

## Item

### **TREASURY MANAGEMENT HALF YEARLY UPDATE REPORT 2018/19**

**To:**

The Executive Councillor for Finance & Resources: Councillor Richard Robertson

Strategy & Resources Scrutiny Committee 8<sup>th</sup> October 2018

**Report by:**

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**Wards affected:**

**All Wards**

### **Key Decision**

#### **1. Executive Summary**

- 1.1 The Council has adopted The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (Revised 2017).
- 1.2 The Code requires as a minimum receipt by full Council of an Annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a half-year review report and an Annual Report (stewardship report) covering activities in the previous year.
- 1.3 This half-year report has been prepared in accordance with CIPFA's Code of Practice on Treasury Management and covers the following:-
  - The Council's capital expenditure (Prudential Indicators);
  - A review of compliance with Treasury and Prudential Limits for 2018/19;
  - A review of the Council's borrowing strategy for 2018/19;
  - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;

- A review of the Council's investment portfolio for 2018/19; and;
- An update on interest rate forecasts following economic news in the first half of the 2018/19 financial year.

1.4 In line with the Code of Practice, all treasury management reports have been presented to both Strategy & Resources Scrutiny Committee and to full Council.

## **2. Recommendations**

The Executive Councillor is asked to:

- 2.1 Recommend this report to Council, which includes the Council's estimated Prudential and Treasury Indicators 2018/19 to 2021/22;
- 2.2 Recommend to Council the approval of a £5m limit on secured bonds with local businesses subject to due diligence as highlighted in paragraph 8;
- 2.3 Recommend to Council that the Minimum Revenue Provision (MRP) Policy will be updated to state that no MRP will be required if this bond is secured, but to be reviewed at least annually;
- 2.4 Recommend to Council to agree the principle of investing up to £5m in a bond issued by Allia Limited, and delegate to the Head of Finance the final decision on the appropriateness of this investment, once detailed due diligence has been completed as set out in paragraph 8.9;
- 2.5 Recommend to Council that the counterparty limit for Barclays Bank Plc be increased by £10m to £35m; and;
- 2.6 Recommend to Council that the Money Market Fund (MMF) counterparty limit be reduced by £10m to £5m for each fund, with a total MMF limit of £20m (and to continue using MMFs that are rated AAA).

## **3. Background**

- 3.1. The Council is required to comply with the CIPFA Prudential Code (December 2017 edition) and the CIPFA Treasury Management Code of Practice (Revised December 2017). The Council is required to set prudential and treasury indicators, including an Authorised Limit for borrowing, for a three year period and should ensure that its capital plans are affordable, prudent and sustainable.
- 3.2 The Council is currently supported in its treasury management functions by specialist advisors who are Link Asset Services. Link's services include the

provision of advice to the Council on developments and best practice in this area and provide information on the creditworthiness of potential counterparties, deposits, borrowing, interest rates and the economy.

#### 4. The Council's Capital Expenditure and Financing 2018/19 to 2021/22

4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the Council's borrowing need; or;
- If insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.

4.2 Details of capital expenditure forms one of the required prudential indicators. The table below shows the proposed capital expenditure and how it will be financed. It also includes any re-phasing during 2018/19 and is in line with the agreed Capital Plan.

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
General Fund Capital Expenditure	49,123	12,410	4,111	806
HRA Capital Expenditure	38,232	51,211	62,372	28,475
<b>Total Capital Expenditure</b>	<b>87,355</b>	<b>63,621</b>	<b>66,483</b>	<b>29,281</b>
Resourced by:				
• Capital receipts	-8,356	-9,876	-12,416	-5,413
• Other contributions	-43,946	-43,545	-51,567	-23,868
<b>Total resources available for financing capital expenditure</b>	<b>-52,302</b>	<b>-53,421</b>	<b>-63,983</b>	<b>-29,281</b>
<b>Financed from cash balances</b>	<b>35,053</b>	<b>10,200</b>	<b>2,500</b>	<b>0</b>

