



AUDIT COMMITTEE

28th January 2020

Subject Heading:

Treasury Management Strategy Statement (TMSS) 2020/21 and Annual Investment Strategy (AIS) 2020/21, Treasury Indicators and Minimum Revenue Provision Policy Statement for 2020/21

SLT Lead:

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Policy context:

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The code of practice on treasury management 2017 recommends that the Treasury Management Strategy and Minimum Revenue Provision Statement are reported to a scrutiny committee for effective scrutiny.

Financial summary:

The Treasury Management Strategy forms part of the Council's overall budget strategy and financial management framework.

Is this a Key Decision?

No

When should this matter be reviewed?

Bi-Annually

Reviewing OSC:

Audit Committee

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

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

SUMMARY

The TMSS and AIS are part of the Council's reporting procedures and are recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on treasury management and its prudential code for capital finance in local authorities. The Local Government Act 2003 requires councils to comply with both codes.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DCLG Guidance, and it covers:

- The Borrowing and Investment Strategies
- Treasury Management Indicators
- A Minimum Revenue Provision Policy (the means by which capital expenditure which is financed from borrowing is paid for by council tax payers)

RECOMMENDATIONS

Cabinet is asked to:

1. Approve the Treasury Management Strategy Statement (TMSS) 2020/21.
2. Approve the Treasury Management set out in Appendices 1 and 2 of this report.
3. Approve the Annual Minimum Revenue Provision (MRP) Statement for 2020/21 set out in Appendix 7 of this report.
4. Recommend the annual TMSS and MRP statements 2020/21 to Council for approval.
5. Delegate future changes required to this Strategy to the Chief Operating Officer in the consultation with the Cabinet Member for Finance and Property. This will provide the additional flexibility to swiftly respond to changing financial markets.

REPORT DETAIL

1. Introduction

- 1.1 The Authority is required to set a balanced budget each financial year, which broadly means that income received during the year will meet its operational

expenditure. As part of the overall financial management arrangements, a primary objective of the Treasury Management service is to ensure that the Authority's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Authority's appetite for risk and liquidity requirements, as priorities before considering investment return.

- 1.2 Revised reporting is required for the 2020/21 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.

CIPFA define 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."

- 1.3 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities. This expenditure is shown throughout this report as "regeneration programme".
- 1.4 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);
 - (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.

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

2. Key Considerations and Sustainability

2.1 Treasury Management Strategy for 2020/21

2.1.1 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; see table 1 below
- treasury indicators which limit the treasury risk and activities of the Council; Appendix 2
- prospects for interest rates; Appendix 3
- the borrowing strategy;
- policy on borrowing in advance of need; Appendix 4
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- the policy on use of external service providers.

2.1.2 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.

2.2 Training

2.2.1 One of the main requirements of the Treasury Code is the increased Member consideration of treasury management matters, and the need to ensure officers

dealing with treasury management and investment are trained and keep their skills up to date. The Council addresses this important issue by:

- Providing training sessions, briefings and reports on treasury management and investment issues to those Members responsible for the monitoring and scrutiny of treasury management.
- This requires all relevant Officers to keep their skills up to date by utilising both external and internal training, workshops and seminars, and by participating in the CIPFA Treasury Management Forum and other relevant local groups and societies.

Treasury Management Consultants - The Council uses Link Asset Services as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. 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 subjected to regular review.

3. Service Delivery and Performance Issues

- 3.1 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, shown in Appendix 1, which are designed to assist Members' overview and confirm capital expenditure plans.

3.2 Current Portfolio Position

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

Table1: Current Portfolio Position

| TREASURY PORTFOLIO | | | | |
|---|----------------------------------|---------------------------------|------------------------------------|-----------------------------------|
| | Actual 31/3/19 £m | Actual 31/3/19 % | Current 31/12/19 £m | Current 31/12/19 % |
| Treasury Investments | | | | |
| Banks & Building Societies | 60.100 | 32 | 60.000 | 38 |
| Government (including Local Authorities) | 109.000 | 58 | 85.000 | 53 |
| Money Market funds | 14.490 | 8 | 10.880 | 7 |
| Bonds | 3.000 | 2 | 3.000 | 2 |
| Total Treasury Investments | 186.590 | 100 | 158.880 | 100 |
| Treasury External Borrowing | | | | |
| Local Authorities | | | | |
| PWLB | 203.235 | 96 | 203.235 | 96 |
| LOBO loans from banks | 7.000 | 3 | 7.000 | 3 |
| Other loans | 0.351 | 1 | 0.351 | 1 |
| Total External Borrowing | 210.586 | 100 | 210.586 | 100 |
| Net Treasury Investments/(Borrowing) | (23.996) | | (52.586) | |

