

# **London Borough of Barnet**

## **Treasury Management Strategy Statement**

**1 April 2020 to 31 March 2021**

Minimum Revenue Provision Policy Statement  
and Annual Investment Strategy

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# 1.INTRODUCTION

## 1.1 Background

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

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

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

CIPFA defines treasury management as:

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

This authority has not engaged in any commercial investments and has no non-treasury investments. However, the Council has entered into lending activity to support its priorities and the borrowing required to support this lending activity is included within this statement as is the income generated. Further details are given in section 1.7.

## 1.2 Reporting requirements

### 1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy, which is a separate document, is to ensure that all elected members on the full council fully understand the overall long-term policy

objectives and resulting capital strategy requirements, governance procedures and risk appetite.

### **1.2.2 Treasury Management reporting**

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- a. Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
  - the capital plans, (including prudential indicators);
  - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
  - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
  - an investment strategy, (the parameters on how investments are to be managed).
  
- b. A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
  
- c. An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

#### **Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Policy and Resources Committee.

### **1.3 Treasury Management Strategy for 2020/21**

The strategy for 2020/21 covers two main areas:

#### **Capital issues**

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

#### **Treasury management issues**

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

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

#### **1.4 Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Members of the Policy and Resources Committee undertook training on 23 October 2018. Further training will be arranged for Members at least every two years. The training needs of treasury management officers are periodically reviewed. Treasury officers attended at least one training event organised by Link Asset Services in the last 12 months.

#### **1.5 Treasury management consultants**

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

The Council recognises that responsibility for treasury management decisions remains with the organisation. All decisions will be undertaken with regards to all available information, including, our treasury advisers.

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

#### **1.6 Purpose**

The purpose of this Treasury Management Strategy Statement is to seek approval for:

- Treasury Management Strategy for 2020/21;
- Annual Investment Strategy for 2020/21;
- Prudential Indicators for, 2020/21 to 2023/24;
- MRP statement (see Appendix para 5.1.1).

#### **1.7 Highlights of TMSS**

In this section the key issues discussed in the TMSS are highlighted:

- Forecasts and indicators within the TMSS have been extended from three to four years to be consistent with capital planning.
- In the four years from 1 April 2020 gross capital expenditure is forecast at £850.3 million, of which the debt funded element is £348.2 million. The major capital projects are Brent Cross (£301 million of which 90% is grant funded), loans to Open Door (£201 million) and various HRA projects (£192 million).
- The impact of the capital expenditure (and other adjustments) is to increase forecast gross debt (including leases) from £364.6 million at 1 April 2019 to £706.0 million at 31 March 2024.
- The authorised borrowing limit for 2020-21 is set at £771.5 million based on forecast CFR. Projected debt 31 March 2021 is £544.6 million

- During the current year, £80 million of new PWLB 50-year debt has been taken at a average cost of 1.94%. The short-term loans of £45 million as at 31 March 2019 have been partially repaid, with the final £15 million to be repaid March 2020.
- The Government has increased the margin on PWLB lending by 100 bps to 1.8% above the equivalent government gilt yield. For example the current 50-year maturity rate has increased to 2.96%. Opportunities to borrow below PWLB elsewhere have become feasible and are being explored e.g. Municipal Bond Agency. Short-term local authority borrowing remains available at less than 1% for 3-6 months. The projection of the cost of additional debt is based on a blend of PWLB rates (2.8% to 3.8%) over the next four years.
- With Government gilt rates remaining around historic lows, where there is certainly of capital plans, it still makes sense to consider long term borrowing to avoid interest uncertainty.
- Although the gross non-HRA interest costs is forecast to increase from £4.4 million in 2018-19 to £12.4 million in 2023-24, this is offset by a larger increase in interest income of £0.9 million to £11.9 million, mainly loans to Open Door, Brent Cross and Saracens. In the same period the MRP charge is expected to increase by £7.1m (plus 63%). For HRA, debt interest costs are projected to increase from £7.4 million to £10.3 million.
- Discussions are ongoing with Open Door Homes (ODH) concerning their desire for flexibility in the drawdown and repayment of debt. ODH's borrowing requirement of £220 million is a high proportion of the overall projected increase in debt and the Council locking in new long term borrowing is inconsistent with offering ODH penalty free flexible borrowing.
- Any advance debt funding will not exceed more than 12 months capital expenditure plans.
- There are no changes in the investment policy or available opportunities. It remains the intention to carry minimal cash balances consistent with maintaining liquidity except where a decision is made to borrow in advance of capital expenditure.
- The current policy on not providing MRP on loans to Open Door is being considered in light of new guidance.

