APPENDIX A

Harlow Council
Treasury Management Strategy Statement
2018/19

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 practice.

2. It provides an update of external economic conditions impacting on the Council and focusses on the major issues of 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 has been the Council's appointed advisor since December 2012 and has, through a tendering process, been reappointed for a further period of three years until December 2020.

4. Economic background and commentary has been provided by Arlingclose and included throughout the Statement. Treasury management continues to operate in a challenging environment with low interest rates and inflation above the Bank of England's target of 2%.

5. The UK economy is in an uncertain state while the government negotiates its exit from the European Union.

6. 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**: which includes the following, some of which might appear contradictory:
  - Reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments;
  - The repayment of the sum invested; and / or,
  - Attempting as far as possible, within the parameters of this document, a total return equal to or higher than the prevailing rate of inflation.
- **Liquidity**: availability of cash when needed (adequate but not excessive liquidity)
- **Yield**: a return commensurate with the level of risk.

7. Harlow Council has embarked on two major capital projects: the Enterprise Zone and Prentice Place, which will deplete surplus cash held. It is anticipated that, during 2018/19, the Council will need to undertake external borrowing.

Introduction

8. Harlow Council has adopted the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice 2011 Edition' (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code.

9. 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.

10. Other changes to treasury management regulations include the second Markets in Financial Instruments Directive (known as MiFID II). This became effective from 3 January 2018 when local authorities were reclassified as "retail clients" unless making an application to opt up to retain "professional client" status with individual banks, brokers, advisors, fund managers and custodians. This is called "elective professional status". Some level of inconsistency has been observed between the various firms listed above, with some requiring that the Council declares and demonstrates that it has opted up whilst others remain less rigid. In order to opt up to professional client status, the Council must have an investment balance of at least £10m and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience in treasury management. In addition, the firm must assess that the person has the expertise, experience and knowledge to make investment decisions and understand the risks involved. The Council has, of course, opted up with its advisors Arlingclose Ltd.

11. 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.

12. 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.

13. **Revised strategy:** In accordance with the CLG Guidance, Full Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in

interest rates, in the Council's capital programme or in the level of its investment balance.

External Context (supplied by Arlingclose)

Economic background:

14. The major external influence on the Council's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

15. Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

16. In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Credit outlook:

17. High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

18. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

19. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain very low.

Interest rate forecast:

20. The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

21. Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

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

23. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.87%, and that new long-term loans will be borrowed at an average rate of 2%.

Local Context

24. On 31 December 2017, the Council held £211.837m of borrowing and £43.535m 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 and forecast

	31.3.17 Actual £m	**31.3.18 Estimate £m**	**31.3.19 Forecast £m**	**31.3.20 Forecast £m**	**31.3.21 Forecast £m**
General Fund CFR	42.639	50.931	62.441	63.185	64.065
HRA CFR	187.370	187.370	187.370	187.370	187.370
Total CFR	**230.009**	**238.301**	**249.811**	**250.555**	**251.435**
Less: Other debt liabilities	0	0	0	0	0
Borrowing CFR	**230.009**	**238.301**	**249.811**	**250.555**	**251.435**
Less: External borrowing	(-)211.837	(-)211.837	(-)226.837	(-)226.837	(-)226.837
Internal borrowing	**18.172**	**26.464**	**22.974**	**23.718**	**24.598**
Less: Usable reserves	(-)44.803	(-)39.062	(-)30.729	(-)30.369	(-)30.254
Less: Working capital	(-)9.257	(-)9.124	(-)9.124	(-)9.124	(-)9.124
Investments	**(-)35.888**	**(-)21.722**	**(-)16.879**	**(-)15.775**	**(-)14.780**

25. The Council has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £15m over the forecast period.

Borrowing Strategy

26. 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. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £15m in 2018/19. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing in 2018/19 of £280m ***(see Annex C)***.

27. **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs 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.

28. **Strategy – Mainstream Borrowing:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy addresses 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.

29. 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 modestly. 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 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

30. Alternatively, the Council may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

31. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

32. **Strategy – Economic Development Projects.** The Council's Capital Programme identifies £18.661m of expenditure over two years (2017/18 & 2018/19) in respect of two schemes: the Enterprise Zone and Prentice Place. The shortfall, after grant funding, is around £15m which will require external

borrowing. The intention is that borrowing costs are met in the case of the Enterprise Zone by South East Local Enterprise Partnership (SELEP), and in the case of Prentice Place by an income stream flowing from the sale of and rent of new properties. This will protect cashflows, support projects and reduce risk from borrowing instability.

33. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- 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
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

34. **Other sources of debt finance:** 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

35. The Council has previously raised all of its long-term borrowing from the PWLB 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.

36. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc 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 local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any proposal to borrow from the Agency will therefore be the subject of a separate report to Full Council.

37. **Short-term and variable rate loans**: These 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.

38. **Debt rescheduling:** The PWLB allows authorities 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.

Investment Strategy

39. 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 £35.007m and £53.982m. It is expected that surplus cash available for investment will fall due to large capital expenditure in particular related to two flagship schemes: Prentice Place and the Enterprise Zone.

