts, grants) outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement:

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

Debt	**31.03.14 Revised £m**	**31.03.15 Estimate £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**
Borrowing	211.837	**211.837**	211.837	211.837
Finance leases	0.636	**0.194**	0.084	0.084
PFI liabilities	0	**0**	0	0
Total Debt	**212.473**	**212.031**	**211.921**	**211.921**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt:

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

Operational Boundary	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Borrowing	242.0	**248.0**	251.0	253.0
Other long-term liabilities	2.0	**1.5**	1.5	1.5
Total Debt	**244.0**	**249.5**	**252.5**	**254.5**

Authorised Limit for External Debt:

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Borrowing	250.0	**255.0**	260.0	265.0
Other long-term liabilities	5.0	**5.0**	5.0	5.0
Total Debt	**255.0**	**260.0**	**265.0**	**270.0**

Ratio of Financing Costs to Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2013/14 Revised %**	**2014/15 Estimate %**	**2015/16 Estimate %**	**2016/17 Estimate %**
General Fund	5.86	**6.05**	7.03	4.60
HRA	12.11	**12.13**	11.62	11.19

Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2014/15 Estimate £**	**2015/16 Estimate £**	**2016/17 Estimate £**
General Fund - increase in annual band D Council Tax	**24.57**	25.12	13.46
HRA - increase in average weekly rents	**2.01**	0.67	1.27

Adoption of the CIPFA Treasury Management Code:

Full Council approved the adoption of the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' at its meeting on 10 February 2010.

Annex D
Annual Minimum Revenue Provision Statement 2014/15

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's 'Guidance on Minimum Revenue Provision' (the DCLG Guidance) most recently issued in 2012.

The broad aim of the DCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The DCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

For capital expenditure incurred before 1 April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31 March 2008. For Harlow Council, the adjusted Capital Financing Requirement upon which MRP is calculated is negative in each year prior to April 2008. The MRP on this portion of the CFR is therefore zero. *(Option 1 in England & Wales)*

For unsupported capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, starting in the year after the asset becomes operational. *(Option 3 in England and Wales)*

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

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

Capital expenditure incurred during 2014/15 will not be subject to a MRP charge until 2015/16.

Based on the Council's estimate of its Capital Financing Requirement on 31 March 2014, the budget for MRP has been set as follows:

	31.03.2014 Estimated CFR £m	2014/15 Estimated MRP £
Capital expenditure before 01.04.2008	**5.455**	Nil
Capital expenditure after 31.03.2008	**221.693**	137,000
Finance leases	**1.046**	404,000
Total	**228.194**	**541,000**

Annex E
Approved Counterparty List

Introduction

As part of the service provided by our treasury management advisors, Arlingclose Ltd will provide a formal update of the approved counterparty list (also referred to as the Lending List) on a weekly basis. This has been reconciled by our advisors against credit developments sourced from Bloomberg. Arlingclose also provides an ongoing service of sending information as news develops with clear recommendations. The Head of Finance, or his representative, will then consider what action to take in light of this information and provide clear instructions to those colleagues authorised to deal on behalf of the Council.

There are instances where our local Treasury Management Support Strategy is more cautious in terms of, for example, the maximum period to which money may be lent to a counterparty. Conversely, there are instances where our treasury advisors recommend a shorter period of investment to specific organisations. Officers therefore are instructed to deal with counterparties using the shorter of the two maximum periods expressed on the Lending List.

For example, our Treasury Management Strategy allows investments of up to six months with UK banks however, for example there are presently concerns about the wellbeing of the RBS Group, where Arlingclose recommend investments no longer than overnight.

In another example, Arlingclose recommends that the Council uses the Cooperative Bank plc for banking purposes only. Although our Treasury Management Strategy allows the use of a Business Reserve Account to hold a maximum of £2m overnight (or £3m over the Christmas period – which Council on 20 December 2012 approved as being 20 December to 5 January each year), the Head of Finance has instructed that this shall not be used at the present time.

There are other instances where senior officers will separately determine investments for a shorter period than the maximum allowed because of adverse news about an institution which is causes concern (see paragraph 42).

The following tables show the Lending List issued by Arlingclose on 20 December 2013 and therefore operable from the week commencing 23 December. These are given by way of example. The accompanying text explains the rationale behind local Treasury Management Policy.