## 5. The Council's Prudential and Treasury Management Indicators

5.1 The table below shows the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

<b>Capital Financing Requirement &amp; Cumulative External Borrowing</b>	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>	<b>2020/21 Estimate £'000</b>	<b>2021/22 Estimate £'000</b>
General Fund Capital Financing Requirement	60,625	70,125	71,925	71,225
HRA Capital Financing Requirement	214,321	214,321	214,321	214,321
<b>Total Capital Financing Requirement</b>	<b>274,946</b>	<b>284,446</b>	<b>286,246</b>	<b>285,546</b>
<b>Movement in the Capital Financing Requirement</b>	<b>34,353</b>	<b>9,500</b>	<b>1,800</b>	<b>-700</b>
Estimated External Gross Debt/Borrowing (Including HRA Reform)	213,572	213,572	213,572	213,572
Authorised Limit for External Debt	250,000	250,000	250,000	250,000
Operational Boundary for External Debt	240,593	240,593	240,593	240,593

5.2 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members.

5.3 The table below shows the Council's current outstanding debt and headroom (the amount of additional borrowing that is possible without breaching the Authorised Borrowing Limit):-

	<b>Principal (£'000)</b>
Authorised Borrowing Limit (A) – Agreed by Council on 20 <sup>th</sup> October 2011	250,000
HRA Debt Limit (B)	230,839
2011/12 Borrowing (for HRA Self-Financing, C)	213,572
General Fund Headroom (A minus B)	19,161
HRA Headroom (B minus C)	17,267
2012/13 Borrowing	NIL
2013/14 Borrowing	NIL
2014/15 Borrowing	NIL
2015/16 Borrowing	NIL
2016/17 Borrowing	NIL
2017/18 Borrowing	NIL
2018/19 Borrowing up to 31 <sup>st</sup> August 2018	NIL
<b>Total Current Headroom (A minus C)</b>	<b>36,428</b>

5.4 During this financial year the Council has operated within the ‘authorised’ and ‘operational’ borrowing limits contained within the Prudential Indicators set out in the Council’s Treasury Management Strategy Statement. The anticipated Prudential & Treasury indicators are shown in Appendix A.

## **6. Borrowing**

6.1 The Council is permitted to borrow under the Prudential Framework, introduced with effect from 1<sup>st</sup> April 2004.

6.2 At present the only debt held by the authority relates to the twenty loans from the PWLB for self-financing the HRA taken out in 2012 totalling £213,572,000.

6.3 The Council’s current capital plan does not require any new external borrowing for the period 2018/19 to 2021/22, inclusive. However, this will be kept under review as part of the development of the capital plan.

6.4 The provision for the repayment of debt is known as the Minimum Revenue Provision (MRP). Regulations require the authority to determine annually a policy by which MRP will be determined. This policy was agreed by Council on 22<sup>nd</sup> February 2018.

6.5 The Medium Term Financial Strategy now includes capital expenditure of £28.6 million in 2018/19 (Cromwell Road site) and up to £18.0 million in

2019/20 (Cambridge Investment Partnership). £11.4 million of this total is HRA expenditure funded from devolution grant and right to buy receipts. The General Fund element is currently internally funded from cash balances. This is reflected in the increase in the Council's Capital Financing Requirement.

6.6 In relation to the Cromwell Road site purchase, various withdrawals were made from the Money Market Funds a day before, to cover the total payment due of £34m including VAT. In order to make this purchase run smoothly, the Head of Finance agreed that on a temporary basis, the investment limit with Barclays Bank Plc of £25m would be broken. The Leader of the Council was formerly notified of this breach by email, by the Head of Finance, on 14<sup>th</sup> June 2018.

6.7 In the event that external borrowing is undertaken the Council is able, as an eligible local authority, to access funds at the PWLB Certainty Rate (a 0.20% discount on loans) until 31 October 2019, at least (with the date agreed annually).