3.2.2 The Council's forward projections for borrowing are summarised below in Table 2. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing

Table 2: Capital Financing Requirement (CFR)

| £m | 2018/19 Actual | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|------------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| External Debt | | | | | |
| Debt at 1 April | 241 | 210 | 273 | 375 | 583 |
| Expected change in Debt | (31) | 63 | 102 | 208 | 115 |
| Other long-term liabilities (OLTL) | 0 | 0 | 0 | 0 | 0 |
| Expected change in OLTL | 0 | 0 | 0 | 0 | 0 |
| Actual gross debt at 31 March | 210 | 273 | 375 | 583 | 698 |
| The Capital Financing Requirement | 273 | 375 | 583 | 698 | 789 |
| Under / (over) borrowing | 63 | 102 | 208 | 115 | 91 |

3.2.3 Within the above figures the level of debt relating to regeneration activities is detailed in table 3 below

Table 3: Regeneration Programme debt

| | 2018/19 Actual | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|----------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Actual debt at 31 March £m | 26 | 57 | 181 | 214 | 229 |
| Percentage of total CFR % | 9 | 15 | 31 | 31 | 29 |

3.2.4 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 – see Appendix 1

3.2.5 The Chief Operating Officer reports that the Council complied with the prudential indicator that the Council's gross borrowing in the current year does not exceed its CFR and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.3 Prospects for Interest Rates

3.3.1 Current Forecasts are shown in Appendix 3

3.3.2 The forecast anticipated consumer price inflation to remain around or slightly below 2% along with the expectation that the Bank of England will keep interest rates on hold at 0.75% until the situation on both Brexit and the global economy is clearer.

Our central case is that the EU withdrawal agreement will be approved by Parliament by the end of January 2020. The forecast assumes the Bank of England will raise interest rates to 1% in August 2020, and then remain on hold for the rest of the year. However, in a “no deal” scenario, we expect the Bank to cut the Bank Rate to near zero.

3.4 Borrowing Strategy

3.4.1 Caution will be adopted with the 2020/21 treasury operations. The Chief Operating Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

3.4.2 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.

On the 9th October the PWLB unexpectedly announced that it was increasing its interest rates across all its new loans by 1% with immediate effect. Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Chief Operating Officer 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 long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

If it was felt that there was a significant risk of a much sharper rise in long and short term 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.

3.4.5 New Borrowing

The council's borrowing strategy will give consideration to the following forms of borrowing to finance capital requirements:

- Internal borrowing: The need to undertake external borrowing can be reduced by the temporary use of internal balances held for provisions and reserves within the Council's accounts and cashflow movements on a day-to-day basis. The option of postponing borrowing and running down investment balances may provide short term revenue savings and reduce investment risk. The use of internal balances, however, must be monitored in order to mitigate the risks arising from the need to externally refinance when rates are unfavourable;
- Temporary Borrowing: from the money market or other local authorities;
- Shorter Term Borrowing (1 – 5 years): from non PWLB and other sources;
- Long Term Market Debt: where rates are significantly below those offered by the PWLB for an equivalent maturity period, and to provide diversity within the debt portfolio;
- PWLB: borrowing for periods across all durations where rates offer best value;
- Other borrowing arrangements: such as the use of leasing may be more cost efficient for some types of capital expenditure such as for vehicles and equipment.

3.4.6 The council will continue to borrow in respect of the following:

- Maturing debt;
- Approved (prudential) capital expenditure / capital investment;
- To finance short-term cashflow fluctuations.

3.4.7 The type, period, rate and timing of new borrowing will be determined by the Chief Operating Officer under delegated powers, taking into account the following factors:

- Expected movements in interest rates as outlined above;
- Maturity profile of the debt portfolio;
- The impact on the medium term financial strategy;
- Prudential indicators and limits.

Treasury Management Limits on borrowing activity

3.4.8. There are three debt related treasury activity limits. The purpose of these are to manage the activity of the treasury function within a flexibly set remit for risk

management, yet not impose undue restraints that constrict opportunities for cost reduction or performance improvement. The indicators are:

- Upper limits on variable interest rate exposure net of investments;
- Upper limits on fixed interest rate exposure;
- Maturity structure of borrowing to manage refinancing risk.