Sovereign List of Institutions

The Council defines "high credit quality" organisations as those having a credit rating of A(-) or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

There are three credit rating agencies: Fitch, Moody's and Standard & Poors.

These agencies have given a triple-A (AAA) credit rating to the following countries (as at 31 December 2013).

- Australia
- Canada
- Finland
- Germany
- Holland
- Singapore
- Sweden
- Switzerland

The United Kingdom lost its AAA rating during 2013, however the Council still is committed to invest in any UK Bank which has a credit rating of A(-) and above.

The maximum duration for investments will be the shorter of the "Arlingclose Maximum Recommended Duration" or the Council's "Maximum Investment Period".

The limits of £4m for each counterparty (£5m for a Group) have been established as representing, broadly, a sum not exceeding more than 15% of the Council's investment balances at 31 December 2012, and a limit of 1.25 times the individual limit of a single bank within that Group.

In setting the maximum limits for 2014/15, Officers will not apply percentages as at 31 December 2013. This is because the balance invested is unusually high and therefore distortive, due of income from the Housing Revenue Account being received considerably in advance of Housing Capital Programme expenditure. It is anticipated that this will be a one-off occurrence.

HARLOW COUNCIL - APPROVED COUNTERPARTY LIST	As at:	20/12/2013						
						Council Specific Limits		
Name	**COUNTRY**	**Moody's Long-Term Ratings**	**Fitch Long-Term Rating**	**S&P Long-Term Rating**	**Arlingclose Maximum Recommended Duration**	**Individual Cash Limit (£)**	**Group Cash Limit (£/%)**	**Max Investment period**
COMMONWEALTH OF AUSTRALIA	AU	Aaa	AAA	AAAu				
AUST AND NZ BANKING GROUP	AU	Aa2	AA-	AA-	12 Months	4m		6 months
COMMONWEALTH BANK OF AUSTRALIA	AU	Aa2	AA-	AA-	12 Months	4m		6 months
NATIONAL AUSTRALIA BANK LTD	AU	Aa2	AA-	AA-	12 Months	4m		6 months
WESTPAC BANKING CORP	AU	Aa2	AA-	AA-	12 Months	4m		6 months
GOVERNMENT OF CANADA	CA	Aaa	AAA	AAA				
BANK OF MONTREAL	CA	Aa3	AA-	A+	12 Months	4m		6 months
BANK OF NOVA SCOTIA	CA	Aa2	AA-	A+	12 Months	4m		6 months
CAN IMPERIAL BK OF COMMERCE	CA	Aa3	AA-	A+	12 Months	4m		6 months
ROYAL BANK OF CANADA	CA	Aa3	AA	AA-	12 Months	4m		6 months
TORONTO-DOMINION BANK	CA	Aa1	AA-	AA-	12 Months	4m		6 months
REPUBLIC OF FINLAND	FI	Aaa	AAA	AAA				
NORDEA BANK FINLAND ABP	FI	Aa3	AA-	AA-	12 Months	4m		6 months
POHJOLA BANK PLC-A SHS	FI	Aa3	A+	AA-	6 Months	4m		6 months
UNITED KINGDOM	GB	Aa1	AA+	AAAu				
BANK OF SCOTLAND PLC	GB	A2	A	A	6 Months	4m	5m	6 months
LLOYDS BANK PLC	GB	A2	A	A	6 Months	4m		6 months

