Havering
LONDON BOROUGH

Cabinet	**22 February 2023**
Subject Heading:	**Treasury Management Strategy Statement 2023/24 and Annual Investment Strategy 2023/24 (“TMSS”), Treasury Indicators**
Cabinet Member:	**Councillor Christopher Wilkins** **Cabinet Member for finance and transformation**
SLT Lead:	**Dave McNamara** **Chief Financial Officer, s151 officer**
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Policy context:	**The CIPFA Code of Practice (“CIPFA TM Code”) on treasury management 2021 recommends that the TMSS & AIS is reported to a scrutiny committee for effective scrutiny- this role is undertaken by the Audit Committee and this report will be reviewed at its meeting on the 24th January 2023 and final version of the report will be presented to Cabinet on 22 February and then Full Council on 1st March 2023.**
Financial summary:	**The TMSS forms part of the Authority’s overall budget strategy and financial management framework.**
Is this a Key Decision?	**No**

When should this matter be reviewed?	**Annually**
Reviewing OSC:	**Overview and Scrutiny Committee**

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

Communities making Havering	[]
Places making Havering	[]
Opportunities making Havering	[]
Connections making Havering	[]

SUMMARY

The Treasury Management Strategy Statement ("TMSS") is part of the authority's reporting procedures as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management ("TM") Code and its Prudential code ("The CIPFA Prudential Code") for capital finance in local authorities. The TMSS also sets out recently introduced changes to the legislative framework, which are generally designed to place restrictions on authorities' commercial activity.

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

- The Borrowing and Investment Strategies
- Treasury Management and Prudential Indicators - there is a change to them from the revised CIPFA TM Code and Prudential Code (2021) and is discussed later in this report and will be reported upon in the 2023-24 TMSS.

RECOMMENDATIONS

For the reasons set out in the report and its annexes Cabinet is recommended to agree:

- The Draft 2023/24 TMSS & AIS which will form part of the Budget Report to Cabinet on 16 February and Full Council on 1 March 2023.
- The revised prudential and treasury indicators set out in Appendix 2 and 3.

REPORT DETAIL

1. Introduction

1.1 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."

1.2 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 in accordance with the Authority's appetite for risk and liquidity requirements, as priorities before considering investment return.

1.3 The other main function of treasury management is to help fund the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning required to meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet the Authority's risk or cost objectives

1.4 Whilst any regeneration 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 which has its own governance process), and are separate from the day to day treasury management activities. This expenditure is shown throughout this report as the "regeneration programme".

1.5 The Authority is 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, TMSS** (this report) - The first, and most important report is forward looking and covers:

   - The capital plans, (including prudential indicators)
   - The treasury management strategy statement, (how the investments and borrowings are to be organised), including treasury indicators
   - An investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – a progress report and updates Members on the capital position, amending prudential/treasury indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – a backward looking review document providing outturn details on actual prudential and treasury indicators and treasury activity compared to the estimates within the strategy.

1.6 The above reports are required to be adequately reviewed before being adopted by the Authority. This role is undertaken by the Audit Committee.

1.7 The minimum revenue provision policy is included in the 5 Year Capital Programme and Strategy Report which is presented to Cabinet alongside the Budget report.

2. Key considerations and sustainability

2.1 TMSS 2023/24

2.1.1 The strategy for 2023/24 covers two main areas:

a) Treasury Management Issues

- The outlook for interest rates
- The borrowing strategy

- Debt rescheduling
- The investment strategy
- TM regulation – newly agreed changes and consultations
- The policy on use of external service providers
- The current treasury position as shown in **appendix 1**
- The treasury indicators which limits the treasury risk and activities of the Authority; This includes a liability benchmark for the General Fund (GF) and the Housing Revenue Account (HRA); **appendix 3**
- The policy on borrowing in advance of need; **appendix 4** This policy is unchanged from the approved 2022/23 TMSS
- The Counterparty & Investment policy; **appendix 5 & 6** The limits have been reduced from the approved 2022/23 TMSS

b) Prudential indicators & Capital issues

- The capital expenditure plans and the associated prudential indicators are set out in **appendix 2.**

2.1.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA TM Code and the Department for Levelling-Up Housing and Communities or DLUHC (formerly MHCLG) Investment Guidance.

2.2 <u>Training</u>

2.2.1 A key requirement of the CIPFA TM Code is Member consideration of treasury management matters and the new Knowledge and Skills framework set out in the revised CIPFA TM Code published in December 2021. The Authority 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. A treasury training session for members took place on 24 January 2023.
- Requires all relevant Officers to keep their skills up to date through training, workshops and seminars, and participating in the CIPFA Treasury Management Forum and other relevant local groups and societies.

2.3 **The policy on use of external service providers**

2.3.1 The Authority uses **Link Group ("Link")** as its external treasury management adviser. The Authority recognises that responsibility for treasury management decisions remains with itself at all times and ensures 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 Authority 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 Authority'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 2**, which are designed to assist Members' overview and confirm capital expenditure plans.