3.4.9. The proposed indicators are set out in Annex C.

Policy on borrowing in advance of need

3.4.10. The Council must ensure that its total debt does not, except in the short-term, exceed the total of the CFR in the preceding year i.e. 2020/21, plus the estimates of any additional CFR for the year 2019/20 and the following two financial years. This allows some flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated, and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that the ongoing revenue liabilities created, and the implications for future capital plans and budgets have been considered;
- Evaluate economic and market factors that might influence the manner and timing of the decision to borrow;
- Consider the pros and cons of alternative forms of funding, interest rate structures and repayment profiles;
- Consider the positive and negative impacts of borrowing in advance of need on the Council's cash balances, in particular the increased exposure to credit risk that will arise as a result of investing this additional cash in advance of need.

3.4.11 Debt Rescheduling

All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings;
- To fulfil the treasury strategy;

- To enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

3.5 Annual Investment Strategy

3.5.1 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report) which will be considered at the same meeting.

3.5.2 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.

3.5.3 The key intention of the Guidance is to maintain the requirement for councils to invest prudently and that priority is given to the security and liquidity of investments before yield.

The Council's objective is therefore to achieve, within this constraint, the optimum return on its investments with the appropriate levels of security and liquidity.

Within the prudent management of its financial affairs, the Council may temporarily invest funds that are borrowed for the purpose of expenditure expected to be incurred in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and the Council will not engage in such activity.

3.5.4 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, its minimum credit criteria is set out in Appendix 5.

3.5.5 The Council will consider placing longer term treasury deals while investment rates are at historically low levels and where attractive interest rates with high quality counterparties become available.

3.5.6 Investments will make reference to the core balance, cash flow requirements and the outlook for short and medium term interest rates.

- 3.5.7 Credit ratings should not be the sole determinant of the quality of an institution, this Council is not bound by the agency with the lowest rating and, importantly, officers will continually assess and monitor the financial sector and the economic/political environment in which institutions operate.
- 3.5.8 Treasury investment instruments identified for use in the financial year are listed in Appendix 6 under the 'specified' and 'non-specified' investment categories.
- 3.5.9 The Chief Operating Officer will, on advice, make operational changes to these limits in response to prevailing market conditions and regulatory changes.
- 3.5.10 All investments will be denominated in sterling.
- 3.5.11 As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.
- 3.5.12 Following the consultation undertaken by the MHCLG on IFRS 9 the Government introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.
- 3.5.13 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were 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.
- 3.5.14 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, in order 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.
- 3.5.15 Whilst 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.

3.5.16 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. Regular monitoring of investment performance will be carried out during the year.

3.5.17 The local benchmark for investment is the 3 month LIBOR rate.

3.6 Loans to Third Parties

3.6.1 The Authority may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This facility is likely to be used to support local economic regeneration and development activity but not limited to those purposes. The additional capital expenditure may be funded by external borrowing. Loans for working capital or revenue purposes are permitted as long as these are funded from the Council's internal cash balances as external borrowing is not permitted in such circumstances.

3.6.2 **Pension Fund Cash** - The Local Government Pension Scheme (Management and Investment) Regulations 2016 requires the Council to maintain a separate bank account for the Pension Fund. For the management of Pension Fund cash, there is in place an agreement to pool internally held pension fund balances (working cash and those pending external investment) with the investment balances of the Council. These balances are invested in accordance with the Council's Treasury Management Strategy.

The Pension Fund receives interest annually on their cash balances at a rate commensurate with that received by the Council. Pension Fund cash balances may be withdrawn anytime. In the event of loss of any investment, this will be borne on a pro rata basis equivalent to the value of each party's contribution to the investment which incurred the loss.

3.6.3 **Pension Fund Prefunding** – The Council can choose to enter into an agreement to make advance payment to fund the employee pension contribution for up to 3 years. The benefit of this is to take advantage of discount rate provided by the Pension Fund Actuary which will result in cash saving for the Council. The Council has not previously adopted such advance payments.

3.7 Treasury Indicators

3.7.1 The indicators cover 2018/19 -2022/23. The CIPFA Prudential Code and the TM code requires authorities to set treasury indicators and these are set out in Appendix 2. No breaches in the indicators are expected in 2019/20.

3.8 Minimum Revenue Provision (MRP)

3.8.1 The MRP Policy Statement 2020/21 is set out in Appendix 7 of this report.

3.9 Policy on the use of external service providers

3.9.1 The Council uses Link Asset Services as its external treasury management advisors.

3.9.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

REASONS AND OPTIONS

Reasons for the decision:

The statutory Codes set out that the Council ought to approve a Treasury Management Strategy Statement, the MRP Strategy and the Prudential Indicators.