## 7. Investment Portfolio

7.1 The Council takes a cautious approach within its Treasury Management Strategy, and the detailed counterparty list with limits is shown within Appendix B. The limit for Barclays Bank was breached in 2018/19 as referred to in paragraph 6.6.

7.2 The average rate of return for all deposits to 31<sup>st</sup> August 2018 is 1.23%, compared to an actual of 1.06% for 2017/18. The current quoted return on the CCLA Local Authorities Property Fund is an annual return of 4.49%. The Council will under-achieve its interest receipts budget of £641,000 to the end of August 2018 by approximately £91,000. This is due to a larger than anticipated credit interest recharge to the HRA (debit to the General Fund).

7.3 The table below shows the Council's predicted cash balances apportioned between short term (up to 3 months), medium term (up to 1 year) and long term (core cash, up to 5 years) deposits.

<b>SUMMARY DEPOSIT ANALYSIS AS AT 31<sup>st</sup> MARCH</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>
Short Term – 40%*	49,500	36,000	29,500	26,900
Medium Term - 30%*	37,100	27,000	22,100	20,100
Long Term – 30%*	37,100	27,000	22,100	20,100
<b>TOTAL PREDICTED CASH DEPOSITS:-</b>	<b>123,700</b>	<b>90,000</b>	<b>73,700</b>	<b>67,100</b>

\*Based on current estimated net cash inflow trends

- 7.4 The Council's balances reduce in line with the cash requirements of the Cambridge Investment Partnership redevelopments of Mill Road and Cromwell Road during 2019/20 and 2020/21 .
- 7.5 An analysis of the sources of the Council's deposits is prepared from the audited balance sheet at the end of each financial year. The analysis for 31 March 2018 is shown at Appendix C.

## **8. Potential Investment in Allia Limited**

- 8.1 The Council has been approached by Allia Ltd (formerly CityLife) to gauge interest in buying bonds they propose to issue to fund the organisation.
- 8.2 Allia's main work is providing start-up office accommodation (and some manufacturing facilities) for new businesses with emphasis on eco entrepreneurs. Allia have four centres including the Future Business Centre in King's Hedges Road , Norfolk Street and others in Peterborough and East London.
- 8.3 Allia needs to refinance an existing £4.2m of 5 year Bonds which come to the end in November 2018. Existing Bond Holders have been approached and some have confirmed an interest in repurchasing. Returns would be better than bank deposits by about 1-2%, with the bond secured on the business centre building.
- 8.4 Allia are also working on proposals to extend the existing building on Kings Hedges Road and are looking to issue a new bond to finance this of approximately £5m. This would also be secured against the extension.
- 8.5 The Council may wish to invest in Allia to support the development of local businesses and jobs. Government investment guidance states that:-

“A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

Local authorities can make such loans whilst continuing to have regard to this guidance if they can demonstrate in their Strategy that:

- Total financial exposure to these type of loans is proportionate;
- They have used an allowed “expected credit loss” model for loans and receivables as set out in International Financial Reporting Standard (IFRS) 9

Financial Instruments as adopted by proper practices to measure the credit risk of their loan portfolio;

- They have appropriate credit control arrangements to recover overdue repayments in place; and
- The local authority has formally agreed the total level of loans by type that it is willing to make and their total loan book is within their self-assessed limit.”