BARCLAYS BK PLC-ADR C	GB	A2	A	A	12 Months	4m		6 months
CLOSE BROTHERS LTD	GB	A3	A		100 Days	4m		6 months
GOLDMAN SACHS INTERNATIONAL	GB	A2	A	A	100 Days	4m		100 days
HSBC BANK PLC	GB	Aa3	AA-	AA-	12 Months	4m		6 months
LEEDS BUILDING SOCIETY	GB	A3	A-		100 Days	1m		100 days
NATIONWIDE BUILDING SOCIETY	GB	A2	A	A	12 Months	4m		6 months
NATIONAL WESTMINSTER BANK	GB	A3	A	A-	Overnight	4m	5m	6 months
ROYAL BANK OF SCOTLAND PLC/T	*GB*	*A3*	*A*	*A-*	*Overnight*	*4m*		*6 months*
SANTANDER UK PLC	GB	A2	A	A	6 months	2m		3 months
STANDARD CHARTERED BANK	GB	A1	AA-	AA-	12 Months	4m		6 months
FEDERAL REPUBLIC OF GERMANY	GE	Aaa	AAA	AAAu				
DEUTSCHE BANK AG-REGISTERED	GE	A2	A+	A	12 Months	4m		6 months
LANDESBANK HESSEN-THURINGEN	GE	A2	A+	A	100 Days	4m		100 days
KINGDOM OF THE NETHERLANDS	NE	Aaa	AAA	AA+u				
BANK NEDERLANDSE GEMEENTEN	NE	Aaa	AAA	AA+	12 Months	4m		6 months
COOPERATIEVE CENTRALE RAIFFE	NE	Aa2	AA-	AA-	12 Months	4m		6 months
ING BANK NV	NE	A2	A+	A	100 Days	4m		6 months
REPUBLIC OF SINGAPORE	SI	Aaa	AAA	AAAu				
DBS BANK LTD	SI	Aa1	AA-	AA-	6 months	4m		6 months
OVERSEA-CHINESE BANKING CORP	SI	Aa1	AA-	AA-	6 months	4m		6 months
UNITED OVERSEAS BANK LTD	SI	Aa1	AA-	AA-	6 months	4m		6 months
KINGDOM OF SWEDEN	SW	Aaa	AAA	AAA				
SVENSKA HANDELSBANKEN-A SHS	SW	Aa3	AA-	AA-	12 Months	4m		6 months
SWISS CONFEDERATION	SZ	Aaa	AAA	AAAu				
CREDIT SUISSE AG	SZ	A1	A	A	100 Days	4m		6 months

UNITED KINGDOM (For authorities with banking arrangements)								
CO-OPERATIVE BANK PLC	GB	Caa1	B	*-	Banking purposes only	2m		Instant Access

Money Market Funds

The Council's investment balances are required to incorporate a larger than normal level of liquidity at the current time because it holds substantial 'Programme of Development' (POD) fund balances, which are usable by a number of the area's local councils (including Harlow Council), potentially at short notice. This is reflected as a small modification to the guideline for investing with Money Market Funds (MMFs) recommended by Arlingclose. Because MMFs are inherently secure (carrying the highest AAA rating) and each fund provides a wide spread of investments, MMFs represent a secure investment option, whist providing immediate access to funds (thus meeting liquidity requirements) and can deliver competitive yields.

Officers are using MMFs in preference to the Cooperative Bank plc Business Reserve Account (for the reasons stated above).

Therefore, taking account of practical cashflow management circumstances, the following limitations have been set for the use of MMFs:

- Investments in each MMF should be limited to 13% of total investments rounded up to the next £millions. Based upon the total investment balance as at 31 December 2012 (the reason for the continued use of this date is given above), a limit of £4,000,000 should be applied during the forthcoming financial year (1 April 2014 to 31 March 2015) for each MMF, or until further approval.

- Overall exposure to MMFs as a whole be limited to 65% (rounded up to the next £million) of their total investments. Based upon the total investment balance as at 31 December 2012, a total maximum limit for all MMFs of £20,000,000 should be applied during the forthcoming financial year (1 April 2014 – 31 March 2015) or until further approval.

- Exposure should be limited to 0.5% of a given Money Market Fund's size. Exposure to Government Money Market Funds being limited to 2% of their size given the nature of these funds.

Money Market Funds used by Harlow	Place of Domicile	Moody's Long-Term Ratings	Fitch Long-Term Rating	S&P Long-Term Rating	Council Specific Limits: Individual Cash Limit (£)	Council Specific Limits: Group Cash Limit (£)	Council Specific Limits: Max Investment period
BLACKROCK	IR	Aaa		AAA	4m	20m	
FEDERATED INVESTORS (UK)	GB	Aaa	AAA	AAA	4m		
GOLDMAN SACHS ASSET MANAGEMENT	IR	Aaa	AAA	AAA	4m		
IGNIS ASSET MANAGEMENT	IR		AAA	AAA	4m		
INSIGHT INVESTMENTS	IR		AAA	AAA	4m		
INVESCO AIM	IR	Aaa	AAA	AAA	2.3m		
MORGAN STANLEY INVESTMENT MANAGEMENT	IR	Aaa	AAA	AAA	4m		