Other options considered:

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Operating Officer, having consulted the Cabinet Member for Finance and Property, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

| Alternative | Impact on income and expenditure | Impact on risk management |
|-------------|----------------------------------|---------------------------|
|-------------|----------------------------------|---------------------------|

| | | |
|---|--|---|
| Invest in a narrower range of counterparties and/or for shorter times | Interest income will be lower | Lower chance of losses from credit related defaults, but any such losses may be greater |
| Invest in a wider range of counterparties and/or for longer times | Interest income will be higher | Increased risk of losses from credit related defaults, but any such losses may be smaller |
| Borrow additional sums at long-term fixed interest rates | Debt interest costs will rise; this is unlikely to be offset by higher investment income | Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain |
| Borrow short-term or variable loans instead of long-term fixed rates | Debt interest costs will initially be lower | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain |

IMPLICATIONS AND RISKS

Financial implications and risks:

The Treasury Management Strategy Statement is a key part of the overall budget strategy and financial management framework and governs the strategic and operational treasury management activities throughout each financial year in order to manage the Council's financial risks associated with cash management via borrowing and investments.

For the financial year 2020/21, the budget for investment income has been set at £1.7m, based on an average interest rate of 0.8%.

The budget for long term debt interest payable in 2020/21 has been increased from £10.5m to £13.2m. This is based on the existing average long term debt portfolio of £210m at an average interest rate of 3.6% and has been adjusted for anticipated borrowing for the 2020/21 capital programme.

Of the existing £210m of long term debt, £174m is in relation to the HRA, with a budget for debt interest payable of £5.8m.

The General Fund Budget for debt interest on external debt has been increased from £2.4m to £5.1m to allow for external borrowing to be undertaken should it be considered necessary in 2020/21 to fund the cost of borrowing for the increased capital programme.

If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. Variance from budget will be reported on a bi-annual basis to full Council.

Legal implications and risks:

The Council must comply with its duty under section 3 Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow. Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 requires the Authority to have regard to the code of practice entitled the “Prudential Code for Capital Finance in Local Authorities” published by CIPFA when considering its duty under section 3.

The Council has fiduciary duties toward its tax payers to act in good faith in the interests of those tax payers with the considerable sums of money at their disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent fashion and therefore there is a low risk of successful challenge.

Otherwise there are no apparent legal implications arising as a result of this Report.”

Human Resources implications and risks:

There are no direct Human Resources implications arising as a result of this report

Equalities implications and risks:

There are no equalities implications within this report

BACKGROUND PAPERS

- London Borough of Havering – Treasury management strategy 2020/21 and MRP Policy statement.

Appendix 1

PRUDENTIAL INDICATORS

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 £m | 2018/19 Actual | 2019/20 Budget | 2020/21 Budget | 2021/22 Budget | 2022/23 Budget |
|-----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Non-HRA | 30.275 | 116.080 | 118.979 | 15.048 | 9.388 |
| HRA | 33.677 | 136.080 | 87.204 | 113.626 | 125.854 |
| Regeneration Programme * | 7.635 | 31.097 | 223.468 | 98.212 | 57.303 |
| Total | 71.588 | 283.257 | 429.651 | 226.886 | 192.545 |

* these activities relate to areas such as capital expenditure on investment properties, loans to third parties etc.

Other long-term liabilities - The above financing need excludes other long-term liabilities 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 expenditure £m | 2018/19 Actual | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|--|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Capital receipts | 20.547 | 45.391 | 121.716 | 56.460 | 31.053 |
| Capital grants | 16.296 | 45.391 | 77.700 | 21.172 | 36.267 |
| Revenue and Reserves | 23.996 | 98.089 | 18.219 | 20.778 | 17.988 |
| Net financing need for the year | 10.748 | 94.386 | 212.016 | 128.476 | 107.237 |

The net financing need for regeneration programme activities included in the above table against expenditure is shown below:

| Regeneration Programme £m | 2018/19 Actual | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|--------------------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Capital Expenditure | 8.785 | 28.097 | 223.468 | 98.212 | 57.303 |
| Other Sources of Financing | 0 | 0 | 98.250 | 55.000 | 30.000 |

| | | | | | |
|--|--------------|---------------|----------------|---------------|---------------|
| Net financing need for the year | 8.785 | 28.097 | 125.218 | 43.212 | 27.303 |
| Percentage of total net financing need % | 81.74 | 29.77 | 59.06 | 33.63 | 25.46 |

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 (e.g. by capital grants), 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 (OLTL) which relates to PFI scheme and finance leases. The Council currently has no such liabilities within the CFR.