40. **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 of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

41. **Negative interest rates:** If the UK enters into a recession in 2018/19, there remains a minimal risk that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation, at the time of writing, exists in three other European countries whose central bank interest rates are below 0%. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

42. **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council will operationally continue its aim to invest in local authorities (which are secured investments), money market funds (which, although are unsecured and subject to bail in, have reduced risk levels due to their investment diversification), and, on a less liquid basis, in Cash Plus and / or Short-dated Multi-Asset Income Funds, plus the CCLA Local Authorities' Property Fund.

43. **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. These limits are unchanged from the previous Strategy but, in practice, should be reviewed on depletion of cash balances to ensure that excessive surplus cash is not invested in a single institution. The Council will need to strike balance between diversification of investments and managing its surplus cash in an efficient manner.

Table 2: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£4m 5 years	£4m 20 years	£4m 50 years	£2m 20 years	£2m 20 years
AA+	£4m 5 years	£4m 10 years	£4m 25 years	£2m 10 years	£2m 10 years
AA	£4m 4 years	£4m 5 years	£4m 15 years	£2m 5 years	£2m 10 years
AA-	£4m 3 years	£4m 4 years	£4m 10 years	£2m 4 years	£2m 10 years
A+	£4m 2 years	£4m 3 years	£4m 5 years	£2m 3 years	£2m 5 years
A	£4m 13 months	£4m 2 years	£4m 5 years	£2m 2 years	£2m 5 years
A-	£2m 6 months	£4m 13 months	£2m 5 years	£2m 13 months	£2m 5 years
None	£1m 6 months	n/a	£4m 25 years	£50,000 5 years	£2m 5 years
Pooled funds	£5m per fund				

This table must be read in conjunction with the notes below

44. **Credit rating:** Investment limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

45. **Banks unsecured:** Accounts, deposits, certificates of deposit 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. See below for arrangements relating to operational bank accounts (i.e. Barclays Bank).

46. **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 higher 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.

47. **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 an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

48. **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 insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

49. **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 the likelihood of receiving government support if needed.

50. **Pooled funds: Shares** in diversified investment vehicles consisting of the 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. Short-term Money Market Funds (MMFs) that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts. Arlingclose recommend that no more than 50% of surplus cash is invested in MMFs.

51. **Pooled Funds: 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. The Council invested £2m in a Local Authority Property Fund in September 2015.

52. **Operational bank accounts:** The Council may incur operational exposures through its current accounts with Barclays Bank plc (or any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion). These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £4m (except over the Christmas period, defined as 20 December to 4 January inclusive when the limit will be £6m). The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

53. **Risk assessment and credit ratings**: 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.

54. 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:

55. 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.

56. 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 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:

57. 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”.

58. The Council defines “high credit quality” organisations and securities as those having a credit rating of A- (A minus) 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- (A minus) or higher.

Non-specified investments:

59. Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-specified investment limits

	Cash limit
Total long-term investments	£10m
Total investments without credit ratings or rated below A- (A minus) (except UK Government and local authorities)	£15m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£1m
Total non-specified investments	£26m

Investment limits:

60. The Council’s revenue reserves available to cover investment losses are forecast to be £39m on 31 March 2018. 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. This figure will be reviewed on a regular basis without necessary recourse to Council should there be a depletion of cash surpluses however, the Head of Finance may decide it expedient to recommend any change in a future report, for example at Mid-Year Review. 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. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. This excludes any accumulated interest.

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	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Registered providers	£10m in total
Unsecured investments with building societies	£4m in total
Loans to unrated corporates	£4m in total
Money Market Funds	£35m in total

Liquidity management:

61. The Council uses purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis 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.

Non-Treasury Investments

62. Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Council may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in loans to local businesses, or as loans to the Council's subsidiaries.

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

64. The Council's existing non-treasury investments are listed in Annex B.

Treasury Management Indicators

65. The Council measures and manages its exposures to treasury management risks using the following indicators.

66. **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:

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	£255m	£262m	£266m
Upper limit on variable interest rate exposure	£4m	£5m	£5m

67. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

68. **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:

	Current Portfolio	Upper	Lower
Under 12 months	-	25%	0%
12 months and within 24 months	-	50%	0%
24 months and within 5 years	-	100%	0%
5 years and within 10 years	19.7%	100%	0%
10 years and above	80.3%	100%	0%

69. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Other Items

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

71. **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, adjusted for credit risk.

72. **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. Colleagues will talk informally where appropriate in making daily investment decisions. Additional training is necessary when the responsibilities of individual members of staff change.

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

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

75. **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.

76. The total amount borrowed will not exceed the authorised borrowing limit of £265m. 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.

77. **Policy on the 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).

78. 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 and forward starting transactions, will not be subject to this policy, although the

risks they present will be managed in line with the overall treasury risk management strategy.