3.2. Outlook for interest rates

3.2.1 Link assist the Authority with determining its view on interest rates. Link provided their latest outlook (19 December 2022) on Bank Rate and PWLB Certainty rates and this is summarised in the table below.

Table 1: Interest rate Outlook

%	Mar-23	Dec-23	Mar-24	Dec-24	Mar-25	Dec-25
Bank Rate	4.25	4.50	4.00	3.25	3.00	2.50
5yr PWLB	4.20	4.00	3.90	3.50	3.40	3.10
10yr PWLB	4.40	4.10	4.00	3.60	3.50	3.30
25yr PWLB	4.60	4.40	4.20	3.90	3.70	3.50
50yr PWLB	4.30	4.10	3.90	3.60	3.50	3.20

3.2.2 This central forecast is broadly in line with the consensus opinion of the main economic forecasters: that interest rates will peak this year and start to tail off in 2024 onwards. Interest rates tend to track the rate of inflation and the Bank of England is committed to using monetary policy to curb inflation back toward its target rate of 2%. The Government has also pledged to halve inflation from its current level of 10.7% during 2023.

3.2.3 The long-term forecast for bank rate stands at 2.5%. As all PWLB certainty rates are now above this level, better value can generally be obtained by using shorter dated fixed rate debt. This can be sourced from other local authorities and Banks which generally have a lower interest rate than equivalent PWLB debt and refinancing from longer term PWLB debt once rates have eased.

3.2.4 The above central outlook is subject to considerable uncertainty; on-going and emerging geopolitical threats have the potential to create further external shocks that could have an adverse impact. Also influenced by the effectiveness of Government policies to control domestic driven inflation and its ability to manage its own borrowing. It is important that this strategy is flexible enough to respond to changing market circumstances.

3.3 Borrowing Strategy

3.3.1 The revenue budget is, by law, balanced such that income is expected to equal expenditure. However, the timing of government grants and other large items can lead to large variations in the actual daily cash position, for example the average monthly payroll alone is in the region of £8.5m.

3.3.2 As at 31 March 2022 the Authority had cash balances of £137m, this had reduced to £81.6m at 31 December 2022. In addition to the variability of cash flow, Capital expenditure, to the extent that it is not financed by government grants, capital receipts or other external funding, has reduced the cash balance. Over time this will be matched by borrowing but it should be noted that the exact timing of the borrowing and expenditure will not match.

3.3.3 The Capital programme spend 2023/26 is £820m of which £404m is to be funded through prudential borrowing. This will change if new government grants are announced, new decisions that Havering may take such as if new items were added to the capital programme or disposals of surplus assets were to be agreed.

3.3.4 For the reasons set out above the authority needs to maintain a prudent cash balance to allow it to cover the variability of expenditure. The extent to which borrowing would be required will depend on the movement in cash reserves, working capital, strength of the capital forecast and how much slippage might occur during each financial year.

3.3.5 It is sensible to plan on the basis of covering the inevitable month on month fluctuations in cash balances to avoid what would in effect be an unplanned, and therefore expensive, short-term overdraft. Based on analysis of the monthly cash variations then £40m has been established has an appropriate cash balance or liquidity allowance.

3.3.6 The underlying need to borrow for the capital programme is measured by the Capital Financing Requirement (CFR). Havering like most Authorities have set their external borrowing below their CFR level thus using cheaper internal cash reserves' balances to minimise interest payable costs, this is known as "internal borrowing". This strategy has helped the Authority make considerable savings on its revenue budget while investment returns have been significantly lower than the cost of long term borrowing.

3.3.7 The Authority continues to use internal borrowing to finance its capital plans and as such cash balances are expected to reduce to £40m by 31 March 2023, thereafter the Authority will need external debt. The growth in debt will be reviewed annually against the available budget and will be adjusted to what the Authority can afford.

3.3.8 On top of the £404m future external borrowing to finance future capital plans, there is £154m of historic capital spend that has been met by internal borrowing as at 31 March 2022, financed by £69m from the Authority's cash reserves and £84m from its working capital surplus. The financing plans in this report assume internal borrowing will peak at £259m by the end of this financial year 2022/23. This level of internal borrowing may not be sustainable in the long term, working capital by its very nature is variable and unpredictable while the Authority's cash reserves which are mostly made up of reserves for a specific purpose may come under pressure to be applied, not least from the capital programme itself. As a result the strategy plans to reduce reliance on internal borrowing and replace some of the current internal borrowing with external long term debt once longer term interest rates become lower.