The Council is asked to approve the CFR projections below:

| £m | 2018/19 Actual | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|--------------------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Capital Financing Requirement | | | | | |
| CFR – non housing | 72.185 | 105.360 | 152.225 | 163.405 | 169.187 |
| CFR – housing | 174.669 | 212.660 | 249.521 | 320.561 | 391.107 |
| CFR – Regeneration Programme | 26.489 | 56.985 | 181.158 | 214.454 | 229.156 |
| Total CFR | 273.343 | 375.005 | 582.904 | 698.420 | 789.450 |
| Movement in CFR | 8.873 | 101.662 | 207.899 | 115.516 | 91.030 |

| | | | | | |
|--|--------------|----------------|----------------|----------------|---------------|
| Movement in CFR represented by | | | | | |
| Net financing need for the year | 10.478 | 94.386 | 212.016 | 128.476 | 107.237 |
| Less MRP and other financing movements | 1.875 | 7.276 | 4.117 | 2.960 | 16.207 |
| Movement in CFR | 8.873 | 101.662 | 207.899 | 115.516 | 91.030 |

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| | | | | | |
|--|--|--|--|--|--|

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

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 total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Operating Officers 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.

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

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.

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 indicator:

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 | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|---------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Non-HRA | 2.47 | 3.24 | 5.24 | 5.47 | 5.95 |
| HRA | 3.81 | 4.65 | 5.45 | 7.00 | 8.55 |
| Regeneration Programme | 0.85 | 1.62 | 6.53 | 8.73 | 9.45 |
| Total | 7.13 | 9.50 | 17.22 | 21.21 | 23.94 |

Prior to 2018/19 regeneration programme activities are not shown separately in this table

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

TREASURY INDICATORS

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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.

| Operational boundary £m | 2019/20 Limit | 2020/21 Limit | 2021/22 Limit | 2022/23 Limit |
|-----------------------------|---------------|---------------|---------------|---------------|
| Debt | 300 | 465 | 558 | 631 |
| Other long term liabilities | 10 | 10 | 10 | 10 |
| Regeneration Programme | 45 | 145 | 171 | 183 |
| Total | 355 | 620 | 739 | 824 |

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 £m | 2019/20 Limit | 2020/21 Limit | 2021/22 Limit | 2022/23 Limit |
|-----------------------------|------------------|------------------|------------------|------------------|
| Debt | 450 | 698 | 837 | 946 |
| Other long term liabilities | 10 | 10 | 10 | 10 |
| Regeneration Programme | 67 | 217 | 257 | 275 |
| Total | 527 | 925 | 1104 | 1231 |

Treasury Management Limits on Activity

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 opportunities to reduce costs/improve performance.

The Code requires that for LOBO loans the maturity date is now deemed to be the next call date.

The indicators are:

Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure of large fixed rate sums falling due for refinancing; these have been kept deliberately wide to provide flexibility for any restructuring that might be carried out to de-risk the debt portfolio.

| Maturity structure of fixed interest rate borrowing 2020/21 | | |
|--|-------|-------|
| | Lower | Upper |
| Under 12 months | 0% | 40% |
| 12 months to 2 years | 0% | 60% |
| 2 years to 5 years | 0% | 70% |
| 5 years to 10 years | 0% | 80% |
| 10 years to 20 years | 0% | 100% |
| 20 years to 30 years | 0% | 100% |
| 30 years to 40 years | 0% | 100% |
| 40 years to 50 years | 0% | 100% |
| Maturity structure of variable interest rate borrowing 2020/21 | | |
| | Lower | Upper |

| | | |
|----------------------|----|------|
| Under 12 months | 0% | 90% |
| 12 months to 2 years | 0% | 90% |
| 2 years to 5 years | 0% | 100% |
| 5 years to 10 years | 0% | 100% |
| 10 years to 20 years | 0% | 100% |
| 20 years to 30 years | 0% | 100% |
| 30 years to 40 years | 0% | 100% |
| 40 years to 50 years | 0% | 100% |

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to 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:

| Upper limit for principal sums invested for longer than 365 days | | | |
|--|---------|---------|---------|
| £m | 2019/20 | 2020/21 | 2021/22 |
| Principal sums invested for longer than 365 days | £75m | £75m | £75m |