Local Authorities

Local Authority	Country	Moody's Long-Term Ratings	Fitch Long-Term Rating	S&P Long-Term Rating	Lowest Credit Rating - *equivalent rating,* (source Bloomberg)	Average Credit Risk Score
GREATER LONDON AUTHORITY	GB			AA+	**AA+**	**2.00**
LANCASHIRE COUNTY COUNCIL	GB	Aa2			**AA**	**3.00**
TRANSPORT FOR LONDON	GB	Aa2	AA	AA+	**AA**	**2.67**
CORNWALL CC	GB	Aa1			**AA+**	**2.00**
GUILDFORD BC	GB	Aa1			**AA+**	**2.00**
KENSINGTON & CHELSEA RBC	GB			AAA	**AAA**	**1.00**
WANDSWORTH LBC	GB	Aa1	AA+		**AA+**	**2.00**
WOKING BC	GB			A+	**A+**	**5.00**

Council Specific Limits		
Individual Cash Limit (£/%)	**Group Cash Limit (£/%)**	**Max Investment period**
5m		364 days

These are those LAs with credit ratings, for information. Arlingclose are comfortable with Harlow investing with any UK LA, not just this list.

Annex F
Reporting Arrangements

This Council will adopt the following reporting arrangements in accordance with the requirements of the revised CIPFA Code: -

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Treasury Management Policy Statement (revised)	Full Council	Formally adopted Feb 2010 (incorporated within subsequent TMSS reports)
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Full Council	Annually before the start of the financial year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid-year review	Full Council	Mid-year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Full Council	Only following significant events (e.g. substantial changes to Codes of Practice, etc) and where normal reporting arrangements are not timely in relation to the change.
Annual Treasury Management Outturn Report	Full Council	Annually by 30 September after the end of the financial year
Treasury Management Monitoring Reports	Portfolio Holder for Resources	Monthly
Treasury Management Practices	Portfolio Holder for Resources	Annually
Scrutiny of Treasury Management Strategy	Resources, Housing and Governance Overview Working Group (+ Audit & Standards Committee as may be required)	Annually before the start of the year
Scrutiny of treasury management performance	Portfolio Holder for Resources, Resources, Housing and Governance Overview Working Group (+ Audit & Standards Committee, as may be required)	As incorporated within Annual Treasury Management Outturn report

Annex G
Treasury Management Scheme of Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Cabinet

- review of/ amendments to the Council's adopted clauses and Treasury Management Strategy Statement and making associated recommendations to Full Council;
- budget consideration and recommendation to Full Council;
- approval of the division of responsibilities;
- receiving ad hoc treasury management monitoring reports and acting on recommendations.

(iii) Portfolio Holder for Resources

- receiving and reviewing regular monitoring reports and making recommendations to Cabinet;
- reviewing the treasury management policy and procedures and making recommendations to the Cabinet;
- reviewing the treasury management practices;
- approving the selection of external service providers and agreeing terms of appointment in conjunction with normal contract approval procedures.

(iv) Section 151 Officer

- recommending clauses, treasury management policy for approval, reviewing the same regularly, and monitoring compliance;
- setting treasury management practices;
- 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, skills and training, 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.

Annex H
Fitch Ratings Definitions

The follow is a selection of ratings definitions issues by the Fitch credit ratings agency. They have been included as an annex in order to assist with understanding of the ratings referred to within the TMSS.

AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events
AA+ **AA** **AA–**	Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ **A** **A–**	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings
BBB	Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category

Annex I
Glossary of Terms and Definitions

Bank Rate:
The term 'Bank Rate' is 'the official Bank Rate paid on commercial bank reserves', i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets. Previously referred to as "repo rate" this term has been replaced as a result of the change in terminology used by the Bank of England as from May 2006

Base Rate:
The term Base Rate refers to the rate which is set by each high street bank; it is the key foundational rate on which they each base all their various lending rates to customers. It is normally set at the same rate as the Bank Rate (q.v.) and changes in line with, and very soon after changes in Bank Rate.

CD: see 'Certificate of deposit'.

CDS: see 'Credit Default Swaps'

CFR: see 'Capital Financing Requirement'

CP: see 'Commercial paper'.

CRA: see 'Credit Rating Agency'.

Call Account: 'Call account' is a bank deposit where funds can be withdrawn at any time.

Callable Deposit
Placing a deposit with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates before maturity. This decision is based upon how market rates have moved since the deal was agreed. If rates have fallen, the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.

