APPENDIX A

Harlow Council
Treasury Management Strategy Statement 2015/16

Summary of the Report

1. This Treasury Management Strategy Statement (TMSS) sets out the Council's capital plans and treasury management issues in accordance with proper practices.

2. It provides an update of 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 is currently the Council's appointed advisor.

4. Economic background and commentary has been provided by Arlingclose and included throughout the Statement. Primarily, interest rates continue to be low, and are expected to remain low compared to pre-2008 levels in the medium term.

5. As a steward 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 reduce risk by maintaining immediate access to funds.
   - **Yield:** obtaining a reasonable return on investments as far as is possible in the current economic and financial market conditions.

6. The Council has in recent years run a portfolio fairly typical of similar Councils with investments in banks and building societies, through Money Market Funds and occasionally with other Councils. Investments have generally been for periods of no more than six months. This has enabled the Council to meet its treasury

management priorities, although in recent years the yield for these investments has generally been below consumer price inflation. However, the Council's approach to investment has always protected its capital, placing security above anything else. . The Council has also secured facilities through the opening of an account with the UK Government which provides the Council with a mechanism to hold any especially large balances or to be used during periods of severe market uncertainty.

7. During the financial crisis of 2008 the Government was committed to intervene to financially support banks which would have otherwise failed. This has subsequently led to much debate and press coverage which, in turn, caused the Government to seek reforms to its intervention in the banking system. As a result the Government has passed the 'Financial Services (Banking Reform) Act 2013' which fundamentally changed the obligations compulsorily placed upon creditors in the event of bank failure. The impact of this reform is that the Government would no longer provide bail-out support.

8. Two further regulations will also take effect in 2015. The 'Bank Recovery and Resolution Directive' (effective from January 2015) and 'Deposit Guarantee Schemes Directive' (effective from July 2015) will escalate Councils' compulsory obligations of support to banks should a bank fail or be at risk of failure. (These regulations are also designed to strengthen banks' financial position to safeguard against bail-in risk.) As a further consequence of the reform, corporate bodies (excluding financial institutions) gain higher levels of protection from financial losses. In short this means that Councils' temporary investments (otherwise known as term deposits – see glossary) with banks and building societies are at greater risk of capital loss should a bank have insufficient share capital or bad debt provision to cover these losses. The security of this Council's investments remains paramount, so this TMSS proposes a wider range of investment options with other products. This represents a change in Harlow Council's investment portfolio and diversification is therefore the theme of this TMSS.

9. Locally, the Council is transferring its banking services from the Cooperative Bank to Barclays Bank. These new arrangements, implemented as a result of a procurement process are already largely complete and will be fully implemented by 1 April 2015.

Introduction

10. 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.

11. In addition, the Department for Communities and Local Government (CLG) 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.

12. This report fulfils the Council’s legal obligation under the ‘Local Government Act 2003’ to have regard to both the CIPFA Code and the CLG Guidance.

13. 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

14. There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of Gross Domestic Product (GDP). However, inflationary pressure is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

15. The Bank of England’s Monetary Policy Committee (MPC) has debated the degree of spare capacity in the economy and the rate at which this will be used up. Despite two MPC members having voted for a 0.25% increase in rates at each of the Committee’s monthly meetings since August 2014, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August ‘Inflation Report’.

Credit outlook

16. The inclusion of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The ‘Bank Recovery and Resolution Directive’ (BRRD) promotes the interests of individual and small businesses covered by the Financial Services

Compensation Scheme and similar European schemes, while the recast ‘Deposit Guarantee Schemes Directive’ includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

17. The continued global economic recovery has led to a general improvement in credit conditions since last year. . However, due to the above legislative changes, **the credit risk associated with making unsecured bank deposits will increase** relative to the risk of other investment options available to the Council.

Interest rate forecast

18. The Council’s treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk that rates will move towards the higher end of this forecast range is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the sustainability of UK growth. (In a deflationary situation when prices are expected to be lower in the future causes consumers to defer purchases resulting in a fall in demand and production.) If the negative indicators from the Eurozone become more certain, the Bank of England will likely defer any future rate rises until later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.40%.