Appendix 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. The following table gives their central view.

| Bank Rate | | | | | | | | | | | | | | |
|---------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | NOW | 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 |
| Link Asset Services | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | 1.25% |
| Capital Economics | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | - | - | - | - | - |
| 5yr PWLB Rate | | | | | | | | | | | | | | |
| | NOW | 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 |
| Link Asset Services | 2.20% | 2.40% | 2.40% | 2.50% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.10% | 3.20% | 3.20% |
| Capital Economics | 2.20% | 2.40% | 2.50% | 2.50% | 2.60% | 2.60% | 2.80% | 2.80% | 2.90% | - | - | - | - | - |
| 10yr PWLB Rate | | | | | | | | | | | | | | |
| | NOW | 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 |
| Link Asset Services | 2.44% | 2.70% | 2.70% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | 3.50% |
| Capital Economics | 2.44% | 2.70% | 2.70% | 2.80% | 2.80% | 2.90% | 3.00% | 3.00% | 3.10% | - | - | - | - | - |
| 25yr PWLB Rate | | | | | | | | | | | | | | |
| | NOW | 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 |
| Link Asset Services | 3.00% | 3.30% | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.10% |
| Capital Economics | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | - | - | - | - | - |
| 50yr PWLB Rate | | | | | | | | | | | | | | |
| | NOW | 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 |
| Link Asset Services | 2.85% | 3.20% | 3.30% | 3.30% | 3.40% | 3.50% | 3.60% | 3.60% | 3.70% | 3.80% | 3.90% | 3.90% | 4.00% | 4.00% |
| Capital Economics | 2.85% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.40% | 3.40% | 3.50% | - | - | - | - | - |

The Bank of England Monetary Policy Committee (“MPC”) has held its main interest rate steady at 0.75% with its rate-setting committee voting 7-2 in favour of keeping the current level.

The central bank maintained the dovish stance exhibited after its previous meeting, commenting in an accompanying statement: “If global growth fails to stabilize or Brexit uncertainties remain entrenched, monetary policy may need to reinforce the expected U.K. recovery.”

Its forecast for U.K. GDP (gross domestic product) growth in the fourth quarter of 2019 was cut to +0.1% from the November forecast of +0.2%, reflecting the weakening of economic conditions shown in recent data.

Two MPC policymakers, Jonathan Haskel and Michael Saunders, voted to cut the main interest rate to 0.5%, as was also the case in November.

On the U.S.-China trade war, the Bank of England noted the “partial de-escalation of the U.S.-China trade war gives some additional support to the outlook” but highlighted that the continued sign of loosening in the U.K. labour market was another potential headwind.

The central bank has been grappling with uncertainty over Brexit for the past three years, and their focus now switches to what kind of trade deal the U.K will negotiate with the EU.

Following the Conservative Party’s election victory, which all but ensures the U.K. will leave the EU before the January 31 deadline, Prime Minister Johnson has vowed to block any extension to the post-exit transition period beyond the end of 2020.

After raising rates in August 2018 to 0.75%, the MPC voted unanimously to hold rates during their September 2019 Policy meeting, reaffirming its pledge to gradual and limited rate rises under the assumption of a smooth Brexit and some recovery in global growth.

In August’s Inflation Report, the BoE predicted a gradual increase in inflationary pressures, reaching above the inflation target of 2% by Q4 2020, and they forecast GDP growth to reach around 2.5% in 2022. Meanwhile, unemployment is expected to increase steadily up until Q3 2020, gradually decreasing from then on.

The US economy grew by an annualised 2.0% in Q2 2019, slightly below a preliminary estimate of 2.1% percent and following a 3.1% expansion in the previous three-month period, the second estimate showed.

The Fed decided to cut rates further by 25bps, lowering their target range to 1.75-2.00% during its September meeting, amid concerns about slowing global growth and trade wars.

On the 9th October 2019, the PWLB unexpectedly announced that it was increasing its interest rates across all its new loans by 1% with immediate effect.

While the Council's treasury management strategy permitted borrowing from a number of sources "it was not anticipated that any alternatives to PWLB would be utilised given the low cost of PWLB funding previously".

A further attraction of the PWLB had been "the low administration cost associated with raising funding, which was done by a simple phone call from officers when new borrowing was arranged".

The "significantly elevated resourcing requirement" of dealing with other lenders would depend on whether the currently underdeveloped market for lending to councils expanded now that the PWLB's rates were less attractive.

"The market which provides alternative funding to the PWLB for local authorities is not well developed,".