3.3.9 Potential borrowing sources are set out below:

Approved sources/type of borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies		
UK Infrastructure Bank	●	●
Mayor of London Energy Efficiency Fund (MEEF)	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Finance leases	●	●

3.3.10 The preferred strategy, as agreed with Link at this stage. is to borrow for fixed term loan durations less than 5 years from the either the PWLB, Market (Long term and temporary), Local authorities, Banks depending on whom is offering better terms for a relatively short term duration (up to 5 years), to minimise the immediate interest rate costs. These sources represent the cheapest and most accessible source for shorter duration debt and for borrowing of this size. This will then be refinanced as part of the longer-term borrowing strategy once interest rates start to come off their current elevated levels. The option to use quasi government loans from the UK Infrastructure Bank (UKIB) and MEEF for new long term borrowing may also be used on specific capital projects which typically provide Environmental, Social and Governance (ESG) outputs where they provide value for money over PWLB certainty rates.

3.3.11 Interest rates may not follow the central outlook set out in this report and there is a significant risk that they may remain elevated for longer or actually increase. In this scenario, the S151 officer in consultation with the Cabinet member for Finance and Transformation may decide from a risk management point of view that it would be sensible to secure the capital investment strategy, if longer term borrowing from one of the approved sources set out above was undertaken sooner than later. This may result in a higher cost of borrowing than planned but capital plans will be regularly monitored to ensure they remain affordable and sustainable.

3.3.12 As it stands the PWLB is currently the most cost effective source except possibly on specific ESG related capital plans. This however may change, for example the Government in 2019 arbitrarily increased PWLB rates which it subsequently reversed in 2021. Treasury officers and Link will constantly monitor the capital finance market to identify the most cost effective source of long term borrowing from the above list of approved sources of capital finance.

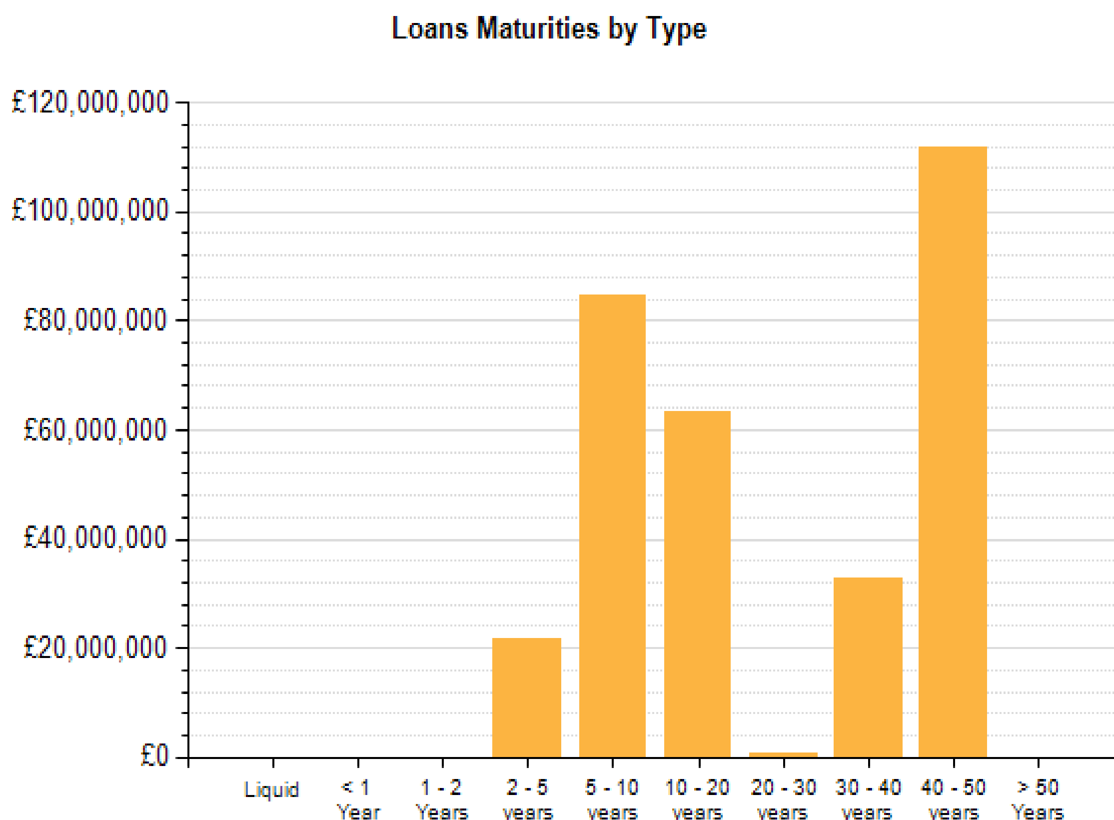
3.3.13 Other borrowing arrangements: such as the use of leasing, specialist ‘green’ funding that may be more cost efficient for some types of capital expenditure such as for vehicles, equipment and decarbonisation schemes.