## **1.8 Recommendation with TMSS**

Within the TMSS there are the following recommendations.

- 2.1 - Capital expenditure plans.
- 2.2 - Capital Financing Requirements (CFR)
- 2.3 - MRP policy statement
- 3.2 - Authorised debt limit
- 4.4 - Maximum sums invested more than 12 months (£25 million)
- 5.3 - Investment policy.

## 2 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2023/24

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

### 2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non-HRA	209,316	247,827	328,276	204,715	86,119	39,167
HRA	33,047	51,000	80,599	68,223	26,285	16,911
<b>Total</b>	<b>242,363</b>	<b>298,827</b>	<b>408,875</b>	<b>272,938</b>	<b>112,404</b>	<b>56,078</b>

Details of the various capital projects are contained within the capital strategy. The most significant capital spends in the current and next four years (aggregate £1,128 million) are:

Brent Cross - £402 million, of which £360 million is grant funded.

Open Door Loans - £238 million, of which £220 million is debt funded.

HRA – various projects totalling £243 million of which £84.5 million is debt funded.

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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

Financing of capital	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital receipts	18,286	36,557	21,679	11,911	0	0
Capital grants	68,879	103,519	190,221	101,688	39,767	0
Capital reserves	29,315	16,450	26,076	-178	1,110	1,110
Revenue	26,267	20,234	33,881	34,378	23,519	16,911
<b>Total Financing</b>	<b>142,747</b>	<b>176,760</b>	<b>271,857</b>	<b>147,799</b>	<b>64,396</b>	<b>18,021</b>
<b>Net capital financing need for the year</b>	<b>99,616</b>	<b>122,067</b>	<b>137,018</b>	<b>125,139</b>	<b>48,008</b>	<b>38,057</b>

The value of capital expenditure above includes planned loans to TBG Open Door Homes, Brent Cross Project and Saracens Rugby Club. As detailed in section 3.1, the impact of the capital programme (and other adjustments) is to increase gross debt from £364.6 million at 1 April 2019 to £706.0 million at 31 March 2024.

## 2.2 The Council's borrowing need (the Capital Financing Requirement)

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

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

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £15.5 million of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
<b>Capital Financing Requirement</b>						
CFR – non housing	346,825	434,011	528,880	608,129	634,927	654,159
CFR – housing	200,634	223,468	252,223	282,168	285,034	285,134
<b>Total CFR</b>	<b>547,459</b>	<b>657,479</b>	<b>781,103</b>	<b>890,297</b>	<b>919,961</b>	<b>939,293</b>
<b>Movement in CFR</b>	<b>88,293</b>	<b>110,020</b>	<b>123,624</b>	<b>109,194</b>	<b>29,664</b>	<b>19,332</b>

<b>Movement in CFR represented by</b>						
Net financing need for the year (above)	99,616	122,067	137,018	125,139	48,008	38,057
Less MRP and other financing movements	-11,323	-12,047	-13,394	-15,945	-18,344	-18,725
<b>Movement in CFR</b>	<b>88,293</b>	<b>110,020</b>	<b>123,624</b>	<b>109,194</b>	<b>29,664</b>	<b>19,332</b>

## 2.3 Minimum revenue provision (MRP) policy statement

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

MHCLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:



For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

**Regulatory Method / Existing practice**

MRP will follow the existing practice outlined in former CLG regulations (option 1);

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

**Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

These options provide for a reduction in the borrowing need over approximately the asset's life.

The Council may consider using an MRP holiday if required to match future cashflow arising from capital schemes.

Repayments included in annual PFI or finance leases are applied as MRP.

**HRA**

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

The Council has not made voluntary revenue provisions.

**Loan to Open Door**

The Council has established a company to which it will be providing loans on a commercial basis. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of loans advanced and under the terms of contractual loan agreements are due to be returned in full by 2040, with interest paid. Once funds are returned to the Authority, the returned funds are classed as a capital receipt and are offset against the CFR, which will reduce accordingly. As the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application.