19. A more detailed economic and interest rate forecast provided by the Arlingclose is attached at Annex A.

20. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.67%. No new external long-term loans are planned to be taken out in 2014/15 and 2015/16 at the time of writing this strategy

<u>Local Context</u>

21. The Council currently has £211.837m of borrowing and £40.98m of investments (as at 31 December 2014). 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 and Forecast

	31.3.14 Actual £m	31.3.15 Estimate £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m
General Fund CFR	27.835	28.592	40.745	41.030	41.143
HRA CFR	198.307	198.307	187.370	187.370	187.370
Total CFR	**226.142**	**226.899**	**228.115**	**228.400**	**228.513**
Less: Other debt liabilities *	(0.626)	(0.626)	(0.194)	(0.084)	(0.084)
Borrowing CFR	**225.516**	**226.273**	**227.921**	**228.316**	**228.429**
Less: External borrowing **	(211.837)	(211.837)	(211.837)	(211.837)	(211.837)
Internal borrowing	**13.679**	**14.436**	**16.084**	**16.479**	**16.592**
Less: Usable reserves	(34.172)	(35.097)	(26.374)	(20.220)	(19.756)
Less: Working capital	(7.647)	(7.647)	(7.647)	(7.647)	(7.647)
Investments	**(28.140)**	**(28.308)**	**(17.937)**	**(11.388)**	**(10.811)**

22. 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, through the utilisation of internal borrowing.

23. 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 the period.

24. Looking ahead over the medium to long term the Council anticipates that the amount available for investment will grow after 2017/18 (to about £50m by 31 March 2025). The growth is attributed to increasing operational balances in the Housing Revenue Account earmarked specifically for the repayment of debt in 2026, as identified in the HRA Business Plan 2014-2044.

Borrowing Strategy

25. The Council currently holds £211.837m of external borrowing, which is unchanged on the previous year, as part of its strategy for funding previous years' capital programmes and financing HRA 'self-financing' debt. The balance sheet forecast in table 1 shows that the Council does not expect to borrow in 2015/16. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £260m.

26. **Objectives:** 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.

27. **Strategy:** 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.

28. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. 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. The result of this work may determine whether the Council borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

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

30. **Sources:** The approved sources of long-term and short-term borrowing are:
    - Public Works Loan Board (PWLB), and its successor
    - any institution approved for investments (see below)
    - any other bank or building society authorised to operate in the UK
    - UK public and private sector pension funds (except Essex County Council Pension Fund)
    - capital market bond investors

- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues

31. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
    - operating and finance leases
    - hire purchase
    - Private Finance Initiative
    - sale and leaseback

32. The Council has previously raised all of its long-term borrowing from the PWLB but would continue to investigate other sources of finance, such as Council loans and bank loans that may be available at more favourable rates.

33. **LGA Bond Agency:** The Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to Councils. This will be a more complicated source of finance than the PWLB for three reasons:

    - Borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other Council borrowers default on their loans.

    - There will be a lead time of several months between committing to borrow and knowing the interest rate payable.

    - Up to 5% of the loan proceeds will be withheld from the Council and used to bolster the Agency's capital strength instead.

    Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

34. **Debt Rescheduling:** 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. Other lenders may also be prepared to negotiate premature redemption terms. 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 cost saving or a reduction in risk.

<u>Investment Strategy</u>

35. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In 2014/15, the Council's investment balance will range between

£27.1m and £45.1m, and similar levels are expected to be maintained in the forthcoming year.

36. **Objectives:** Both the CIPFA Code and the CLG 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 as set out previously.

37. **Strategy:** Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2015/16. This diversification will be focussed upon surplus balances identified for longer-term investment and anticipated to be in the region of £7 million. The Council’s surplus cash is currently invested in short-term unsecured bank deposits, and money market funds. This diversification will therefore represent a substantial change in strategy over the coming year.