3.3.14 The type, period, rate and timing of new borrowing will be determined by the S151 officer under delegated powers, taking into account the following factors

- Expected movements in interest rates as outlined above
- Maturity profile of the debt portfolio set out in graph 1 and table 1 below show little new borrowing will be required to replace maturing long term debt until 2024 when £21m will be repaid over the next 3 years and 2027 when £85m will be required over the next five years
- The impact on the medium term financial strategy (MTFS)

- Proposed Prudential Indicators and limits as set out in **appendix 2**.

Graph 1: Debt Maturity Profile



Treasury Management Limits on borrowing activity

3.3.15 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.

3.3.16 The indicators cover 2021/22 - 2025/26. The CIPFA Prudential Code and the CIPFA TM Code requires authorities to set treasury indicators and these are set out in **Appendix 3**. No breaches in the indicators are expected in the period covered in this report.

Policy on borrowing in advance of need

3.3.17 This is set out in **appendix 4** of this report.

Debt Rescheduling

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

Where short term borrowing rates are 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 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.

3.4 **Annual Investment Strategy**

3.4.1 The DLUHC and CIPFA have extended the meaning of 'investments' to include both treasury and non-treasury investments. This report deals solely with treasury investments, (as managed by the treasury management team).

3.4.2 The Authority's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA TM Code and Guidance Notes from 2021.

3.4.3 The key intention of the Guidance is to maintain the requirement for authorities to invest prudently and that priority is given to the security and liquidity of investments before yield. The Authority'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 Authority 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 this Authority does not engage in such activity.

3.4.4 The above guidance from the DLUHC 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.**

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

3.4.6 Credit ratings should not be the sole determinant of the quality of an institution. This Authority is not bound by the institution's rating and, importantly, officers will continually assess and monitor the financial sector and the economic/political environment in which institutions operate.

3.4.7 Treasury investment instruments identified for use in the financial year are listed in **Appendix 6**.The 'specified' and 'non-specified' investment categories are in accordance with the DLUHC Investment Guidance.

3.4.8 The S151 Officer, on advice, make operational changes to these limits in response to prevailing market conditions and regulatory changes.

3.4.9 All investments will be denominated in sterling.

3.4.10 The 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 Loans to Third Parties or Non Treasury investments

3.5.1 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 Authority's internal cash balances as external borrowing is not permitted in such circumstances.

3.5.2 Pension Fund Cash - The Local Government Pension Scheme (Management and Investment) Regulations 2016 requires the Authority 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 Authority. These balances are invested in accordance with the Authority's Treasury Management Strategy.

The Pension Fund receives interest annually on their cash balances at a rate commensurate with that received by the Authority. 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.

3.5.3 Pension Fund Prefunding – The Authority can choose to enter into an agreement to made 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 may result in cash saving for the Authority. The Authority has not previously adopted such advance payments and there are no plans to do so in 2023/24.

3.6 TM regulation – newly agreed changes and consultations

3.6.1 CIPFA published revised codes on 20th December 2021, the Authority has applied these in preparation of the Treasury Management Strategy Statement and Annual Investment Strategy, and related reports for the financial year, 2023-24.

3.6.2 The revised codes have the following implications

A requirement for the Authority to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement

Clarify what CIPFA expects a Local Authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment

Address ESG issues within the Capital Strategy

- Require implementation of a policy to review commercial property, with a view to divest where appropriate and a requirement to have an annual strategy/policy on reviewing commercial portfolios.

Create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices)

Ensure that any long term treasury investment is supported by a business model

A requirement to effectively manage liquidity and longer term cash flow requirements

Amendment to Treasury Management Practices (TMP) 1 to address ESG policy within the treasury management risk framework (TMPs are detailed operational practice notes that support the treasury strategy)

Amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each Authority

A new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

3.6.3 In addition, all investments and investment income must be attributed to one of the following three purposes

Treasury management

Arising from the organisation’s cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an Authority’s financial capacity – i.e., that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An Authority must not borrow to invest primarily for financial return.

REASONS AND OPTIONS

Reasons for the decision:

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

Other options considered:

The DLUHC Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The S151 officer, having consulted the Cabinet Member for Finance and Transformation, 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 TMSS 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 Authority's financial risks associated with cash management via borrowing and investments.

Members are approving the programme on the basis that the capital programme spend is achieved, which feeds through into the Prudential Indicators set out in the report. The reality is that there is likely to be slippage and this will impact on the MTFS.

The assumption for new borrowing is that interest rates will follow the outlook set out in table 1 above. The expectation is that borrowing will be on fixed rate terms on maturities less than 5 years and that these will be refinanced into longer term loans during 2025/26 onwards once interest rates become lower. The 10 year PWLB rate (closely matches PWLB 50 year rate) in table 1 has been used as a proxy for new long term borrowing.

Table 2: Assumed average annual fixed interest rate on new borrowing 2023/26

	Bank rate	Long term
	%	%
2023/24	4.44	4.30
2024/25	3.63	3.83
2025/26	2.68	3.38

The budgeted cost of the capital programme is set out in table 3 below.