Capital Financing Requirement
The Capital Financing Requirement reflects the Council's underlying need to borrow for capital purposes. Thus, if new capital expenditure is incurred and not financed from sources other than by borrowing, the CFR will increase by the amount of that expenditure. Borrowing, up to the value of the CFR, may be either from internal cash balances or externally, such as from the Public Works Loan Board (q.v.).

Certificate of Deposit
Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a Certificate of deposit (CD) is able to sell it to a third party before the maturity of the CD.

CIPFA Treasury Management Code of Practice
This represents official practitioners' guidance, which is produced by CIPFA (the Chartered Institute of Public Finance and Accountancy). The government expects local authorities and other public service authorities to adopt and comply with the code. The recommendations made in the Code provide a basis for all these public service organisations to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

Commercial Paper
Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.

Corporate Bond
Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies

Counterparty
A counterparty is a party with which a transaction is done.

CPI: Consumer Prices Index

Credit Default Swaps
A CDS is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event (e.g. default) of the reference entity (i.e. the third party on whom the contract is based). The contract essentially provides a means of insurance to the buyer of the CDS against default by a borrower. The "spread" (effectively the premium paid by the CDS buyer) provides an indication of the perceived risk of a default occurring.

Credit Rating
A credit rating is an estimate of the quality of a debt from the lender viewpoint in terms of the likelihood of interest and capital not being paid and of the extent to which the lender is protected in the event of default.

An individual, a firm or a government with a good credit rating can borrow money from financial institutions more easily and cheaply than those who have a bad credit rating.

Credit Ratings are evaluated by Credit Rating agencies (q.v.).

Credit rating agency
'Credit rating agency', or 'rating agency', or CRA, is a firm that issues opinions on companies' ability to pay back their bonds. These opinions are often abbreviated on an alphanumeric scale ranging from AAA to C (or equivalent). The three CRAs used by the Council are Fitch, Moody's and Standard and Poor's.

DCLG: Department for Communities and Local Government

DMADF: see 'Debt Management Agency Deposit Facility'

DMO: see 'Debt Management Office'

Dealing
Is the process of carrying out transactions with a counterparty (q.v.), including agreeing the terms of an investment. This is usually conducted through a Money Market Broker.

Debt Management Agency Deposit Facility
Deposit Account offered by the Debt Management Office (q.v.), guaranteed by the UK government

Debt Management Office
The Debt Management Office (DMO) is an executive agency of HM Treasury responsible for carrying out the government's debt management policy and managing the aggregate cash needs of the Exchequer. It is also responsible for lending to local authorities and managing certain public sector funds.

Derivative
A contract whose value is based on the performance of an underlying financial asset, index or other investment. e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.

ECB: European Central Bank

Equity
A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.

EU: European Union

Fed: The Federal Reserve (US)

FLS: Funding for Lending Scheme

Floating Rate Notes
Bonds on which the rate of interest is established periodically with reference to short-term interest rates

Forward Deal
The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.

Forward Deposits: see ‘forward deal’

Fund Manager
The individual responsible for making decisions related to any portfolio of investments in accordance with the stated goals of the fund.

Gilt
Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.

Gilt Funds
Pooled fund investing in bonds guaranteed by the UK government.

HRA: Housing Revenue Account

HRACFR: Housing Revenue Account Capital Financing Requirement

iTraxx benchmark
A group of international credit derivative indexes that are monitored by the International Index Company (IIC). The credit derivatives market that iTraxx provides allows parties to transfer the risk and return of underlying assets from one party to another without actually transferring the assets. iTraxx indexes cover credit derivatives markets in Europe, Asia and Australia.

Lender Option Borrower Option
‘Lender Option Borrower Option’ (LOBO) is a floating rate instrument which allows the lender to designate an adjustment rate at periodic reset dates and lets the borrower decide whether to pay the rate or redeem the bond.

LFS: Labour Force Survey

Liquidity
Liquidity refers to an asset that can be turned into cash or the ability to quickly sell or buy an asset

LIBID: see ‘London Interbank Bid Rate’

LIBOR: see ‘London Interbank Offer Rate’

LOBO: see ‘Lender Option Borrower Option’

London Interbank Bid Rate
The ‘London Interbank Bid Rate’ (LIBID) is the rate of interest at which first-class banks in London will bid for deposit funds. Often used as a benchmark

for deposit rates. LIBID is not fixed in the same way as LIBOR (q.v.), but is typically one-sixteenth to one-eighth of a per cent below LIBOR.