The outstanding loan / CFR position will be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will commence.

### 3 BORROWING

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

#### 3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2019 and for the position as at 31 December 2019 are shown below for both borrowing and investments.

	Investments and Borrowing			
	31.3.2019		31.12.2019	
	£'000	%	£'000	%
<b>Treasury Investments</b>				
Money Market Funds	60,350	92.1%	7,100	7.5%
Local Authorities	0	0.0%	0	0.0%
Banks UK	5,000	7.6%	36,000	38.1%
Banks Overseas	0	0.0%	47,900	50.7%
Other investments	156	0.2%	3,454	3.7%
<b>Total treasury investments</b>	<b>65,506</b>	<b>100.0%</b>	<b>94,454</b>	<b>100.0%</b>
<b>Borrowing</b>				
PWLB	241,580	69.2%	321,580	80.3%
Bank borrowing - LOBO's	62,500	17.9%	62,500	15.6%
<b>Total long term debt</b>	<b>304,080</b>		<b>384,080</b>	
Short-term local authority debt	45,000	12.9%	15,000	3.7%
Interest free loans			1,500	0.4%
<b>Total Treasury Borrowing</b>	<b>349,080</b>	<b>100.0%</b>	<b>400,580</b>	<b>100.0%</b>
Net Treasury Investments / (Borrowing)	-283,574		-306,126	
Other long term liabilities	-15,974		-15,974	
<b>Net Investments / (borrowing)</b>	<b>-299,548</b>		<b>-322,100</b>	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. Loan to Open Door or Brent Cross are not included within investments above.

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£'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
<b>External Debt</b>						
Debt at 1 April	304,080	349,080	399,761	529,844	640,966	672,216
Actual / Expected change in Debt	45,000	50,681	130,083	111,122	31,250	20,137
Other long-term liabilities (OLTL)	15,974	15,489	15,116	14,743	14,370	13,997
Expected change in OLTL	-485	-373	-373	-373	-373	-373
Actual gross debt at 31 March	<b>364,569</b>	<b>414,877</b>	<b>544,587</b>	<b>655,336</b>	<b>686,213</b>	<b>705,977</b>
The Capital Financing Requirement	<b>547,459</b>	<b>657,479</b>	<b>781,103</b>	<b>890,297</b>	<b>919,961</b>	<b>939,293</b>
Under / (over) borrowing	<b>182,890</b>	<b>242,602</b>	<b>236,516</b>	<b>234,961</b>	<b>233,748</b>	<b>233,316</b>

NB: As at 31 March 2019 there was short-term debt (initial duration of six months) of £45 million. The value of short-term debt has reduced to £15 million as at 31 December 2019. The expected change in debt for the current year has been reduced by £45 million as the projection based on the capital programme did not look reasonable based on current cash balances and closeness to the year-end.

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the actual or projected CFR. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes. Currently, gross debt is well below CFR and forecast to remain that way.

The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### 3.2 Treasury Indicators: limits to borrowing activity

**The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. The limits below are based on projected CFR with a reduction of £100 million to reflect retained reserves.

Operational boundary £'000	2018/19 Actual	2019/20 Prior Year TMSS	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	349,080	639,242	666,360	775,927	805,964	825,669
Other long term liabilities	15,489	15,601	14,743	14,370	13,997	13,624
Total	364,569	654,843	681,103	790,297	819,961	839,293