Table 3 Capital Finance Budget 2023 to 2026

£000	BUDGET 2023/24	BUDGET 2024/25	BUDGET 2025/26
Treasury interest payable			
Existing external debt:	9,115	9,115	9,115
New debt:			
- General Fund	680	1,090	1,105
- Regeneration	2,200	5,700	6,630
- HRA	2,730	4,510	5,850
Recharge of HRA external debt cost	(9,135)	(10,920)	(12,250)
Sub total	5,590	9,495	10,450
Treasury interest receivable:			
Interest-External Investment	(1,520)	(1,330)	(1,150)
GF Charge to HRA on net internal debt	(2,500)	(2,260)	(1,400)
Sub total	(4,020)	(3,590)	(2,550)
Net GF Capital finance costs	1,570	5,905	7,900

The above table follows the liquidity benchmark requirement that the CFR will be funded first from maturing excess external investments until they fall to the £40m liquidity allowance level. This is the most efficient and cost effective way of financing the capital programme. It also reduces investment risk and inflation risk. The rate of inflation is currently running significantly higher than expected investment returns and likely to remain so over the medium term, thus eroding the real value of the Authority's investments. On the flip side, as the Authority's much larger debt portfolio is held on fixed rates, the real value of that debt is also being eroded by inflation.

Based on these capital plans the Authority's cash balance will fall to the £40m liquidity allowance during the final quarter 2022/23 and the remaining borrowing requirement will be funded from shorter duration external borrowing.

The HRA was a net lender to the GF but has the HRA CFR increases in 2022/23 then it will become a net borrower of available GF external investment cash in excess of the liquidity allowance, thereafter the HRA will need to borrow externally. The HRA overdraft with the GF is charged the same rate as if the HRA had externally borrowed. Equally the GF will receive the same investment return as if it had invested the excess cash externally albeit without the accompanying investment risk. As long term interest rates fall some of that funding that the HRA has borrowed from the GF will be refinanced by external long term debt.

Treasury investment income is expected to increase sharply. During 2022/23 average bank rate was 0.19% while now it is 3.50% and expected to peak at 4.5% during 2023/24. This means that treasury investment income is expected to be much higher during 2023-2026 albeit the Authority's investment balance at £40m is much smaller than in previous years.

Progress made on the TMSS will be reported in a half year report to Audit Committee.

Legal implications and risks:

Local Authorities are required by Regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 as amended to have regard to the "Prudential Code for Capital Finance in Local Authorities" and Treasury Management in the Public Services Code of Practice published by CIPFA when considering their duties under Part 1 of the Local Government Act 2003.

The Authority must comply with section 3 of the Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow.
The Authority 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 its disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent manner.

There are no other 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:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Authority, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and
(iii) Foster good relations between those who have protected characteristics and those who do not.

The Authority is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.
There are no equalities implications within this report

Health and Wellbeing Implications and Risks:

The Authority is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. There are no direct implications to the Authority's workforce and resident's health and wellbeing as a result of this report.

BACKGROUND PAPERS

NONE

Appendix 1

Current Treasury Position and Capital Financing Requirement (CFR)

As at 31 March 2022 and 31st December 2022, Investments and borrowings are set out in table 1 below.

Table 1: Treasury Portfolio Position

TREASURY PORTFOLIO				
	Actual 31/3/22 £m	**Actual 31/3/22 %**	**Actual 31/12/22 £m**	**Actual 31/12/22 %**
Treasury Investments				
Banks & Building Societies	75.0	54.8	55.0	67.4
Government (including Local authorities)	62.0	45.2	26.6	32.6
Money Market funds	0	0	0	0
Total Treasury Investments	**137.0**	**100**	**81.6**	**100**
Treasury Borrowing				
PWLB	307.2	97.6	307.2	97.6
LOBO loan from bank	7.0	2.2	7.0	2.2
Temporary loan (LA)	0	0	0	0
Other loans	0.8	0.2	0.6	0.2
Total External Borrowing	**315.0**	**100**	**314.8**	**100**
Net Treasury Investments/(Borrowing)	**(178.0)**		**(233.2)**	

Appendix 2

Prudential indicators & Capital Expenditure

Capital expenditure

This prudential indicator is a summary of the Authority'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:

Table 1: Capital expenditure forecast 2021/22 - 2025/26

Capital expenditure £m	2021/22 Actual	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
Non HRA	21.8	72.3	75.3	47.9	11.6
HRA	121.3	150.1	143.2	94.4	100.7
Regeneration Program *	3.9	36.3	170.6	131.7	45.1
Total **	147.1	258.8	389.1	274.0	157.4

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

Financing of Capital Expenditure

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.