38. **Approved Counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited Years	n/a	n/a
AAA	£2m 5 years	£4m 20 years	£4m 50 years	£2m 20 years	£2m 20 years
AA+	£2m 5 years	£4m 10 years	£4m 25 years	£2m 10 years	£2m 10 years
AA	£2m 4 years	£4m 5 years	£4m 15 years	£2m 5 years	£2m 10 years
AA-	£2m 3 years	£4m 4 years	£4m 10 years	£2m 4 years	£2m 10 years
A+	£2m 2 years	£4m 3 years	£2m 5 years	£2m 3 years	£2m 5 years
A	£2m 13 months	£4m 2 years	£2m 5 years	£2m 2 years	£2m 5 years
A-	£2m 6 Months	£4m 13 months	£2m 5 years	£2m 13 months	£2m 5 years
BBB+	£1m 100 days	£2m 6 months	£1m 2 years	£1m 6 months	£1m 2 years
BBB or BBB-	£1m next day only	£2m 100 days	n/a	n/a	n/a
None	£1m 6 Months	n/a	£2m 25 years	£50,000 5 years	£4m 5 years
Pooled funds	£4m per fund				

This table must be read in conjunction with the notes below

39. **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

40. **Banks Unsecured:** Accounts, deposits, certificates of deposit (see glossary of terms) and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. The risk of credit loss is determined by the robustness of a bank's own balance sheet Whilst this does not preclude the Council from making these investments, it will only do so where there is a sufficiently high credit rating. It will not place unsecured investment with banks rated "BBB" or "BBB(-)" other than fully liquid overnight deposits with the Council's own bank, Barclays Bank plc.

41. The use of an account to leave overnight deposits with Barclays Bank is an important tool in cost effective cash flow management. (Only in instances where the Council's finance was at risk from loss, such as was experienced by the Cooperative Bank, would a decision be made to suspend overnight deposits with the Council's bankers.)

42. **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

43. Collateral, for example in the case of a reverse repurchase agreement (Repo), is given by the bank in bonds etc in consideration for the cash deposited. The Council would use a collateral agent to hold the securities which would be liquidated only in the case of bank failure.

44. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is a very low risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

45. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going into insolvency . Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

46. **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

47. **Pooled Funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an

alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

48. The Council has used Money Market Funds (MMFs) for many years to provide sound, liquid investment vehicles. Subject to the outcome of reforms to the MMFs, these remain a beneficial and secure investment option.

49. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

50. This class of investment offers both security and a potentially advantageous yield, but should not be considered for short-term investment.

Risk Assessment and Credit Ratings

51. 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 even if this incurs a redemption fee / cost.

52. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn 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

53. The Council understands that credit ratings provide good, but not perfect, predictions of investment default. Full regard will therefore also 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.

54. 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 or invested in government treasury bills (see glossary) for example, or with other Councils. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

55. The CLG Guidance defines specified investments as those:

- denominated in pound 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".

56. The Council defines "high credit quality" organisations and securities 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

57. Any investment not meeting the definition of a specified investment is classed as non-specified. It is not anticipated that the Council will utilise such investments during 2015/16, 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 investment that could be used. Because of the specialised management requirements and trading mechanisms, such investments would be made using external fund managers or specialist advice.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£1m
Total investments without credit ratings or rated below A(-)	£10m
Total investments with institutions domiciled in foreign countries rated below AA+	£1m
Total non-specified investments	£12m

Investment Limits

58. The Council's revenue / usable reserves available to cover investment losses are forecast to be £35.1m on 31 March 2015. 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 will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below:

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£4m each
With the Council's own bankers	£4m (£6m over the Christmas period, defined as 20 December to 4 January inclusive)
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£20m per broker
Registered Providers	£10m in total
Unsecured investments with Building Societies	£8m in total
Loans to unrated corporates and small businesses	£4m in total
Money Market Funds	£20m in total

Liquidity Management:

59. The Council uses rudimentary cash flow forecasting software 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 plan and cash flow forecast.

Treasury Management Indicators

60. **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:

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	£246m	£248m	£250m
Upper limit on variable interest rate exposure	(-)£7m	(-)£5m	(-)£4m

61. 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.

62. **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

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

64. **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. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged / credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments.

65. 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 2014-2044.

66. **Investment Training:** The needs of the Council's treasury management staff for training in investment management are assessed on an ongoing basis. Officers meet at regular intervals – typically monthly to discuss operational treasury management plans. Additional

training is necessary when the responsibilities of individual members of staff change or processes change.