- 8.6 If the Council chooses to invest in the bond being used to finance the extension to the Future Business Centre this would meet the statutory definition of capital expenditure. This would increase the Council’s overall Capital Financing Requirement (CFR) but a modest investment could still be financed from current cash balances rather than requiring funding from a PWLB loan or other funding stream. The Council must consider whether it needs to make a prudent Minimum Revenue Provision (MRP) from General Fund resources where the CFR increases. In Allia’s proposals the bond would be secured, so as long as the value of the security was deemed appropriate it would be prudent to make no additional MRP.
- 8.7 An investment in the refinancing bond would not be deemed to be capital expenditure.
- 8.8 Allia are still developing their proposals and finalising their funding requirements. It is therefore proposed that the current Treasury Management Strategy is amended to set a maximum exposure to secured bonds with local businesses of up to £5m. It is also proposed that the current MRP policy is amended to reflect that no MRP is required on bond investments which are required to be treated as capital expenditure under regulation where those bonds are appropriately secured and that this security should be reviewed at least annually.
- 8.9 It is further proposed that the Head of Finance & Section 151 Officer has delegated authority to negotiate with Allia and approve the investment in the bonds subject to appropriate due diligence. This will include:-
- Completing financial due diligence on Allia and the security offered;
  - Checking state aid issues;
  - Looking at the legal documents relating to the bond and its security; and;
  - Reviewing the associated risks to the Council, with this venture, with due consideration of any mitigating factors.

## **9. Brexit Update**

- 9.1 The referendum result has generated some uncertainty in the investment markets. Realistically, given the number of complexities of the situation, these uncertainties will take some time to clear.



9.2 Rates dropped following Brexit and the triggering of Article 50. The UK will leave the EU on 29 March 2019. It is still not clear whether a deal will be negotiated with the EU. A 'no deal' Brexit is therefore still a possibility and it is likely that this could cause instability within the Financial Markets and affect interest rates further.

## 10. Financial Market Reforms Update

### 10.1 Money Market Fund (MMF) Reforms

10.2 The Money Market Fund Regulation came into force on 21<sup>st</sup> July 2018 which impacts immediately on any new funds created. Existing funds will have to be compliant by no later than 21<sup>st</sup> January 2019.

10.3 The above Regulation provides investors with a new way of categorising a MMF depending on the level of risk.

10.4 MMFs will be re-classified as either a Short-term MMF or a Standard MMF.

- **Short-term MMFs** are funds that maintain the existing prudent investment restrictions i.e having a maximum Weighted Average Maturity (WAM) of 60 days and a maximum Weighted Average Life (WAL) of 120 days; and;
- **Standard MMFs** having a maximum WAM of 6 months and a maximum WAL of 1 year.

10.5 Other changes will include the structure of MMFs which will include Public Debt Constant Net Asset Value (CNAV), Low Volatility Net Asset Value (LVNAV) or Variable Net Asset Value (VNAV).

- **CNAV MMFS** must invest 99.50% of their assets into government debt instruments;
- **LVNAV MMFs** are permitted to maintain a constant dealing NAV provided the market NAV does not deviate by more than 20 basis points; and;
- **VNAV MMFs** price their assets using market pricing and therefore offer a fluctuating dealing NAV.

10.6 The Council does not currently know how its existing MMFs will be categorised although they are likely to be short term MMFs. It is unlikely that they will be CNAV as they don't invest overwhelmingly in government securities. It is unclear when exactly each fund will change to the new classification. However, MMFs are an important tool to manage the Council's short term

operational cash requirements in line with security, liquidity and yield (SLY) considerations.

- 10.7 To manage the potential risks associated with MMF reform it is therefore proposed to limit the exposure to a single MMF to £5m (down from the current £15m) and total exposure of £20m (this is currently unlimited). In order to ensure that the Council has sufficient scope for short term investment it is also proposed to increase the total limit for Barclays Bank plc to £35m (offering 0.65% overnight). The Council will continue to only invest in MMFs with a AAA rating.
- 10.8 The Treasury Management Team monitor investments and this will be especially important for MMFs during this transition. However, as the funds are only placed overnight they are still considered to be relatively low risk.
- 10.9 The approach to MMFs will be reviewed again as part of the development of the 2019/20 Treasury Management Strategy.

## **11. Interest Rates**

- 11.1 Link Asset Services is the Council's independent treasury advisor. In support of effective forecasting the Council needs to be aware of the potential influence of interest rates on treasury management issues for the Council. Link's opinion on interest rates is presented at Appendix D.