**The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

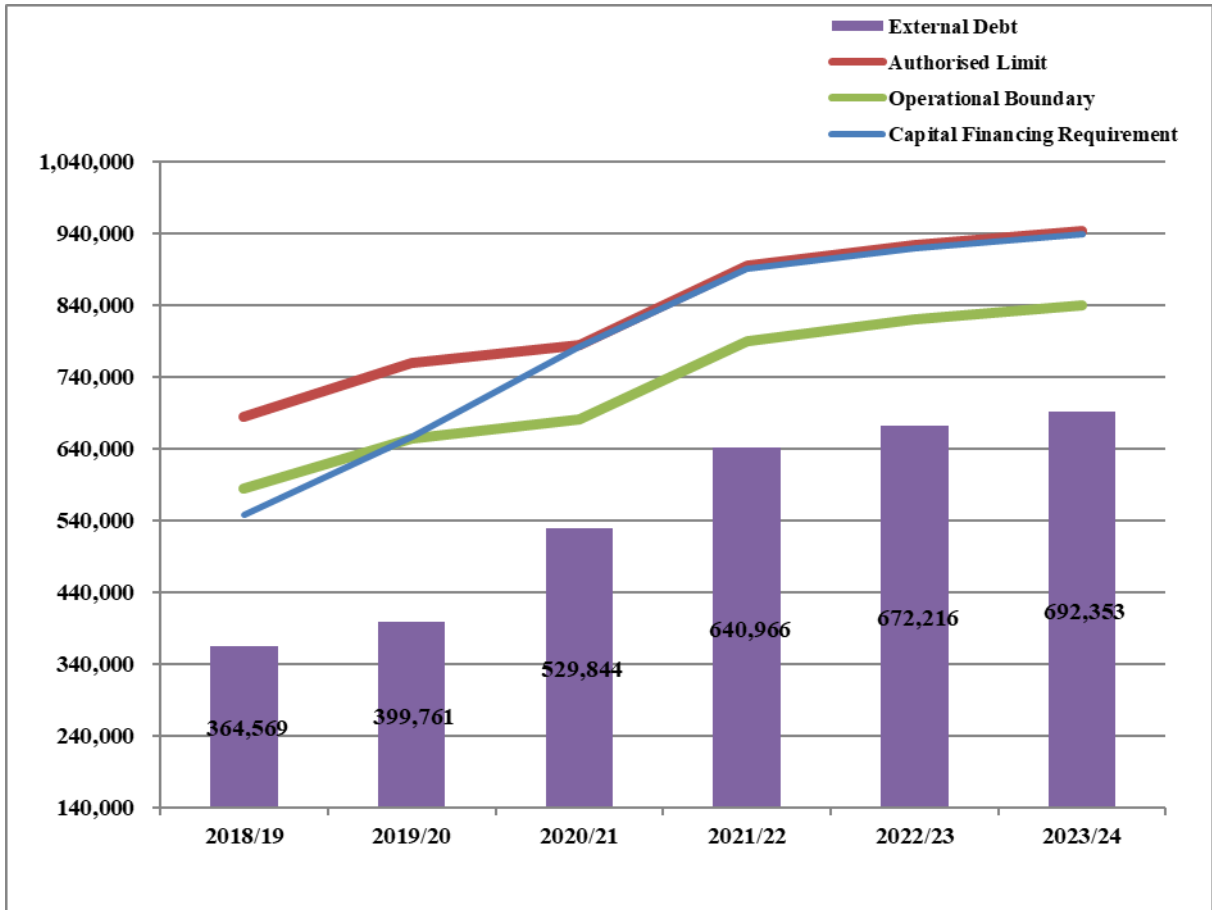
Authorised limit £'000	2018/19 Actual	2019/20 Prior Year TMSS	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	349,080	739,242	765,614	875,181	905,218	924,923
Other long term liabilities	15,489	20,601	19,743	19,370	18,997	18,624
Total	364,569	759,843	785,357	894,551	924,215	943,547

Until recently (October 2018), the Council was limited to a maximum HRA CFR through the HRA self-financing regime. This limit was £240.043 million. HRA has replaced this limit in their business plan with a voluntary limit of £350 million.

HRA Debt Limit £'000	2018/19 Actual	2019/20 Prior Year TMSS	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA debt cap	240,043	350,000	350,000	350,000	350,000	350,000
HRA CFR	207,961	243,982	252,223	282,168	285,034	285,134
HRA headroom	32,082	106,018	97,777	67,832	64,966	64,866

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The graph below illustrates the capital and borrowing position over the TMSS period.



### 3.3 Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 5.2 provides Link's central view of future interest rates.

Link's interest rate forecasts have assumed that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. Given the current level of uncertainties around the result of the general election due on 12 December and then subsequent developments, this is a major assumption and so forecasts may need to be materially reassessed in the light of events over the coming weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and more recently, due to the impending general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then it is likely the MPC would cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were an eventual Brexit with no agreement on the terms of trade between the UK and EU, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. (See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9 October 2019.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this and how strong the correlation is likely to be is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise whether H M Treasury would remove the extra 100 bps margin implemented in 2019.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and

developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

### **Investment and borrowing rates**

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. While the Council will not be able to avoid borrowing to finance new capital expenditure, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any longer-term borrowing that causes a temporary increase in cash balances. Therefore, timing of when to raise new borrowing will need careful consideration.