67. 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.

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

69. **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.

70. 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.

71. **Policy of Use of Financial Derivatives:** Councils 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 Councils' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

72. 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, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

73. 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

74. The budget for investment income in 2015/16 is £132,400, based on an average investment portfolio of £19.764m at an interest rate of 0.67%. The budget for debt interest paid in 2015/16 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 2014-2044, 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

75. The CLG 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	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs 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 October 2014

Underlying assumptions:

1. The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP throughout this year.

2. We expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.

3. Inflationary pressure is currently low and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.

4. The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.

5. Nominal earnings growth remains weak and below inflation, despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

6. However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.

7. In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.

8. The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is

significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.

9. While the ECB is likely to introduce outright Quantitative Easing, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.

10. The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.

Forecast:

11. Arlingclose continues to forecast the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.

12. We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.

13. The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
Downside risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.05	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.55	0.60	0.65	0.85	1.00	1.15	1.30	1.45	1.60	1.75	1.85	2.05	2.15
Downside risk	0.10	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	-0.95	-0.95	-0.95	-1.00
1-yr LIBID rate													
Upside risk	0.10	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.95	1.00	1.05	1.20	1.35	1.50	1.65	1.80	1.95	2.10	2.20	2.40	2.50
Downside risk	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80	-0.80
5-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	1.70	1.75	1.90	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.90	2.95
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.70	-0.70
10-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	2.40	2.45	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.05	3.10
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60
20-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	2.90	2.95	3.05	3.10	3.15	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.55
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60
50-yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	3.00	3.05	3.10	3.15	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.55	3.60
Downside risk	-0.30	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60

Annex B
Existing Investment & Debt Portfolio Position

	31.12.14 Actual Portfolio £m	31.12.14 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	27.330	0.53%
Pooled Fund (Money Market Funds)s	13.650	0.38%
Total Investments	**40.980**	**0.48%**
Net Debt	**171.483**	

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

Schedule 16 of the Housing Act 1985 specifies that Councils 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 2015/16

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 Councils 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.

Estimates of Capital Expenditure

The Council's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
General Fund	3,708	**5,840**	1,863	1,812
HRA	24,813	**26,772**	19,463	17,506
Total Expenditure	**28,521**	**32,612**	**21,326**	**19,318**
Capital Receipts	(5,072)	(3,217)	(1,979)	(1,409)
Government Grants	(5,962)	(3,038)	(487)	(487)
Major Repairs Reserve	(13,518)	(11,270)	(11,431)	(11,572)
Revenue	(2,793)	(13,315)	(6,865)	(5,558)
Borrowing *	(1,176)	(1,772)	(564)	(292)
Leasing and PFI	0	0	0	0
Total Financing	**(28,521)**	**(32,612)**	**(21,326)**	**(19,318)**

*Currently envisaged to be met by internal borrowing.

Further detail is provided in the Capital Programme 2014/15 to 2019/20 report to Cabinet on 29 January 2015 and Council on 6 February 2015.

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	**31.03.15 Revised £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**
General Fund	28.592	**40.745**	41.030	41.143
HRA	198.307	**187.370**	187.370	187.370
Total CFR	**226.899**	**228.115**	**228.400**	**228.513**

The CFR is forecast to rise by £1.6m over the next three years as capital expenditure financed by debt 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	**31.03.15 Revised £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**
Borrowing	211.837	**211.837**	211.837	211.837
Finance leases	0.626	**0.194**	0.084	0.084
PFI liabilities	0	**0**	0	0
Total Debt	**212.463**	**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	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Borrowing	248.0	**251.0**	253.0	255.0
Other long-term liabilities	1.5	**1.5**	1.5	1.5
Total Debt	**249.5**	**252.5**	**254.5**	**256.5**

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	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 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	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
General Fund	6.05	**5.61**	3.48	3.24
HRA	10.93	**10.99**	12.35	12.02

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	**2015/16 Estimate £**	**2016/17 Estimate £**	**2017/18 Estimate £**
General Fund - increase in annual band D Council Tax	**54.99**	21.87	21.64
HRA - increase in average weekly rents	**24.50**	12.81	10.23

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 2015/16

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 CLG Guidance) most recently issued in 2012.