## **12. Implications**

### **(a) Financial Implications**

The prudential and treasury indicators have been amended to take account of known financial activities.

### **(b) Staffing Implications**

None.

### **(c) Equality and Poverty Implications**

None.

### **(d) Environmental Implications**

None.

### **(e) Procurement Implications**

None.

### **(f) Community Safety Implications**

No community safety implications.

### **13. Consultation and communication considerations**

None required.

### **14. Background papers**

No background papers were used in the preparation of this report.

### **15. Appendices**

15.1 Appendix A – Prudential and Treasury Management Indicators

Appendix B – The Council's current Counterparty list

Appendix C – Sources of the Council's Deposits

Appendix D – Link's opinion on UK Forecast Interest Rates

Appendix E – Glossary of Terms and Abbreviations

### **16. Inspection of papers**

16.1 If you have any queries about this report please contact:

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## PRUDENTIAL &amp; TREASURY MANAGEMENT INDICATORS

	Estimate 2018/19 £'000	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000
<b>PRUDENTIAL INDICATORS</b>				
<b>Capital expenditure</b>				
- General Fund	49,123	12,410	4,111	806
- HRA	38,232	51,211	62,372	28,475
<b>Total</b>	<b>87,355</b>	<b>63,621</b>	<b>66,483</b>	<b>29,281</b>
<b>Capital Financing Requirement (CFR) as at 31 March</b>				
- General Fund	60,625	70,125	71,925	71,225
- HRA	214,321	214,321	214,321	214,321
<b>Total</b>	<b>274,946</b>	<b>284,446</b>	<b>286,246</b>	<b>285,546</b>
<b>Change in the CFR</b>	34,353	9,500	1,800	-700
<b>Deposits at 31 March (Average cash balances annualised)</b>	102,700	78,800	55,300	55,200
<b>External Gross Debt</b>	213,572	213,572	213,572	213,572
<b>Ratio of financing costs to net revenue stream</b>				
-General Fund	-620	-507	-291	-273
-HRA	6,716	6,703	6,787	6,869
<b>Total</b>	<b>6,096</b>	<b>6,196</b>	<b>6,496</b>	<b>6,596</b>
<b>% of net revenue expenditure</b>				
-General Fund	-2.66%	-2.72%	-1.48%	-1.35%
-HRA	16.28%	16.62%	16.26%	15.74%
<b>Total (%)</b>	<b>13.62%</b>	<b>13.90%</b>	<b>14.78%</b>	<b>14.39%</b>

## PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Estimate 2018/19 £'000	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000
<b>TREASURY INDICATORS</b>				
<b>Authorised limit</b>				
for borrowing	250,000	250,000	250,000	250,000
for other long term liabilities	0	0	0	0
<b>Total</b>	<b>250,000</b>	<b>250,000</b>	<b>250,000</b>	<b>250,000</b>
HRA Debt Limit	230,839	230,839	230,839	230,839
<b>Operational boundary</b>				
for borrowing	240,593	240,593	240,593	240,593
for other long term liabilities	0	0	0	0
<b>Total</b>	<b>240,593</b>	<b>240,593</b>	<b>240,593</b>	<b>240,593</b>
<b>Upper limit for total principal sums deposited for over 364 days &amp; up to 5 years</b>	50,000	50,000	50,000	50,000
<b>Upper limit for fixed &amp; variable interest rate exposure</b>				
Net interest on fixed rate borrowing/deposits	6,094	6,194	6,494	6,594
Net interest on variable rate borrowing/deposits	-15	-15	-15	-15
<b>Maturity structure of new fixed rate borrowing</b>		Upper Limit	Lower Limit	
10 years and above (PWLB borrowing for HRA Reform)		100%	100%	

## Treasury Management Annual Investment Strategy

### Current Counterparty List

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits (\*references have now been made to RFB & NRFB for UK Banks, with explanations within the Glossary at Appendix E). **Recommendations are shown in bold text:-**