"Only a handful of authorities have raised funds via alternative routes, as PWLB rates have previously been at levels that competitors could not offer. This is now likely to change, and the market is likely to reassess the possibility of lending to councils."

The treasury team is liaising with LINK (the Council's Treasury Advisers) for alternative options to PWLB. e.g Pension Fund, LA to LA market, SPV etc.

Appendix 4

POLICY ON BORROWING IN ADVANCE OF NEED

The Council must ensure that its total debt does not, except in the short-term, exceed the total of the CFR in the preceding year i.e. 2020/21, plus the estimates of any additional CFR for the year 2019/20 and the following two financial years. This allows some flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated, and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that the ongoing revenue liabilities created, and the implications for future capital plans and budgets have been considered;

- Evaluate economic and market factors that might influence the manner and timing of the decision to borrow;
- Consider the pros and cons of alternative forms of funding, interest rate structures and repayment profiles;
- Consider the positive and negative impacts of borrowing in advance of need on the Council's cash balances, in particular the increased exposure to credit risk that will arise as a result of investing this additional cash in advance of need.

Appendix 5

The Council's minimum credit ratings criteria

Credit Rating: Investment decisions are made by reference to the lowest appropriate published credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Within the parameters set out below the Council works together with Link Asset Services (the treasury management advisor) to establish an operational lending list using Link's creditworthiness methodology.

The notes below should be read in conjunction with table 1 overleaf.

- 1. Banks (Unsecured) and Building Societies:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

For non UK Banks, the Authority's credit criteria will require that banks from AA+ rated countries and above can be used.

Current bank accounts: the Authority's own banker, Should the credit rating fall below A-, for liquidity purposes the Authority may continue to deposit surplus cash with the group providing that investments can be withdrawn on the next working day. Balances will be reviewed on a daily basis to assess their appropriateness.

Banks (secured): Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

2. **Rated Building Societies** - The Authority's credit rating criteria for UK Building Societies in 2019/20 will continue to limit deposits to those UK Building Societies that meet the credit criteria in table 1 below.
3. **Non Rated Building Societies** – The criteria in table 1 overleaf will apply.
4. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
5. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.
6. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.
7. **Residential Mortgage Based Schemes** - Investment will be restricted to AAA rated funds with only UK exposure. These funds offer stronger risk-adjusted returns whilst maintaining high daily liquidity with time plus two days (T+2) access.
8. **Pooled funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.
9. **Money Market Funds (MMF):** The Authority will continue to use MMF's, which provide lower interest returns but do provide a highly liquid, diversified investment via a highly credit-rated pooled investment vehicle.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into

asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Table 1: Approved investment counterparties and limits

| Credit rating | Banks unsecured* | Banks secured | Government | Corporates | Registered Providers |
|----------------------|---|----------------------|-------------------------|-------------------|-----------------------------|
| UK Govt | n/a | n/a | £ Unlimited 50 years | n/a | n/a |
| AAA | £35m 5 years | £35m 20 years | £35m 50 years | £15m 20 years | £15m 20 years |
| AA+ | £35m 5 years | £35m 10 years | £35m 25 years | £15m 10 years | £15m 10 years |
| AA | £35m 4 years | £35m 5 years | n/a | £15m 5 years | £15m 10 years |
| AA- | £35m 3 years | £35m 4 years | n/a | £15m 4 years | £15m 10 years |
| A+ | £35m 2 years | £35m 3 years | n/a | £25m 3 years | £15m 5 years |
| A | £35m 13 months | £35m 2 years | n/a | £25m 2 years | £15m 5 years |
| A- | £35m 6 months | £35m 13 months | n/a | £15m 13 months | £15m 5 years |
| None | £1m 6 months | n/a | n/a | £5m 5 years | £10m 5 years |
| | UK Local Authorities £35m per authority; 50 years | | | | |
| Pooled funds | £25m per fund These include Bond Funds, Gilt Funds, Equity, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds, Residential Mortgage Based Schemes (RMBS) | | | | |

* Includes Building Societies

Investment Limits

The Authority further proposes the investment limits as set out in the table below to protect the security of its investments. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 2: Investment limits

| | Cash limit |
|---|-------------------|
| UK Central Government | unlimited |
| Any single organisation, except the UK Central Government | £35m each |
| Any group of organisations under the same ownership | £35m per group |
| Any group of pooled funds under the same management | £35m per manager |
| Financial instruments held in a broker's nominee account | £50m per broker |
| Foreign countries | £35m per country |
| Registered providers | £35m in total |
| Unsecured investments with building societies | £50m in total |
| Loans to unrated corporates | £35m in total |
| Money Market Funds | £50m in total |
| UK Residential Mortgage Backed Securities (RMBS) | £25m in total |

Appendix 6

Specified and Non Specified Investments

Specified investments:

The MHCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

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

Limits on specified investments are shown in table 1 below.