The broad aim of the CLG 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 CLG 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 31st March 2008. For Harlow Council, the adjusted Capital Financing Requirement upon which the MRP is calculated is negative in each year prior to April 2008. The MRP on this portion of 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, 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 2015/16 will not be subject to a MRP charge until 2016/17.

Based on the Council's estimate of its Capital Financing Requirement on 31 March 2015, the budget for MRP has been set as follows:

	31.03.2015	2015/16

	Estimated CFR £m	Estimated MRP £
Capital expenditure before 01.04.2008	**5.455**	0
Capital expenditure after 31.03.2008	**220.818**	121,000
Finance leases	**0.626**	432,000
Total	**226.899**	**552,000**

Annex E
Approved Counterparty List

Introduction

As part of the service provided by the Council's treasury management advisors, Arlingclose Ltd 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 the Council's 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 the Council's 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 the Council's 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.

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

Arlingclose has recommended that the Council diversies its investment portfolio. The Council's expectation is to have available for investments in a range of £19m to £38m (average £29m). The flow of cash through the Council's bank accounts is uneven and therefore a proportion of cash needs to be liquid (i.e. is immediately available to pay bills). Typically at least 50% of the Council's cash will be held in liquid investments although this percentage is set to reduce as HRA cash balances accumulate for future scheduled debt repayment.

The remainder may be invested for a longer period of time but around the date when the Council will carry only £17.6m (March 2016) will seek to place no more than £9m.

The Council needs to exercise caution in investing in Property Funds, where to gain the benefit from the asset class it is recommended the investment is held over a long period. The forward forecast indicates a lower cash balance at the year end, 2016/17. This suggests that no more than £5m should be invested through this instrument.

The following tables show the Lending List issued by Arlingclose on 2 January 2015 and therefore operable from the week commencing 5 January. 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 2014).

- Australia
- Canada
- Germany
- 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, 10% of the Council’s maximum investment balances for 2015/16 (rounded to £40m).

As an exception the Council will invest up to £4m (£6m over the Council’s Christmas period) with its bankers, Barclays Bank plc, in a Business Reserve account. This provides overnight deposits and is an efficient way of managing short term cash balances without the expense of transfer costs.

The maximum investment in unrated building societies will be increased from £1m in total to £4m in total (therefore allowing, for example, four £1m investments with unrated societies).

Investments with these counterparties may be in a range of instruments.

The Council will amend the maximum duration it may invest in counterparties in line with Arlingclose's recommendation. Investments with counterparties and the period of such investments will remain at the discretion of the Head of Finance or his representative.

HARLOW COUNCIL - APPROVED COUNTERPARTY LIST **As at:** **02/01/2015**

						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-	6 Months	4m		6 months
COMMONWEALTH BANK OF AUSTRAL	AU	Aa2	AA-	AA-	6 Months	4m		6 months
NATIONAL AUSTRALIA BANK LTD	AU	Aa2	AA-	AA-	6 Months	4m		6 months
WESTPAC BANKING CORP	AU	Aa2	AA-	AA-	6 Months	4m		6 months
GOVERNMENT OF CANADA	CA	Aaa	AAA	AAA				
BANK OF MONTREAL	CA	Aa3	AA-	A+	6 Months	4m		6 months
BANK OF NOVA SCOTIA	CA	Aa2	AA-	A+	6 Months	4m		6 months
CAN IMPERIAL BK OF COMMERCE	CA	Aa3	AA-	A+	6 Months	4m		6 months
ROYAL BANK OF CANADA	CA	Aa3	AA	AA-	6 Months	4m		6 months
TORONTO-DOMINION BANK	CA	Aa1	AA-	AA-	6 Months	4m		6 months
REPUBLIC OF FINLAND	FI	Aaa	AAA	AA+				