Name	Council's Current Deposit Period	Category	Limit (£)
<b>Specified Investments:-</b>			
All UK Local Authorities	N/A	Local Authority	20m
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	20m
All UK Police Authorities	N/A	Police Authority	20m
All UK Fire Authorities	N/A	Fire Authority	20m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
<b>Barclays Bank Plc – NRFB*</b>	<b>Using Link's Credit Criteria</b>	<b>UK Bank</b>	<b>35m</b>
HSBC Bank Plc – NRFB*	Using Link's Credit Criteria	UK Bank	20m
HSBC UK Bank Plc – RFB*	Using Link's Credit Criteria	UK Bank	20m
Standard Chartered Bank	Using Link's Credit Criteria	UK Bank	20m
Bank of Scotland Plc (BoS) – RFB*	Using Link's Credit Criteria	UK Bank	20m
Lloyds Bank Plc – RFB*	Using Link's Credit Criteria	UK Bank	20m
National Westminster Bank Plc (NWB) – RFB*	Using Link's Credit Criteria	UK Nationalised Bank	20m
Santander UK Plc	Using Link's Credit Criteria	UK Bank	5m
The Royal Bank of Scotland Plc (RBS) – RFB*	Using Link's Credit Criteria	UK Nationalised Bank	20m
Other UK Banks	Using Link's Credit Criteria	UK Banks	20m

Name	Council's Current Deposit Period	Category	Limit (£)
Members of a Banking Group (BoS Group includes Lloyds, RBS Group includes NWB)	Using Link's Credit Criteria	UK Banks and UK Nationalised Banks	30m
Svenska Handelsbanken	Using Link's Credit Criteria	Non-UK Bank	5m
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/V1)	Over 3 months and up to 1 year	Financial Instrument	10m (per single counterparty)
<b>Money Market Funds (MMFs) – AAA rated only</b>	<b>Liquid Rolling Balance</b>	<b>Financial Instrument</b>	<b>5m (per fund) &amp; not exceeding £20m in total for all MMFs</b>
Custodian of Funds	Requirement for Undertaking Financial Instruments	Fund Managers	Up to 15m (per single counterparty)
UK Government Treasury Bills	Up to 6 months	Financial Instrument	15m
<b>Other Specified Investments - UK Building Societies:-</b>			
Name	Council's Current Deposit Period	Asset Value (£'m) – as at 9 <sup>th</sup> August 2018	Limit (£)
Nationwide Building Society	1 month or in line with Link's Credit Criteria, if longer	227,303	Assets greater than £100,000m - £20m
Yorkshire Building Society		49,063	
Coventry Building Society		41,910	Assets between £50,000m and £99,999m - £5m
Skipton Building Society		19,567	
Leeds Building Society		18,937	
Principality Building Society		9,060	Assets between £5,000m and £49,999m - £2m
West Bromwich Building Society		5,794	
<b>Non-Specified Investments:-</b>			
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	Up to 35m (in total)
Cambridge City Council Housing Working Capital Loan Facility	Up to 1 year	Loan	200,000
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 15m

Name	Council's Current Deposit Period	Category	Limit (£)
Certificates of Deposit (with UK Banking Institutions)	Liquid Rolling Balance	Financial Instrument	15m (per single counterparty)
Certificates of Deposit (with UK Building Societies)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Certificates of Deposit (with Foreign Banking Institutions)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/S1)	Over 1 year and up to 5 years	Financial Instrument	10m (per single counterparty)
Commercial Property Investments funded from cash balances	Over 1 year	Commercial Property	20m (in total)
Municipal Bonds Agency	N/A	Pooled Financial Instrument Facility	50,000
<b>Secured Local Bond in Local Businesses – Using Allia Limited</b>	<b>N/A</b>	<b>Local Business Bond</b>	<b>Up to 5m in total</b>
Supranational Bonds – AAA	Using Link's Credit Criteria	Multi-lateral Development Bank Bond	15m
UK Government Gilts	Over 1 year & up to 30 Years	Financial Instrument	15m

**Note:** In addition to the limits above, the total non-specified items over 1 year will not exceed £50m.



**Sources of the Council's Deposits**

Local authorities are free to deposit surplus funds not immediately required in order to meet the costs of providing its services. The Council deposits amounts set aside in its general reserves and earmarked reserves.