### **3.4 Borrowing strategy**

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

A key determinant of the timing of borrowing is certainty over the scale and timing of the capital programme. Without this certainty, there is a reluctance to enter long-term borrowing.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed or use make of short-term debt.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Policy and Resources Committee at the next available opportunity.

### **3.5 Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. The above policy permits forward funding of capital expenditure provided that current debt is below CFR (and within approved limits) i.e. reserves and working capital are mitigating borrowing requirements. Any advance funding will not exceed more than 12 months capital expenditure plans.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### **3.6 Debt rescheduling**

Rescheduling of current PWLB borrowing is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

The Council has Lender Option Borrower Option debt of £62.5 million due to mature between 2054 and 2076. These loans carry the right of the lenders to change the interest rates and of the Council to repay without cost. The current intention is that should a change in interest rate be proposed, that the Council will exercise the option to repay.

If rescheduling is undertaken, it will be reported to the Policy and Resources Committee at the earliest meeting following its action.

### **3.7 New financial institutions as a source of borrowing and / or types of borrowing**

The benchmark for appraising borrowing opportunities will remain the PWLB due to its transparent pricing, flexibility of terms (available maturities, fixed and variable interest rates and repayment profiles), the speed of funding, the absence of complex documentation and the known cost of early repayment. PWLB rates are offered at a fixed margin over Government gilt yields. Other borrowing avenues that may offer advantages over the PWLB are possible. The main advantage is the opportunity for lower interest rates, but others include forward pricing of loans and inflation linked interest rates. Potential lenders include institutions (via bond issues), insurance companies and the Municipal Bond Agency. When considering borrowing alternatives, all factors including price, contractual terms, flexibility etc, will be evaluated.

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to alternative sourcing funding. The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing.



### 3.8 Approved Sources of Long and Short-term Borrowing

The table below lists the potential sources of borrowing that the Council will consider.

	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy – management of risk

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

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

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

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

1. Minimum acceptable **credit criteria** are applied to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings. In practice, this means having regards to the maximum counterparty durations suggest by Link.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.
  - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.
5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments will be £100 million.

6. Lending limits (amounts and maturity) for each counterparty and the limit for its investments which are invested for longer than 365 days are set out in appendix 5. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see appendix paragraph 4.3).
7. This authority has engaged external consultants, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
8. All investments will be denominated in sterling.

However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

The above criteria are unchanged from last year.

#### **4.2 Creditworthiness policy**

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections of appendix 5.3 below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed considering market conditions.

**Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council's counterparty list and the proposed criteria for specified and non-specified investments are shown in Appendix 5.3.

## **UK banks – ring fencing**

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

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

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

### **4.3 Country limits**

Due care will be taken to consider the country and group exposure of the Council’s investments.

The Council has determined that it will only use approved counterparties from the United Kingdom or countries with a minimum sovereign credit rating of AA from Fitch (or equivalent). This minimum rating does not apply to the United Kingdom. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than £40 million will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;

#### 4.4 Investment strategy

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

#### **Investment returns expectations.**

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

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

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- If a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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

The Council is asked to approve the following treasury indicator and limit:

The Council is asked to approve the treasury indicator and limit:

<b>Maximum principal sums invested &gt; 364 &amp; 365 days</b>				
<b>£m</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Principal sums invested > 364 & 365 days	£25 million	£25 million	£25 million	£25 million

For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits, (overnight to 100 days), to benefit from the compounding of interest.

#### **4.5 Investment performance / risk benchmarking**

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7-day LIBID.

#### **4.6 End of year investment report**

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

## **5 APPENDICES**

1. Prudential and treasury indicators
2. Interest rate forecasts
3. Treasury management practice 1 – credit and counterparty risk management
4. Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the section 151 officer

## 5.1 THE PRUDENTIAL AND TREASURY INDICATORS 2020/21 – 2023/24

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

### 5.1.1 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

#### a. Ratio of financing costs to net revenue stream

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

%	2018/19 Actual	2019/2020 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non-HRA	4.78%	4.42%	4.06%	4.77%	5.37%	5.14%
HRA	12.61%	13.49%	14.59%	15.76%	16.65%	16.05%

The estimates of financing costs include current commitments and the proposals in this budget report.