NORDEA BANK FINLAND ABP	FI	Aa3	AA-	AA-	6 Months	4m		6 months
POHJOLA BANK OYJ-A SHS	FI	Aa3	A+	AA-	6 Months	4m		6 months
UNITED KINGDOM	GB	Aa1	AA+	AAAu				
BANK OF SCOTLAND PLC	GB	A1	A	A	6 Months	4m	5m	6 months
LLOYDS BANK PLC	GB	A1	A	A	6 Months	4m		6 months
BARCLAYS BK PLC-ADR C	GB	A2	A	A	100 Days	4m		6 months
CLOSE BROTHERS LTD	GB	A3	A		100 Days	4m		100 Days
GOLDMAN SACHS INTERNATIONAL	GB	A2	A	A	100 Days	4m		6 months
HSBC BANK PLC	GB	Aa3	AA-	AA-	6 Months	4m		6 months
LEEDS BUILDING SOCIETY	GB	A3	A-		100 Days	1m	£1m total including Other Building Societies	100 Days
NATIONWIDE BUILDING SOCIETY	GB	A2	A	A	6 Months	4m		6 months
SANTANDER UK PLC	GB	A2	A	A	6 Months	2m		3 months
STANDARD CHARTERED BANK	GB	A1	AA-	A+	6 Months	4m		6 months
UNRATED BUILDING SOCIETIES					0			
CUMBERLAND BUILDING SOCIETY	*GB*				100 Days	1m	£1m total	12 months
SCOTTISH BUILDING SOCIETY	*GB*				100 Days	1m		12 months
VERNON BUILDING SOCIETY	*GB*				100 Days	1m		12 months
DARLINGTON BUILDING SOCIETY	*GB*				100 Days	1m		12 months
FURNESS BUILDING SOCIETY	*GB*				100 Days	1m		12 months
HARPENDEN BUILDING SOCIETY	*GB*				100 Days	1m		12 months
HINCKLEY & RUGBY BUILDING SOCIETY	*GB*				100 Days	1m		12 months
LEEK UNITED BUILDING SOCIETY	*GB*				100 Days	1m		12 months
LOUGHBOROUGH BUILDING SOCIETY	*GB*				100 Days	1m		12 months

MANSFIELD BUILDING SOCIETY	*GB*				100 Days	1m		12 months
MARKET HARBOROUGH BUILDING SOCIETY	*GB*				100 Days	1m		12 months
MARSDEN BUILDING SOCIETY	*GB*				100 Days	1m		12 months
MELTON MOWBRAY BUILDING SOCIETY	*GB*				100 Days	1m		12 months
NEWBURY BUILDING SOCIETY	*GB*				100 Days	1m		12 months
TIPTON & COSELEY BUILDING SOCIETY	*GB*				100 Days	1m		12 months
NATIONAL COUNTIES BUILDING SOCIETY	*GB*				100 Days	1m		12 months
FEDERAL REPUBLIC OF GERMANY	GE	Aaa	AAA	AAAu				
DEUTSCHE BANK AG-REGISTERED	GE	A3	A+	A	100 Days	4m		6 months
LANDESBANK HESSEN-THURINGEN	GE	A2	A+	A	100 Days	4m		100 days
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	AAAu				
SVENSKA HANDELSBANKEN-A SHS	SW	Aa3	AA-	AA-	6 Months	4m		6 months
SWISS CONFEDERATION	SZ	Aaa	AAA	AAAu				
CREDIT SUISSE AG	SZ	A1	A	A	100 Days	4m		6 months

Pooled Funds: 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. Because Money Market Funds (MMFs) are inherently secure (carrying the highest AAA rating) and each fund provides a wide spread of investments, MMFs represent a secure investment option, whilst providing immediate access to funds (thus meeting liquidity requirements) and can deliver competitive yields.

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

- Overall exposure to MMFs as a whole be limited to £20,000,000, representing approximately 50% of the maximum cash in hand anticipated during 2015/16.

- The Council currently has a relationship with seven MMFs. It spreads its investments across those giving the greatest yield subject to a maximum of £4m per Fund.

- 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.