The interest earned on these deposits is credited to the General Fund and Housing Revenue Account respectively and helps to fund the cost of providing services. This currently amounts to around £1.3m each year based on current deposit and interest rate levels.

At 1<sup>st</sup> April 2018, the Council had deposits of £106.510m. The table below provides a sources breakdown of the funds deposited at that date:-

<b>Funds Deposited as at 1 April 2018</b>	<b>£'000</b>	<b>£'000</b>
Working Capital		21,355
General Fund:		
General Reserve	13,380	
Asset Renewal Reserves	2,963	
Other Earmarked Reserves	21,629	37,972
Housing Revenue Account (HRA):-		
General Reserve	9,018	
Asset Renewal Reserves	8,671	
Major Repairs Reserve	8,155	
Other Earmarked Reserves	2,456	
Capital Financing Requirement (Including HRA Reform)	-240,593	
PWLB Borrowing for HRA Reform	213,572	1,279
Capital:		
Capital Contributions Unapplied	5,417	
Usable Capital Receipts	40,487	45,904
<b>Total Deposited</b>		<b>106,510</b>

The HRA accounts for around 60% of reserves deposited.

## Link's Opinion on Forecast UK Interest Rates – As Currently Predicted

### Introduction

The paragraphs that follow reflect the views of the Council's Treasury Management advisors (Link) on UK Interest Rates as currently predicted.

### Interest rates

Members of the Bank of England Monetary Policy Committee (MPC) increased the bank rate to 0.75% (previously 0.50%) and kept Quantitative Easing (QE) at £435bn, on 2<sup>nd</sup> August 2018. Going-forward, the Council's treasury advisor, Link, has provided the following interest rate forecasts, issued on 7<sup>th</sup> August 2018:-

	Now	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
<b>Bank rate</b>	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
<b>3 month LIBID</b>	0.75%	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
<b>6 month LIBID</b>	0.85%	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
<b>12 month LIBID</b>	1.00%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
<b>5yr PWLB rate</b>	2.00%	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
<b>10yr PWLB rate</b>	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%
<b>25yr PWLB rate</b>	2.80%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
<b>50yr PWLB rate</b>	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The actual vote by the MPC on 2<sup>nd</sup> August 2018 was unanimous at 9-0 in favour.

## Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counterparties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
MHCLG	Ministry for Housing, Communities & Local Government (formerly the Department for Communities & Local Government, DCLG)
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases

<b>Term</b>	<b>Definition</b>
Government CNAV	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered Rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans
London Interbank Bid Rate (LIBID)	The average interest rate which major London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Low Volatility Net asset Value (LVNAV)	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
Non Ring Fenced Bank (NRFB)	Government & Bank of England rules will apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non Ring Fenced Banks for the 1 <sup>st</sup> January 2019 deadline
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Quantitative Easing (QE)	A financial mechanism whereby the Central Bank creates money to buy bonds from financial institutions, which reduces interest rates, leaving businesses and individuals to borrow more. This is intended to lead to an increase in spending, creating more jobs and boosting the economy

Term	Definition
Ring Fenced Bank (RFB)	Government & Bank of England rules will apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non Ring Fenced Banks for the 1 <sup>st</sup> January 2019 deadline
Security	A measure of the creditworthiness of a counter-party
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
Variable Net Asset Value (VNAV)	MMFs values based on daily market fluctuations to 2 decimal places known as mark-to-market prices
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Weighted Average Life (WAL)	Weighted average length of time of unpaid principal
Weighted Average Maturity (WAM)	Weighted average amount of time to maturity
Yield	Interest, or rate of return, on an investment