Although the Gross non-HRA interest costs is forecast to increase from £4.4 million in 2018-19 to £12.4 million in 2023-24, this is offset by a larger increase in interest income of £0.9 million to £11.9 million, mainly loans to Open Door, Brent Cross and Saracens. In the same period the MRP charge is expected to increase by £7.1m (plus 63%).

For HRA, debt interest costs are projected to increase from £7.4 million to £10.3 million.

#### b. HRA ratios

£	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA debt £'000	199,501	222,335	251,090	281,035	283,901	284,001
HRA debt cap	240,043	350,000	350,000	350,000	350,000	350,000
HRA revenues £'000	58,899	58,906	58,968	60,277	61,320	64,062
Multiple of debt to revenues	3.4	3.8	4.3	4.7	4.6	4.4

£	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA debt £'000	199,501	222,335	251,090	281,035	283,901	284,001
Number of HRA dwellings	9,780	9,449	9,229	9,045	8,781	8,531
Debt per dwelling £	20,399	23,530	27,207	31,071	32,331	33,290



### 5.1.2 Maturity structure of borrowing

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

£m	2019/20	2020/21		2021/22
<b>Interest rate exposures</b>				
	<b>Upper</b>	<b>Upper</b>		<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	100%	100%		100%
<b>Limits on variable interest rates based on net debt</b>	40%	40%		40%
<b>30%</b>				
		<b>Current</b>	<b>Lower</b>	<b>Upper</b>
Under 12 months		20%	0%	50%
12 months to 2 years		0%	0%	50%
2 years to 5 years		0%	0%	75%
5 years to 10 years		6%	0%	75%
10 years to 20 years		33%	0%	75%
20 years to 30 years		16%	0%	75%
30 years to 60 years		25%	0%	100%
<b>Maturity structure of variable interest rate borrowing 2020/21</b>				
		<b>Lower</b>		<b>Upper</b>
Under 12 months		0%		50%
12 months to 2 years		0%		50%
2 years to 5 years		0%		75%
5 years to 10 years		0%		75%
10 years to 25 years		0%		75%
25 years to 60 years		0%		100%

The above table is based on those loans with borrower options (LOBO's) being treated as repayable at the next date the lender can alter the interest rate (and the Council can opt to repay). If these loans were shown as maturing at the contractual maturity date, the proportion maturing within 12 months would be 5% and the proportion over 30 years would be 40%. Currently the prevailing and forecast rate of interest on new debt is lower than the existing LOBO loans making any interest calls unlikely. LOBO loans are considered to be variable due to the ability of the lender to propose a change in the interest rate.

## 5.2 INTEREST RATE FORECASTS 2020 – 2023

This appendix is in a separate downloadable file.

PWLB forecasts are based on PWLB certainty rates.

Link Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

The above table contains forecasts Link, who anticipate interest rates for all maturities to gradually increase.

### 5.3 CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. To facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 23 March 2003 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

**Annual investment strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

**Strategy guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments that would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds (including Constant and Low Volatility Net Asset Value Funds), rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society), which is defined as having a minimum Short-Term rating of F2 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are a maximum of 365 days (to be classified as specified) and a counterparty limit of £25 million.

The table below provides further details on the counterparties and limits for specified investments.

<b>Instrument</b>	<b>Country/ Domicile</b>	<b>Counterparty</b>	<b>Maximum Counterparty Limits £m</b>
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	£25 million
Term Deposits/Call Accounts	UK*	Counterparties rated at least A- Long Term)	£25 million
Term Deposits/Call Accounts	Non-UK*	Counterparties rated at least A- Long Term in select countries with a Sovereign Rating of at least AA.	£25 million
CDs and other negotiable instruments		with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	£25 million
Deposits	UK	Registered Providers (Former RSLs)	£5m per RP
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	
AAA-rated Money Market Funds		CNAV MMF's LVNAV MMF's	£25 million
	UK and EC domiciled	VNAV MMF's (where there is greater than 12 month history of a consistent £1 Net Asset Value)	
Other MMF's and CIS	UK & EC domiciled.	Collective Investment Schemes (pooled funds) which meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	£25 million.

**For Non-UK banks**, a maximum exposure of £40 million per country (including any non-specified exposures) will apply to limit the risk of over-exposure to any one country.