London Interbank Offer Rate
'London Interbank Offer Rate' (LIBOR) is the interest rate which banks pay when lending to each other. It is calculated at a specified time each day and based on what it would cost a panel of banks to borrow funds for various periods of time and in various currencies. It then creates an average of the individual banks' figures.

MMF: see 'Money Market Fund'

Money Market Fund
Money Market Funds are mutual funds that invest in short-term debt instruments. They provide the benefits of pooled investment, as investors can participate in a more diverse and high-quality portfolio than they otherwise could individually. Like other mutual funds, each investor who invests in a money market fund is considered a shareholder of the investment pool, a part owner of the fund. Money market funds are actively managed within rigid and transparent guidelines to offer safety of principal, liquidity and competitive sector-related returns. It is very similar to a unit trust, however, in a MMF equities are replaced by cash instruments. Returns are typically around 1 month LIBID (q.v.), and the average maturity is generally below 60 days.

MPC: Monetary Policy Committee

MRP: Minimum Revenue Provision

Open Ended Investment Companies (OEIC)
Investment funds that partly resemble an investment trust and partly a unit trust. Like investment trusts, they issue shares on the London Stock Exchange and invest money raised from shareholders in other companies. The term open-ended means that when demand for the shares rises the fund manager just issues more shares, instead of there being a rise in the share price. The price of OEIC shares is determined by the value of the underlying assets of the fund.

Other Bond Funds
Pooled funds investing in a wide range of bonds.

PWLB: see 'Public Works Loan Board'

Programme of Development
The balance of Programme of Development funding (POD) represents monies received from Central Government for regeneration in the east of England, and is held by the Council on behalf of a Partnership comprising local councils and partners from the third and private sectors. The funding was received after a series of successful bids by the Partnership.

Public Works Loan Board
The Public Works Loan Board (PWLB) is a UK Government statutory body whose function is to lend money from the National Loans Fund to local authorities and other public bodies and to collect the repayments.

Rating Agency: see ‘Credit Rating Agency’

Repo: see ‘Repurchase Agreement’

Repurchase Agreement
‘Repurchase agreement', or repo, is a contract where the seller of certain securities agrees to buy them back from the purchaser at a specified time for an agreed price.

Reverse Gilt Repo
This is a transaction as seen from the point of view of the party which is buying the gilts. In this case, one party buys gilts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gilts on a specified future date, or at call, at a specified price.

Sovereign Issues (Ex UK Gilts)
Bonds issued or guaranteed by nation states, but excluding UK government bonds.

Supranational Bonds
Bonds issued by supranational bodies, e.g. European Investment Bank. These bonds – now known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.

Term Deposit
(or 'Time deposit') is a generic term for a bank deposit where funds cannot be withdrawn for a fixed period of time. They are also set at a fixed rate of interest.

Time Deposit: see ‘Term Deposit’

Treasury Bills
Treasury bills are short-term debt instruments issued by the UK or other governments. They usually have a maturity of one year or less and provide a return to the investor by virtue of being issued at a discount to their final redemption value.

Treasury Management Strategy
This is the Council’s overall policy and framework by which it will carry out that policy in relation to its borrowing and investment needs in the coming financial year.

Treasury Management Policy Statement
This is the Council's statement of intention in respect of its treasury management. It is prescribed by the CIPFA Treasury Management Code of Practice (q.v.).

Variable Rate Asset Value
'Variable Rate Asset Value' (VNAV) occurs where the net asset value, or principal sum, invested may change depending on trading conditions. The value is calculated at the end of the business day based on the value of investments less any liabilities divided by the number of shares outstanding. With investments carrying this attribute, the capital sum invested may not be equal to the capital sum repaid.

VNAV: see 'Variable Net Asset Value'.

Weighted Average Maturity
'Weighted average maturity', or WAM, is used to measure interest rate risk. WAM is calculated by taking the maturity of the underlying money market instruments held by the fund, weighted according to the relative holdings per instrument.

Annex J
Background Papers

The CIPFA Prudential Code for Capital Finance in Local Authorities (revised 2011)

CIPFA’s Treasury Management in Public Services Code of Practice (revised 2011)

DCLG’s Guidance on Local Government Investments (issued March 2010)

HRA Business Plan 2013-2043*

Capital Programme 2013/14 - 2018/19*

Arlingclose Ltd treasury management advisory documents

Treasury Management and Accounting records

*These being separate reports submitted to Cabinet, 30 January 2014.