					Council Specific Limits	
Money Market Funds used by Harlow	Place of Domicile	Moody's Long-Term Ratings	Fitch Long-Term Rating	S&P Long-Term Rating	Individual Cash Limit (£)	Group Cash Limit (£)
BLACKROCK	IR	Aaa-mf		AAAm	4m	
FEDERATED INVESTORS (UK)	GB	Aaa-mf	AAAmmf	AAAm	4m	
GOLDMAN SACHS ASSET MANAGEMENT	IR	Aaa-mf	AAAmmf	AAAm	4m	
IGNIS ASSET MANAGEMENT	IR		AAAmmf	AAAm	4m	20m
INSIGHT INVESTMENTS	IR		AAAmmf	AAAm	4m	
INVESCO AIM	IR	Aaa-mf	AAAmmf	AAAm	2m	
MORGAN STANLEY INVESTMENT MANAGEMENT	IR	Aaa-mf	AAAmmf	AAAm	4m	

The Council may in addition invest cash in Property Funds. These are only used if opportunities arise for long-term investments to be made. The current maximum amount to be invested in any single fund would be £5m (excluding any accumulated investment returns).

Local Authorities

The Council is prepared to invest with any local authority not just those that have sought and have been assigned a credit rating.

					Council Specific Limits		
Local Authority	Country	Moody's Long-Term Ratings	Fitch Long-Term Rating	S&P Long-Term Rating	Individual Cash Limit (£/%)	Group Cash Limit (£/%)	Max Investment period
GREATER LONDON AUTHORITY	GB			AA+	5m		364 days
LANCASHIRE COUNTY COUNCIL	GB	Aa2					
TRANSPORT FOR LONDON	GB	Aa2	AA	AA+			
CORNWALL CC	GB	Aa1					
GUILDFORD BC	GB	Aa1					
KENSINGTON & CHELSEA RBC	GB			AAA			
WANDSWORTH LBC	GB		AA+				
WOKING BC	GB			A			

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) 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	Cabinet 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, Cabinet 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
Credit Ratings Table

The Credit Ratings Table has been included as an annex in order to assist with understanding of the ratings referred to within the TMSS. Generally the Council will invest in ‘High Grade’ or ‘Upper Medium Grade’ investments.

	Moody's	S&P	Fitch	Meaning
Investment Grade	Aaa	AAA	AAA	Prime
	Aa1	AA+	AA+	High Grade
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
	Baa3	BBB-	BBB-	
Junk	Ba1	BB+	BB+	Non Investment Grade Speculative
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Highly Speculative
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC+	Substantial Risks
	Caa2	CCC	CCC	Extremely Speculative
	Caa3	CCC-	CCC-	In Default w/ Little Prospect for Recovery
	Ca	CC	CC+	
		C	CC	In Default
			CC-	
	D	D	DDD	

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.

BRRD: 'Bank Recovery and Resolution Directive'

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
A certificate of deposit is an unsecured investment issued by a bank or building society which is a fixed deposit, giving a guaranteed interest return. These differ from term deposits in that the lender is not obliged to hold the investment through to maturity and

may realise the cash by selling the CD into an active secondary market. This may be useful in instances where the counterparty receives a downgraded credit rating, or the investor encounters an unexpected cashflow issue. CDs are obtained through specialist brokers who deal through the primary and secondary market. CDs offer liquidity and greater access to counterparties who do not trade in term deposits.

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 Councils 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 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.

GDP: Gross Domestic Product

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.

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, for the repayment of debt.

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 Councils 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.

T-bills: see ‘Treasury Bills’.

Term Deposit
(or 'Time deposit') is a generic term for a bank deposit where funds cannot be withdrawn for a fixed period of time. The lender receives a fixed rate of interest. These are unsecured investments and place the lender at risk of bail-in should this occur during the term of the investment.

Time Deposit: see ‘Term Deposit’

Treasury Bills
Treasury bills are a AAA/AA+ rated, short-dated form of Government debt, issued by the Debt Management Office (q.v.), via a weekly tender, on a Friday. Lenders would use the services of a specialist broker to access the market. These usually have a maturity of one, three or six months and provide a return to the investor by virtue of being issued at a discount to their final redemption value. There is also an active secondary market for T-bills which means that lending may be available for a range of dates. Interest rates tend to be higher than the DMADF (q.v.).

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 2014-2044 *

Capital Programme 2014/15 – 2019/20 *

Arlingclose Ltd treasury management advisory documents

Treasury Management and Accounting records

*These are separate reports submitted to Cabinet, 29 January 2015.