Table 2: Financing of Capital expenditure forecast 2021/22 - 2025/26

Financing of capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	10.4	66.0	88.1	55.2	31.6
Capital grants	37.3	20.5	71.0	41.9	28.2
Revenue and Reserves	23.5	25.6	10.4	21.7	14.0
Net financing need for the year ***	**75.9**	**146.7**	**219.6**	**155.2**	**83.8**

***** Net financing need, example (**147.1 - 10.4 – 37.3 – 23.5) = 75.9m)**

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

Table 3: Regeneration Programme forecast 2021/22 - 2025/26

Regeneration Programme £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Expenditure	3.9	36.3	170.6	131.7	45.1
Other Sources of Financing	0	8.9	64.4	36.5	28.0
Net financing need for the year	**3.9**	**27.4**	**106.2**	**95.2**	**17.1**
Percentage of total net financing need	**5.2%**	**18.7%**	**48.4%**	**61.3%**	**20.4%**

The Authority's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Authority'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 Authority'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 schemes and finance leases. The Authority currently has no such liabilities within its CFR.

The Authority is asked to approve the CFR projections below:

Table 4: Capital financing requirement forecast 2020/21 - 2024/25

Capital Financing Requirement £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Non HRA Service	127.5	147.5	168.5	172.9	177.1
Regeneration	61.6	88.1	190.3	273.7	285.0

Housing	279.8	368.7	456.2	478.1	526.2
Total CFR	**468.9**	**604.3**	**815.0**	**924.7**	**988.3**
Movement in CFR		**135.4**	**210.7**	**109.7**	**63.6**
Movement in CFR represented by					
Net financing need for the year	-	146.6	219.6	155.2	83.8
Less MRP	-	5.6	7.7	11.1	12.8
Less receipts set aside	-	5.6	1.2	34.4	7.4
Movement in CFR	**-**	**135.4**	**210.7**	**109.7**	**63.6**

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.

Table 5: Operational boundary 2021/22 - 2025/26

Operational boundary £m	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit	2025/26 Limit
Debt	397.3	551.9	699.7	751.3	875.0
Other long term liabilities	10	10	10	10	10
Regeneration Programme	61.6	88.1	190.3	273.7	285.0
Total	468.9	650	900	1,035	1,170

The authorised limit for external debt TM code

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 Authority. 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 Authorities' plans, or those of a specific Authority, although this power has not yet been exercised.
2. The Authority is asked to approve the following authorised limit:

Table 6: Authorised limit 2021/22 - 2025/26

Authorised limit £m	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit	2025/26 Limit
Debt	448.4	601.9	749.7	801.3	925
Other long term liabilities	10	10	10	10	10
Regeneration Programme	61.6	88.1	190.3	273.7	285
Total	520	700	950	1,085	1,220

The Authority's forward projections for borrowing are summarised below in Table 7 below, the Authority must 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 2023/24 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 expected change in debt will be influenced by changes in the CFR and long term interest rates.

However it should be noted that this change in debt is due to external factors set out in the covering report and capital slippage. Table 7 shows internal borrowing of £259m but this is dependent on the changes to the Authority's cash backed reserves and net working capital. External cash balances of £40m are maintained over the medium term to mitigate liquidity risk. Internal cash balances are expected to contract by £20m by end of 2025/26 and replaced with external borrowing.

Table 7: Capital Financing Requirement (CFR) and Borrowing

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt					
Debt at 1 April	**275.7**	**315.0**	**345.0**	**555.7**	**665.4**
Expected change in Debt	**39.3**	**30.0**	**210.7**	**109.7**	**83.6**
Actual gross debt at 31 March	**315.0**	**345.0**	**555.7**	**665.4**	**749.0**
The Capital Financing Requirement	**468.9**	**604.3**	**815.0**	**924.7**	**988.3**
Under / (over) borrowing	**153.9**	**259.3**	**259.3**	**259.3**	**239.3**

Within the above figures the level of debt relating to regeneration activities is detailed in table 8 below.

Table 8: Regeneration Programme debt

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
CFR at 31 March £m	61.6	88.1	190.3	273.7	285.0
Percentage of total CFR %	13.13	14.58	23.34	29.60	28.84

The S151 Officer reports that the Authority 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.

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 Authority's overall finances. The Authority is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

Table 9 identifies the trend in the cost of capital, (borrowing and other long term obligation costs), against service spending, HRA rents and the regeneration programme. The estimates of financing costs include current commitments and the proposals in this budget report.

Table 9: Ratio of financing costs to HRA rents 2021/22 - 2025/26

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Council housing (HRA)	16.78	21.78	27.95	30.92	33.17

Table 10 shows the trend in the Non-HRA cost of capital (borrowing and other long term obligation costs), regeneration finance costs are shown both gross and net of Mercury Land Holding (MLH) investment income, against net revenue stream.

Table 10: Ratio of Non HRA net financing costs to net revenue stream 2021/22 – 2025/26.

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Main services	5.05	5.90	6.73	7.54	7.37
Regeneration programme	2.29	2.11	3.04	4.87	5.69

A key aspect of the regulatory and professional guidance is that elected Members are aware of the size and scope of any regeneration activity in relation to the Authority's overall financial position. This is set out in the indicator in table 11 below:

Table 11: Estimates of net income from regeneration investments to net revenue stream.