Table 1: Specified Investments

| Instrument | Institution Type | Instrument Minimum 'High' Credit Criteria | Limits | Max. Maturity Period |
|---|--|---|------------|-------------------------|
| Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks, UK Government Gilts. | UK Banks and UK Banking Groups ¹ | per Appendix 5, Table 1 | £35m | per Appendix 5, Table 1 |
| | UK Building Societies | per Appendix 5, Table 1 | £35m | per Appendix 5, Table 1 |
| | Non UK Banks | Sovereign Rating of AA+ and above and meet Credit Criteria in Appendix 5, Table 1 | £35m | per Appendix 5, Table 1 |
| Covered bonds, floating rate notes, reverse repurchase agreements and other collateralised arrangements with banks and building societies | UK Banks and Building Societies and Non UK Banks | Per Appendix 5, Table 1 (and Sovereign Rating of AA+ minimum for Non UK Banks) | See Note 2 | per Appendix 5, Table 1 |
| Term Deposits | Local Authorities and other Public Institutions | UK Sovereign Rating | £35m | per Appendix 5, Table 1 |
| Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing. | Registered Social Housing Providers | per Appendix 5, Table 1 | | per Appendix 5, Table 1 |
| Money Market Fund | | AAA ³ | £25m | |
| Enhanced Cash Funds | | AA/Aa ⁴ | £25m | |
| Residential Mortgage Based Schemes (RMBS) | | UK AAA | £25m | |
| 1. £35m Limit per bank / banking group. | | | | |
| 2. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments. | | | | |
| 3. Investments will be made with those MMF's which have a rating of AAA | | | | |
| 4. Minimum of Fitch / Standard & Poor's AA or Moody's Aa rating | | | | |

Non-specified investments:

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

Limits on non-specified investments are shown in table 2 below.

Table 2: Non-specified investment limits

| | Cash Limit £m |
|--|--------------------------|
| Total long-term investments | 75 |
| Total Investments without credit ratings or rated below A- (subject to due diligence) | 20 |
| Total non-specified investments | 95 |

NON SPECIFIED INVESTMENTS

| Instruments | Non Specified Investments | Institution Type | Minimum Credit Criteria | Maximum Duration | Cash limit |
|---|---|---|-------------------------|------------------|------------|
| Accounts, deposits, certificates of deposit, structured deposits and senior unsecured bonds with banks other than multilateral development banks. Covered bonds, reverse repurchase agreements, and other collateralised arrangements with banks and building societies. Short Dated Bond Funds, Diversified Growth Funds, Absolute Return Funds and Property Funds. Unrated Bonds. | Total long-term investments (investments over 1 year) | UK and Non UK Banks and Building Societies, Rated Registered Social Housing Providers (RSP) | Per Appendix 5, Table 1 | 10 yrs. | £75m |
| | Total investments without credit ratings or rated below A- (except UK Government and local authorities) | Unrated Registered Social Housing Providers (RSP), Unrated Banks and Building Societies | N/A | 5 yrs. | £20m |
| | Total Investments made in pooled investment vehicles. | | | 7 yrs. | |
| | Total Investments made in unrated bonds. | | | | |
| | Total non-specified investments | | | | £95m |
| | | | | | |

Minimum Revenue Provision Policy Statement

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum provision requirement since 2008, The Local Government Act 2003 requires the Authority to have regard to the MHCLG *Guidance on Minimum Revenue Provision* updated in 2018.

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

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

For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £2.9m on a reducing balance method

For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, but under exceptional circumstances MRP the annuity or equal instalments method may apply. Furthermore, where appropriate provision of MRP will commence in the year after the asset becomes operational.

Estimated life periods will be determined under delegated powers. The Council may defer to the estimated useful economic life periods specified in the MRP guidance, but reserves the right to determine such periods and prudent MRP.

As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main

component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

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

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

Third party loans – Under statutory requirements the payment of the loan will normally be treated as capital expenditure. The subsequent loan repayments, (which are treated as capital receipts under statutory requirements), will be used to reduce the long term liability and consequently the CFR. As a result MRP will not generally be charged on the loan as it is not appropriate to do so.