79. 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

80. The budget for investment income in 2018/19 is £311,460, based on an average investment portfolio of £35.8m at an interest rate of 0.87%. The budget for debt interest paid in 2018/19 is £7.124m, based on an average debt portfolio of £219.337m at an average interest rate of 3.25%. 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

81. 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 may 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 may 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 may 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 may 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 may be less certain

Annex A
Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

1. In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

2. Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

3. The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

4. Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

5. Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

6. The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

7. Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

8. Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

9. The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates

are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

10. Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

11. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
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**	0.50
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
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**	0.50
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	0.77
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	0.89
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	1.36
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	1.93
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	1.82
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

Annex B – Existing Investment & Debt Portfolio Position

	31.12.17 Actual Portfolio £m	31.12.17 Average Rate %
External borrowing:		
Public Works Loan Board	211.837	3.31%
Total gross external debt	**211.837**	**3.31%**
Treasury investments:		
Managed in-house		
Banks & building societies (unsecured)	(-)2.100	0.35%
Government (incl. local authorities)	(-)25.300	0.39%
Money Market Funds	(-)12.135	0.32%
Managed externally		
Pooled funds (Property Fund)	(-)2.000	4.20%
Cash Plus Fund	(-)2.000	0.31%
Total treasury investments	**(-)43.535**	**0.54%**
Net debt	**168.302**	

Non-treasury investments:		
Loans to subsidiaries	(-)1.170	4.73%
Loans to local companies	(-)2.500	4.67%
Total non-treasury investments	**(-)3.670**	**4.69%**
Total investments	**(-)47.205**	

<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 2018/19

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.

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
General Fund	11.846	**15.250**	2.283	2.198
HRA	20.777	**18.804**	15.672	14.990
Total Expenditure	**32.623**	**34.054**	**17.955**	**17.188**
Capital Receipts	2.739	3.999	1.410	0.887
Government Grants	2.063	0.665	0.505	0.505
Major Repairs Reserve	11.440	11.439	11.607	11.789
Revenue	7.871	6.156	3.354	2.765
Borrowing	8.510	11.795	1.079	1.242
Total Financing	**32.623**	**34.054**	**17.955**	**17.188**

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	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
General Fund	50.931	**62.441**	63.185	64.065
HRA	187.370	**187.370**	187.370	187.370
Total CFR	**238.301**	**249.811**	**250.555**	**251.435**

The CFR is forecast to increase by £13m 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	**31.03.18 Revised £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**
Borrowing	211.837	**226.837**	226.837	226.837
Finance leases	0	**0**	0	0
Total Debt	**211.837**	**226.837**	**226.837**	**226.837**

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	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Borrowing	252.000	**269.000**	270.000	270.000
Other long-term liabilities	1.500	**1.500**	1.500	1.500
Total Debt	**253.500**	**270.500**	**271.500**	**271.500**

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	**2017/18 Limit £m**	**2018/19 Limit £m**	**2019/20 Limit £m**	**2020/21 Limit £m**
Borrowing	260.000	**275.000**	280.000	280.000
Other long-term liabilities	5.000	**5.000**	5.000	5.000
Total Debt	**265.000**	**280.000**	**285.000**	**285.000**

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	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	1.30	**4.59**	6.71	7.31
HRA	11.53	**12.19**	12.08	11.96

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	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
General Fund - increase in annual band D Council Tax	**26.93**	22.93	24.04
HRA - increase in average weekly rents	**12.52**	6.71	5.52

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' at its meeting on 10 February 2010.

Annex D
Annual Minimum Revenue Provision Statement 2018/19

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 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 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, with the exception of pump-priming economic development (defined below), MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. *(Option 3 in England and Wales)*

Economic development is defined as the following capital expenditure projects: Prentice Place and the Enterprise Zone.

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.

Capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20.

Based on the Council’s latest estimate of its Capital Financing Requirement on 31 March 2018, the budget for MRP has been set as follows:

	31.03.2018 Estimated CFR £m	2018/19 Estimated MRP £
Capital expenditure before 01.04.2008	**5.455**	0
Capital expenditure after 31.03.2008	**45.476**	284,837
Total General Fund	**50.931**	**284,837**
Assets in the Housing Revenue Account	**187.370**	0
Total Housing Revenue Account	**187.370**	**0**
Total	**238.301**	**284,837**

Annex E
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 F
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 G
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 H
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: Chartered Institute of Public Finance and Accountancy.

CIPFA Treasury Management Code of Practice
This represents official practitioners' guidance, which is produced by CIPFA. 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.

CLG: Department of Communities and Local Government.

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.

Markets in Financial Instruments Directive II
New client classification rules were introduced from 3 January 2018 as a result of the UK's implementation of the second Markets in Financial Instruments Directive (MiFID II). Local authorities were transferred to 'client status' unless it requested to institutions to continue to be treated as a professional client in respect of all the regulated financial services that are provided.

MiFID II: see Markets in Financial Instruments Directive II

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 I
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 2017-2047 *

Capital Programmes 2017/18-2022/23 *

Arlingclose Ltd treasury management advisory documents

Treasury Management and Accounting records

*These are separate reports submitted to Cabinet, 25 January 2018.