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Total Income	1.12	1.05	0.98	1.01	1.50

Appendix 3

TREASURY LIMITS

Treasury Management Limits on Activity

There are two 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 maturity date should be considered the most probable maturity date and not the next call date.

The indicators are

Liability benchmark

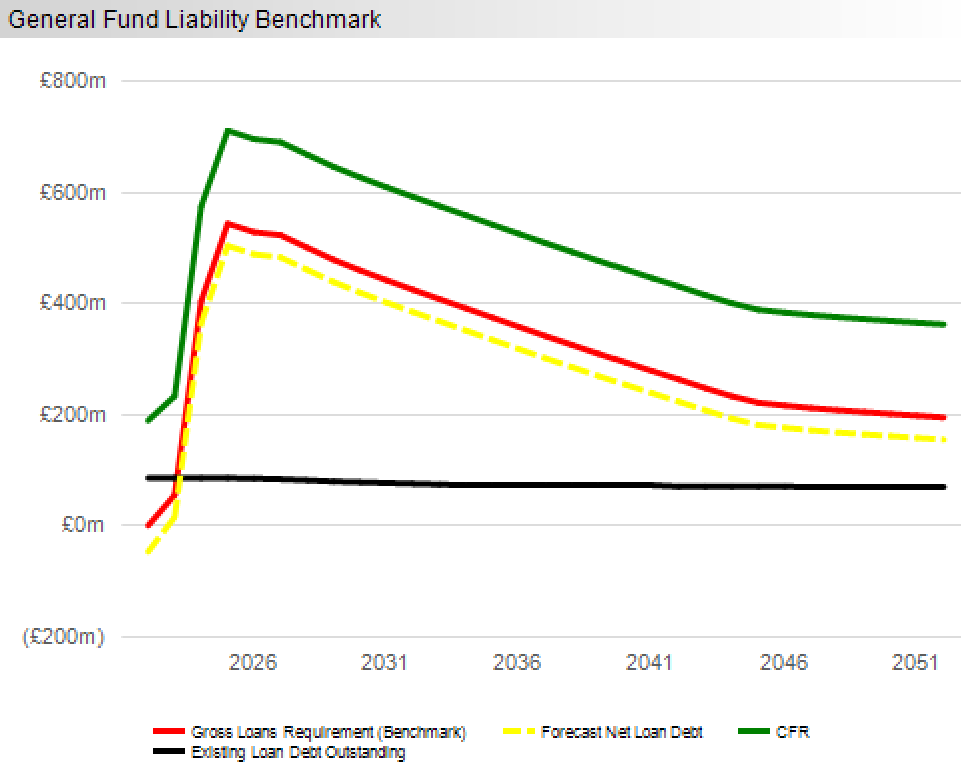
A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

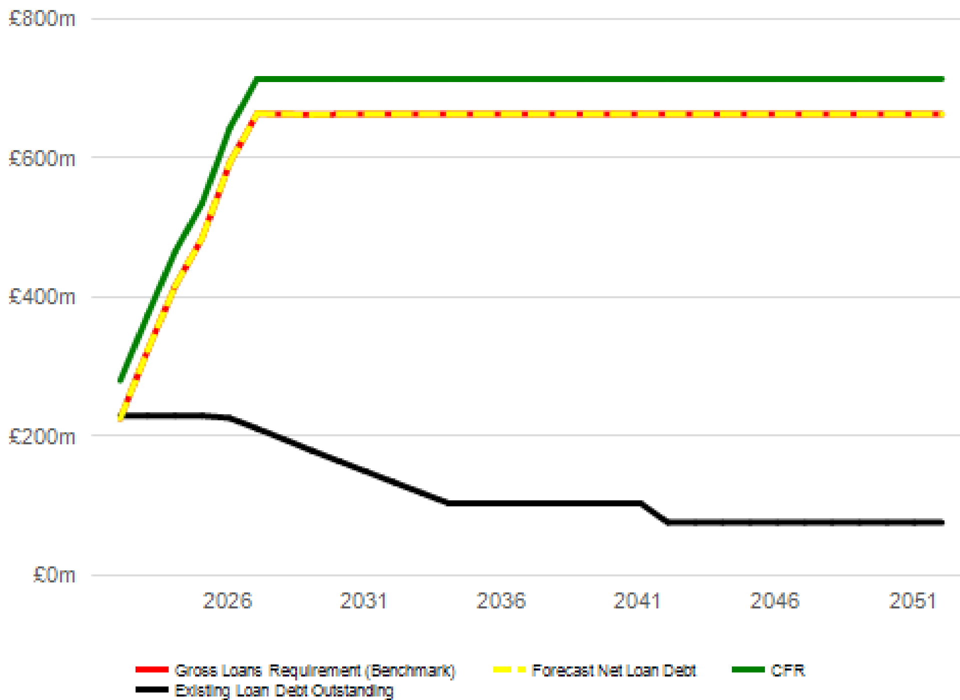
There are four components to the LB:

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP) for debt repayment.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus the £40m short-term liquidity allowance.

Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an over-borrowed position, which will result in excess cash requiring investment. However any currently unknown future borrowing plans will

increase the benchmark loan debt requirement. The LB graphs for both the GF (including Regeneration) and the HRA are shown below.





Based on current borrowing plans the above chart suggests LB peaks at c. £550m in 2025/26 before it starts to fall. The LB remains above the existing loan debt up to 2051 and beyond. The gap between the LB and loan outstanding is between now and 2045 suggesting the Authority's focus on loan durations should be between 15 and 25 years when it is appropriate to do long term borrowing. .

The relationship between the General Fund and the HRA is a key factor in determining the external borrowing requirement. At Havering the GF has excess investment balances over its liquidity requirement, and the HRA has a need for external borrowing, the approach ensures the GF's excess liquidity is lent to the HRA before any external borrowing is required. The charts therefore show the impact of this relationship.

The above graph shows that the Authority has capacity to do long term borrowing out to 50 years if necessary. The loan outstanding (black) show the impact of

maturing debt over time. There is a significant gap between the LB and the loans outstanding indicating significant new long term debt will be required in future.

Maturity structure of borrowing

These gross limits are set to reduce the Authority's exposure of large 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 borrowing		
	Lower	**Upper**
Under 12 months	0%	60%
12 months to 2 years	0%	70%
2 years to 5 years	0%	80%
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%

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Authority'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 Authority is asked to approve the following treasury indicator and limit

Upper limit for principal sums invested for longer than 365 days			
£m	**2023/24**	**2024/25**	**2025/26**
Principal sums invested for longer than 365 days	£50m	£25m	£10m

Appendix 4

POLICY ON BORROWING IN ADVANCE OF NEED

The Authority 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. 2022/23, plus the estimates of any additional CFR for the year 2023/24 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 Authority can ensure the security of such funds.
In determining whether borrowing will be undertaken in advance of need the Authority 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 Authority'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 Authority's Counterparty Credit policy, 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 Authority uses the Link Group (the treasury management advisor) creditworthiness report to establish a lending list. The S151 officer will agree an operational lending list within the parameters set out below.

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 2021/22 will continue to limit deposits to those UK Building Societies that meet the credit criteria in table 1 below.

3. **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.

4. **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.

5. **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.

6. **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.

7. **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.

10. **Ring Fenced Banks, (RFB**) The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, in response to the global financial crisis 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. 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).** The Authority 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.

Table 1: Approved investment counterparties and limits

These limits are lower than last years approved TMSS report as investment balance available have reduced.

Credit rating	**Banks unsecured***	**Banks secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£5m 20 years	£5m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£5m 10 years	£5m 10 years
AA	£15m 4 years	£15m 5 years	n/a	£5m 5 years	£5m 10 years
AA-	£15m 3 years	£15m 4 years	n/a	£5m 4 years	£10m 10 years
A+	£15m 2 years	£15m 3 years	n/a	£5m 3 years	£10m 5 years
A	£15m 13 months	£15m 2 years	n/a	£5m 2 years	£5m 5 years
A-	£15m 6 months	£15m 13 months	n/a	£5m 1 year	£5m 5 years
	UK Local Authorities £15m per Authority; 50 years				
Pooled funds	£25m per fund These include Bond Funds, Gilt Funds, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds,)				

* 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	£15m each
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£5m per manager
Financial instruments held in a broker's nominee account	£50m per broker
Foreign countries	£15m per country
Registered providers	£15m in total
Unsecured investments with building societies	£25m in total
Money Market Funds	£50m in total

Appendix 6

Specified and Non Specified Investments

Specified investments:

The DLUHC 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 Authority or community Authority, 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.

Table 1: Specified Investments

Instrument	Institution Type	Instrument Minimum 'High' Credit Criteria	Limit	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	£15m	per Appendix 5, Table 1
	UK Building Societies	per Appendix 5, Table 1	£15m	per Appendix 5, Table 1
	Non UK Banks	Sovereign Rating of AA+ and above and meet Credit Criteria in Appendix 5, Table 1	£15m	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	£15m	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]	£15m	
Enhanced Cash Funds		AA/Aa[4]	£15m	
1. £15m 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

Table 2 : 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.	£50m
	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.	£5m
	Total Investments made in pooled investment vehicles.			7 yrs.	
	Total Investments made in un-rated bonds.				
	Total non-specified investments				**£55m**

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 3 below.

Table 3: Non-specified investment limits

	Cash Limit £m
Total long-term investments	100
Total Investments without credit ratings or rated below A- (subject to due diligence)	0
Total non-specified investments	**100**