**Non-specified investments** –are any other type of investment (i.e. not defined as specified above) although the counterparties can also have investments that meet the definition of specified. The identification of these other investments and the maximum limits to be applied are set out below.

The Council will have a maximum of £100 million invested in non-specified investments.

#### Loans to Local Organisations

The Council will allow loans (as a form of investment) to be made to organisations operating in the borough that bring community benefits. The Council will undertake due diligence checks to confirm the borrower’s creditworthiness before any sums are advanced and will obtain appropriate level of security or third party guarantees for loans advanced. The Council would expect a return commensurate with the type, risk and duration of the loan. A limit of £25 million per counterparty (and £50 million in aggregate) for this type of investment is proposed with a duration commensurate with the life of the asset and Council’s cash flow requirements. All loans need to be in line with the Council’s Scheme of Delegation and Key Decision thresholds levels.

#### **Loans to TBG Open Door Limited**

The Council is advancing loans to its only owned affiliate TBG Open Door Limited to fund the purchase and build of affordable homes. A provision is included below for lending up to a maximum of £300 million.

The table below details the instruments, maximum maturity and monetary limits for non-specified investments.

<b>Instrument</b>	<b>Maximum maturity</b>	<b>Max £M of portfolio and Credit limit</b>	<b>Capital expenditure?</b>	<b>Example</b>
Term deposits with banks, building societies which meet the specified investment criteria	10 years	£10m per counterparty	No	
Term deposits with local authorities	10 years	£25m per authority	No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria	10 years	£10m per counterparty	No	
Gilts	10 years	£20 million Credit limit not applicable gilts issued by UK Government	No	
Bonds issued by multilateral development banks	10 years	£20 million Minimum credit rating AA+	No	EIB Bonds, Council of Europe Bonds etc.
Sterling denominated bonds by non-UK sovereign governments	5 years	£20 million Minimum credit rating AA+	No	

Other Non-Specified investments are permitted subject to the undertaking of a credit assessment by the Council's treasury advisor (or in the case of loans to local organisations, by a suitably qualified external advisor appointed by the Council) on a case-by-case basis. These are detailed below:

Instrument	Maximum maturity	Max £M of portfolio and Credit limit	Capital expenditure?	Example
Collective Investment Schemes	N/A – these funds do not have a defined maturity date	£25 million	No	Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Growth Fund
Deposits with registered providers	5 years	£5m per registered provider/£20 million overall	No	Barnet Homes Open Door not within TMS
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	5 years	20%	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573 and subsequent amendments	N/A – these funds do not have a defined maturity date	£10 million	Yes	Way Charteris Gold Portfolio Fund; Aviva Lime Fund
Bank or building societies not meeting specified criteria	3 months	£10m per counterparty	No	Bank or building societies not meeting specified criteria
Loans to organisations delivering community benefits.	Over the life of the asset.	£25 million per counterparty.	Yes	Loans to sporting clubs based in the borough.
Loans to TBG Open Door Limited	As set out in the loan agreement	£300 million	Yes	

In the tables above, the minimum credit rating will be the lowest equivalent long-term rating assigned by Fitch, Moody's and Standard and Poor's. Where the credit rating is the minimum acceptable, the Council will consider rating sentiment and market sentiment e.g. the pricing of credit default swaps.



**The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Financial Officer and if required new counterparties which meet the criteria will be added to the list. The Council will not always follow the maximum maturity guidance issued by Link. However, any deposit made with a longer maturity than the Link guidance will be approved with the Chief Financial Officer.

#### **5.4 APPROVED COUNTRIES FOR INVESTMENTS**

This list is based on those countries which have sovereign ratings of AA or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

##### ***Based on lowest available rating***

###### AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

###### AA+

- Finland
- U.S.A.

###### AA

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

## **5.5 TREASURY MANAGEMENT SCHEME OF DELEGATION**

### **(i) Council**

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

### **(ii) Policy and Resources Committee**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- approving the selection of external service providers and agreeing terms of appointment.

### **(iii) The Financial Performance and Contracts Committee**

- receiving and reviewing regular monitoring reports and acting on recommendations.

### **(iv) Audit Committee**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## **5.6 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER**

### **The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.;
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money; and
- ensuring that due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority.