



Audit Committee

21 June 2017

Subject Heading:

Annual Treasury Management Report 2016/17 and proposed change to the 2017/18 Treasury Management Strategy Statement (Appendix 4)

CLT Lead:

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Policy context:

The code of practice on treasury management 2009 requires a year end report to Members to full Council on the treasury performance

Financial summary:

There are no direct financial implications from the report

Is this a Key Decision?

No

When should this matter be reviewed?

N/A

Reviewing OSC:

N/A

The subject matter of this report deals with the following Council Objectives

| | |
|-------------------------------|-----|
| Communities making Havering | [] |
| Places making Havering | [] |
| Opportunities making Havering | [] |
| Connections making Havering | [X] |

SUMMARY

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function to full Council at least twice yearly (mid-year and at year end).

The Authority has borrowed and 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. This report covers treasury activity, its associated monitoring and control of risk.

In 2016/17 there was no new long term borrowing, while external investment income outturn exceeded the budgeted figure by £0.509m was achieved despite the Bank of England bank rate cut in August 2016 from 0.5% to 0.25% and the benchmark LIBOR falling from 0.5% in Q2 to 0.44% at 31/3/17.

RECOMMENDATIONS

That Audit Committee:

1. **Note** the final 2016/17 Treasury Position set out in this report
2. **Note** the treasury and prudential indicators in this report: and
3. **Note the recommendation** to Cabinet and Council to consider this report and approve changes to the 2017/18 Treasury Management Strategy Statement (TMSS).

REPORT DETAIL

Contents

1. Annual Investment Strategy
2. New Borrowing
3. Debt Rescheduling
4. Compliance with Treasury Indicators
5. Compliance with Prudential Indicators; and
6. Other Treasury Related Matters.

1. Annual Investment Strategy

- 1.1 The 2016/17 TMSS was approved by the Authority in February 2016 and sets out the investment priorities in order of priority as:
 - Security of Capital
 - Liquidity; and
 - Yield.
- 1.2 The Authority will aim to achieve the optimum return (yield) on investments commensurate with acceptable levels of security and liquidity.
- 1.3 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. As a result of

investing these cash balances, the Authority is exposed to financial risks and the revenue effect of changing interest rates. A breakdown of deposits held in 2016/17 are shown in appendix 1 while investment performance is shown in table 1 below:

Table 1: Investment performance for 2016/17

| Benchmark | Benchmark Return % | Budgeted Rate of Return % | Actual Rate of Return % | Investment interest Earned* (£m) |
|------------------|---------------------------|----------------------------------|--------------------------------|---|
| Quarter 1 | 0.58 | 0.60 | 0.77 | 0.237 |
| Quarter 2 | 0.51 | 0.60 | 0.76 | 0.478 |
| Quarter 3 | 0.47 | 0.60 | 0.69 | 0.923 |
| Quarter 4 | 0.44 | 0.60 | 0.72 | 1.469 |

*interest on external investments.

* figures changed slightly from Q4 report given outturn figures (subject to audit) have now been established. .

- 1.4 The UK Bank Rate fell to 0.25% in August 2016 from 0.5% since March 2009, keeping short-term money market rates at historically low levels.
- 1.5 As illustrated in Table 1, at Q4 the Authority outperformed the benchmark by 0.28% and the budgeted rate of return by 0.12%. The external investment interest earned was £1.469m compared to the budget of £0.960m.
- 1.6 The Authority had £210m of long term borrowing and £200.9m of investments at year end. This is summarised in Table 2 below and detailed in appendix 2.

Table 2 – Existing Investment & Debt Portfolio Position

| | 31/03/2017 Actual Portfolio £m | 31/03/2017 Average Rate % |
|-----------------------------------|--|---|
| Long Term Borrowing: | | |
| PWLB – Fixed Rate | 203.2 | |
| PWLB – Variable Rate | - | |
| Local Authorities | - | |
| LOBO Loans | 7.0 | |
| Total Long Term Borrowing* | 210.2 | 3.59 |
| Short Term Borrowing | | |
| Local Authorities | 2.25 | |
| Other | 0.25 | |
| Total Short Term Borrowing | 2.5 | 0.43 |
| Investments: | | |
| Short-term investments | 160.9 | |
| Long-term investments | 40.0 | |
| Total Investments | 200.9 | 0.71 |
| Net Borrowing/ Investments | 11.8 | |

* long term loans above excludes interest free energy efficiency loans from Salix Finance

2. New borrowing

- 2.1 Affordability and the “cost of carry” remain important influences on the Authority’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.
- 2.2 As short-term interest rates are likely to remain below long-term borrowing rates, it is more cost effective in the short-term to use internal resources instead although this will be kept under constant review and will respond to opportunities and changing forecasts as they arise.
- 2.3 In 2016/17, no new long term borrowing was undertaken to fund capital expenditure. Future capital spending plans are regularly reviewed and any additional long term borrowing will only be taken after careful consideration of affordability, revenue impact, direction in travel of interest rates, the Authority’s capital programme requirement and advice from the Treasury Adviser.

- 2.4 During 2017/18 a fundamental review of the Authority's capital investment plans is being undertaken in order to develop a 5 year capital programme from 2018/19 to 2023/24. The programme will be developed to align with the Corporate Plan priorities, optimise the use of external funding streams and ensure that any further borrowing to fund future capital investment plans is affordable over the long term in revenue terms.

3. Debt Rescheduling

- 3.1 The opportunities for debt rescheduling are regularly reviewed by the Authority's treasury adviser in consultation with senior treasury officers, the S151 officer and lead Cabinet Member for Finance.
- 3.2 The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for loans in the Authority's portfolio and prevented any debt rescheduling activity in 2016/17.

4. Treasury and Prudential Indicators

- 4.1 Appendix 3 shows treasury activity compared with the Authority's approved Treasury and Prudential Indicators (affordability limits) for 2016/17 as set out in the approved TMSS.

5. Other Treasury related Matters

5.1 Policy on Use of Financial Derivatives

- 5.1.1 The Authority has not entered into any stand alone financial derivatives during the financial year 2016/17.

5.2 Policy on Apportioning Interest to the HRA

- 5.2.1 The Authority has apportioned interest to the HRA at 0.5%. All the risks associated with treasury activities (which are kept to a minimum through the Authority's TMSS) lie with the General Fund rather than the HRA. This rate will be reviewed in 2017/18.

5.3 Investment Training

- 5.3.1 The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 5.3.2 During 2016/17 staff attended training courses, seminars and conferences provided by the Treasury Adviser, CIPFA and other treasury organisations. In addition treasury management staff also attended the London Treasury Officers Forum, a group set up for networking and sharing best practice.

5.4 Investment Advisers

- 5.4.1 The Authority appointed Arlingclose Limited as treasury management advisers. Throughout the course of the year officers receive on a daily basis specific advice on investment, debt and capital finance issues augmented by a quarterly strategy review meeting with the S151 officer and the lead Member for Finance.

5.5 Security

- 5.5.1 Security of capital remains the Authority's overriding investment objective and is delivered through the Authority's counterparty policy as set out in its TMSS 2016/17.
- 5.5.2 Counterparty credit quality was assessed and monitored with reference to credit ratings (using the ratings from all three of the main credit rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. During the financial year none of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July 2016 and by the Bank of England in November 2016.
- 5.5.3 The Authority has also made use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment as additional security for its deposits.

6.0 Proposed Changes to the 2017/18 TMSS

- 6.1 Officers and the Treasury Adviser constantly scan the market to identify suitable investment opportunities and with investment rates remaining lower for longer and CPI inflation increasing, the need to do this is ever more important if investment income budget targets are to be met.
- 6.2 This point was made in the Q4 report to Audit Committee and the proposed changes are requested so that Officers have scope to investigate investments that will provide higher returns than are currently available in the strategy but without compromising the aforementioned investment objectives. Examples of such investments are: asset backed Solar bonds and pooled funds.
- 6.3 The Audit Committee is being asked to note the recommendation to Cabinet and Full Council to consider the report and approve changes to the 2017/18 TMSS to enable the Authority to invest in unrated, secured corporate bonds

and increase the limit on pooled fund investments. These amendments are set out in appendix 4 of this report.

REASONS AND OPTIONS

Reasons for the decision:

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function to full Council at year end.

Other options considered:

The other option would be to not report the performance of the treasury function however as this would be in breach of CIPFA's TM Code, this was not considered.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications from this report.

Legal implications and risks:

The Local Authority has a power to invest in virtue of section 12 Local Government Act 2003 (a) for any purpose relevant to its functions under any enactment, or (b) for the purposes of the prudent management of its financial affairs. The Authority must have regard to relevant guidance which in this case is provided by CIPFA. Otherwise there are no apparent legal implications or risks from this report.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report

BACKGROUND PAPERS

None

Appendix 1

Table 1: Breakdown of Deposits

| Institution Type | 31 st March 2016 Actual £ | 31 st March 2017 Actual £ |
|--|--|--|
| UK Banks | | |
| Barclays Bank PLC | 13,798,371 | 0 |
| Close Brothers Ltd | 5,000,000 | 0 |
| Goldman Sachs INT'L Bank | 10,000,000 | 18,000,000 |
| Lloyds Bank PLC | 15,000,000 | 24,000,000 |
| Royal Bank of Scotland | 544,829 | 0 |
| Santander UK PLC | 10,037,288 | 23,983,944 |
| Standard Chartered Bank | 5,000,000 | 0 |
| UK Building Societies | | |
| Coventry Building Society | 10,000,000 | 5,000,000 |
| Leeds Building Society | 2,000,000 | 0 |
| Nationwide Building Society | 18,000,000 | 13,000,000 |
| Yorkshire Building Society | 5,000,000 | 5,000,000 |
| Local Authorities & Other Public Sector | | |
| Birmingham City Council | 5,000,000 | 0 |
| Blaenau Gwent County Borough Council | 1,000,000 | 0 |
| Doncaster Borough Council | 5,000,000 | 0 |
| Eastleigh Borough Council | 5,000,000 | 5,000,000 |
| Highland Council Inverness | 0 | 12,000,000 |
| Lancashire County Council | 15,000,000 | 15,000,000 |
| London Borough of Islington | 0 | 5,000,000 |
| Newcastle Upon Tyne City Council | 5,000,000 | 5,000,000 |
| North Lanarkshire Council | 0 | 5,000,000 |
| Northumberland County Council | 0 | 15,000,000 |
| Wiltshire County Council | 5,000,000 | |
| Non UK Banks | | |
| Australia | | |
| Australia & New Zealand Banking Group | 0 | 3,000,000 |
| Commonwealth Bank of Australia | 5,000,000 | 10,000,000 |
| National Australia Bank | 5,000,000 | 0 |
| Canada | | |
| Bank of Montreal | 0 | 4,000,000 |
| Toronto-Dominion Bank | 13,000,000 | 0 |
| Netherlands | | |
| Cooperatieve Rabobank | 8,000,000 | 15,000,000 |
| Sweden | | |
| Svenska Handelsbanken | 13,947,452 | 0 |
| Singapore | | |
| Development Bank Singapore | 5,000,000 | 2,000,000 |
| Overseas-Chinese Banking Corporation | 5,000,000 | 9,000,000 |
| United Overseas Bank Limited | 7,000,000 | 0 |
| Switzerland | | |
| Credit Suisse | 5,000,000 | 0 |
| Money Market Funds | | |
| HSBC Global Liquidity Fund Class G | 0 | 6,920,000 |
| TOTAL INVESTMENTS | 202,327,940 | 200,903,944 |

Appendix 2

Table 1: Loans and investments made and repaid during the year

| | Balance at 01/4/16 £m | Raised £m | Repaid £m | Balance at 31/3/17 £m | Average Rate % |
|--------------------------|--|----------------------|----------------------|--|-------------------------------|
| Loans | | | | | |
| PWLB | 203.2 | - | - | 203.2 | 3.59 |
| Money Market (LOBO) | 7 | - | - | 7 | 3.60 |
| Temporary Borrowing | 0.2 | 57.3 | (54.9) | 2.5 | 0.42 |
| TOTAL Loans | 210.4 | 57.3 | (54.9) | 212.7 | 3.56 |
| | | | | | |
| Investments | | | | | |
| Fixed Deposits | 162 | (353.4) | 353.4 | 162 | 0.75 |
| Money Market Funds | - | (91.9) | 84.9 | 6.9 | 0.29 |
| Call Accounts | 35.4 | (319.7) | 331.9 | 23.1 | 0.43 |
| Covered Bonds & FRN's* | 5 | (3.8) | - | 8.8 | 1.08 |
| TOTAL Investments | 202.4 | (768.8) | 770.3 | 200.9 | 0.71 |

*Floating Rate Notes (FRN)

Appendix 3

Treasury and Prudential Limits

1. Compliance with Treasury Limits

1.1 Liquidity

1.1.1 The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments by the next working day and within a rolling three month period, without additional borrowing.

1.1.2 During 2016/17 interest rates have relatively flat in the 12 month period and investments were kept on shorter duration in case rates increased. This resulted in the liquidity targets being exceeded as shown in table 1 below.

Table 1: Liquidity activity at 31/03/17

| | Target £m | Actual £m |
|--|----------------------|----------------------|
| Total cash available by the next working day | 5.0 | 6.9 |
| Total cash available within 3 months | 30.0 | 61.0 |

1.2 Interest Rate Exposures

1.2.1 This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed was:

Table 2: Interest rate exposure activity

| | 2016/17 % |
|--|----------------------|
| Upper limit on fixed interest rate exposure | 100 |
| Actual | 94.7 |
| Upper limit on variable interest rate exposure | 25 |
| Actual | 5.3 |

1.2.2 Having a larger share of fixed interest rate borrowing provides stability to the Authority's budget strategy by removing the risk of interest payments increasing should interest rates rise.

1.3 Maturity Structure of Borrowing

1.3.1 This indicator is set to control the Authority's exposure to refinancing risk. The approved upper and lower limits on the maturity structure of fixed rate borrowing were:

- 1.3.2 This table compared to Q4 report includes amendments made to the loans management system to bring PWLB loans principal to agree with PWLB reported figures to the Authority and the energy loans received from a third party.

Table 3: Loan maturity structure

| | Upper % | Lower % | Actual % |
|--------------------------------|------------|------------|-------------|
| Under 12 months | 40 | 0 | 1.2 |
| 12 months and within 24 months | 40 | 0 | 0 |
| 24 months and within 5 years | 60 | 0 | 1.1 |
| 5 years and within 10 years | 75 | 0 | 9.6 |
| 10 years and above | 100 | 25 | 88.1 |

- 1.3.3 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.

1.4 Principal Sums Invested for Periods Longer than 364 days

- 1.4.1 The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end are:

Table 4: Investments for periods longer than 364 days

| | 31/3/2017 £m | 31/3/2018 £m | 31/3/2019 £m |
|---|-----------------|-----------------|-----------------|
| Limit on principal invested beyond year end | 75 | 75 | 75 |
| Actual | 40 | 40 | 20 |

- 1.4.2 The £40m invested for greater than 364 days are with other local authorities or secured investments.

2. Compliance with Prudential Indicators

- 2.1.1 The Local Government Act 2003 requires the council to have regard to CIPFA'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, sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2.1.2 As referred to in section 2 of the report, a fundamental review of the Authority's capital investment plans is being undertaken during 2017/18 to develop a 5 year capital programme from 2018/19 to 2023/24 to align with the Corporate Plan priorities. The programme will be developed to ensure that any future capital investment that is financed by further borrowing is affordable in revenue terms, prudent and sustainable.

2.2 Estimates of Capital Expenditure

2.2.1 The Authority's approved planned capital expenditure and financing are summarised as follows:

Table 5: Capital Expenditure

| Capital Expenditure and Financing | 2016/17 Revised | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|--|------------------------|-----------------------|-------------------------|-------------------------|-------------------------|
| | £m | £m | £m | £m | £m |
| General Fund | 66.3 | 68.3 | 102.1 | 61.8 | 53.8 |
| HRA | 17.2 | 19.9 | 60.5 | 40 | 33.4 |
| Total Capital Expenditure | 83.5 | 88.1 | 162.6 | 101.8 | 87.2 |
| Capital Receipts | 16.3 | 26 | 26.8 | 16.2 | 13.5 |
| Government Grants | 33 | 25 | 52.8 | 25.9 | 20.6 |
| Reserves | 0 | 0 | 26.1 | 7.1 | 3 |
| Revenue | 16.9 | 20.5 | 24.2 | 22.6 | 16.1 |
| Net Financing Requirement | 17.3 | 16.6 | 32.7 | 30.0 | 34 |

2.3 Estimates of Capital Financing Requirement (CFR)

2.3.1 The CFR measures the council's underlying need to borrow for a capital purpose.

Table 6: CFR

| CFR | 31/03/17 Estimate £m | 31/03/17 Actual £m | 31/03/18 Estimate £m | 31/03/19 Estimate £m | 31/03/20 Estimate £m |
|-----------------------------------|----------------------------|--------------------------|----------------------------|----------------------------|----------------------------|
| General Fund | 76.4 | 75.9 | 97.7 | 115.7 | 133.3 |
| HRA | 174.7 | 174.7 | 184.7 | 194.7 | 208.7 |
| Total | 251.1 | 250.6 | 282.4 | 310.4 | 342.0 |
| Movement in CFR | 16.1 | 15.4 | 31.2 | 28.0 | 31.6 |
| | | | | | |
| Net Financing Need per table 5 | 17.3 | 16.6 | 32.7 | 30.0 | 34.0 |
| Less MRP | 1.2 | 1.2 | 1.5 | 2.0 | 2.4 |
| Movement in CFR | 16.1 | 15.4 | 31.2 | 28.6 | 31.6 |

2.3.2 As at 31 March 2017, the Budget Strategy assumes CFR will rise by £91.4m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment. However subject to the aforementioned review this figure may increase as additional programs are added.

2.4 Gross Debt and the CFR

2.4.1 So that medium term debt will only be used for a capital purpose, the council should ensure that external debt does not, except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR requirement for the current and next two financial years. Table 7 illustrates this indicator has been met.

Table 7: Gross debt and the CFR

| | 31/03/17 Estimate £m | 31/03/17 Actual £m | 31/03/18 Estimate £m | 31/03/19 Estimate £m | 31/03/20 Estimate £m |
|----------------------------|----------------------------|--------------------------|----------------------------|----------------------------|----------------------------|
| Long Term External Debt | 210.2 | 212.7** | 210.2 | 210.2 | 256.2 |
| CFR | 251.2 | 250.6 | 282.4 | 310.4 | 342.0 |
| Internal Borrowing | 41.0 | 37.3 | 72.4 | 100.2 | 85.8 |

** includes energy efficiency interest free loans from Salix Finance Ltd

2.4.2 Total debt is expected to remain below the CFR during the forecast period. Whilst there are no commitments to increase long term debt over the next 3 years Once the ongoing review of the 5 year capital programme is completed for 2018/19, it may be necessary to increase long term external debt in 2019/20 when investment balances become depleted and internal borrowing is no longer available. In addition it may be necessary to bring

forward external long term borrowing should there be an anticipated change in the future interest rate yield curve.

2.4.3 The actual debt levels are also monitored against the Operational Boundary and Authorised Limit for External Debt, below.

2.5 Operational Boundary for External Debt

2.5.1 The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Table 8: Operational Boundary

| Operational Boundary Revised | 2016/17 £m |
|-------------------------------------|-----------------------|
| Borrowing | 258.7 |
| Other long-term liabilities | 2.0 |
| Total | 260.7 |
| Actual Long Term Debt | 212.7 |
| Headroom | 48.0 |

2.6 Authorised Limit for External Debt

2.6.1 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 Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 9: Authorised limit

| Authorised Limit | 2016/17 £m |
|-----------------------------|-----------------------|
| Borrowing | 284.6 |
| Other long-term liabilities | 2.0 |
| Total Debt | 286.6 |
| Long Term Debt | 212.7 |
| Headroom | 73.9 |

2.7 Ratio of Financing Costs to Net Revenue Stream

2.7.1 This ratio 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.

Table 10: Ratio of Financing Costs to Net Revenue Stream

| Ratio of Financing Costs to Net Revenue Stream | 2015/16 Actual % | 2016/17 Estimate % | 2016/17 Actual % |
|---|-------------------------|---------------------------|-------------------------|
| General Fund | 2.54 | 2.02 | 2.12 |
| HRA | 7.28 | 5.56 | 5.26 |

2.8 Incremental Impact of Capital Investment Decisions

2.8.1 This ratio 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 new capital programme.

Table 11: Incremental Impact of Capital Investment funded by Borrowing

| Incremental Impact of Capital Investment Decisions | 2016/17 Estimate £ | 2016/17 Actual £ |
|---|---------------------------|-------------------------|
| General Fund - increase in annual band D Council Tax | 7.75 | 7.52 |
| HRA - increase in average weekly rents | 3.46p | 3.0p |

3. Adoption of the CIPFA Treasury Management Code

3.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition.

4.0 HRA Limit on Indebtedness

4.1 The Authority's HRA CFR should not exceed the limit imposed by the Department for Communities and Local Government at the time of implementation of self-financing. The Authority complied with this requirement as set out below

Table 12: HRA Limit on Indebtedness

| HRA CFR Limit: | £209m | | | | |
|-----------------------|------------------------------------|----------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | 2016/17 Estimate £m | 2016/17 Actual £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m |
| HRA CFR | 174.7 | 174.7 | 184.7 | 194.7 | 208.7 |
| Difference | 34.3 | 34.3 | 24.3 | 14.3 | 0.3 |

Appendix 4

Changes to the 2017/18 Treasury Management Strategy Statement

In February 2017, the 2017/18 Treasury Management Strategy Statement was approved by Council as required by the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) and Department for Communities and Local Government (DCLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

The Treasury Management Strategy Statement fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA code and DCLG guidance.

During the period since the February Council approval of the TMSS, officers have been working in consultation with the Cabinet Member for Financial Management on developing options to mitigate the adverse effect on investment income from interest rates remaining lower for longer than planned and increased CPI inflation that is set to rise to circa 3%. An option explored has been to invest in secured unrated corporate bond investments. This will require the Authority to expand the list of instruments it can invest in. Full Council approval is required make this amendment.

The changes proposed are highlighted in bold below and have been made in consultation with the Authority's external treasury adviser. Any investment in these new instruments will subject to the officers undertaking robust due diligence including specialist advice as required, compliance with the Authority's financial strategy and approval of the S151 officer in consultation with the Cabinet Member for Financial Management.

Table 1: Original Approved Investment Counterparties

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

Table 2: Revised Approved Investment Counterparties

| Credit Rating | Banks Unsecured* | Banks Secured* | Government | Corporates | Registered Providers |
|---------------|--|-------------------|-----------------------|-------------------|----------------------|
| UK Govt | n/a | n/a | Unlimited 50 years | n/a | n/a |
| AAA | £25m 5 years | £25m 20 years | £25m 50 years | £15m 20 years | £15m 20 years |
| AA+ | £25m 5 years | £25m 10 years | £25m 25 years | £15m 10 years | £15m 10 years |
| AA | £25m 4 years | £25m 5 years | £25 15 years | £15m 5 years | £15m 10 years |
| AA- | £25m 3 years | £25m 4 years | £25m 10 years | £15m 4 years | £15m 10 years |
| A+ | £25m 2 years | £25m 3 years | £15m 5 years | £15m 3 years | £15m 5 years |
| A | £25m 13 months | £25m 2 years | £15m 5 years | £15m 2 years | £15m 5 years |
| A- | £25m 6 months | £25m 13 months | N/A | £15m 13 months | £15m 5 years |
| BBB+ | £15m 100 days | £15m 6 months | N/A | £10m 6 months | £10m 2 years |
| BBB or BBB- | £15m next day only | £15m 100 days | N/A | N/A | N/A |
| None | £1m 6 months | N/A | N/A | £5m 5 years | £10m 5 years |
| Pooled funds | £25m per fund These include Bond Funds, Gilt Funds, Equity, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds | | | | |