CABINET OVERVIEW WORKING GROUP
Thursday 28 November 2019 at 7.30 pm
Council Chamber - Civic Centre

AGENDA

1. Apologies for Absence

   To receive any apologies for absence from Councillors.

2. Declarations of Interest

   To receive Councillors' declarations of interest (if any) in relation to any matters on the agenda.

3. Minutes (Pages 2 - 3)

   To approve the minutes of the meeting held on 10 October 2019.

4. Matters arising

   Any matters arising from the minutes of the previous meeting.

5. Work Plan (Page 4)

   To review the Overview Working Group's work plan for the current year.

6. Local Council Tax Support Scheme - Report (to follow)

7. Treasury Management Strategy - Strategy Review (Pages 5 - 86)

8. Matters of Urgent Business

   Such other business which, in the opinion of the Chair, should be received as a matter of urgency by reason of special circumstances to be specified in the minutes.

MINUTES OF THE CABINET OVERVIEW WORKING GROUP HELD ON

10 October 2019 7.30 - 8.20 pm

PRESENT

Overview Working Group Members
Councillor Tony Edwards (Chair)
Councillor Simon Carter
Councillor Jean Clark
Councillor Shona Johnson
Councillor Nancy Watson

Officers
Lisa Thornett, Corporate Governance Support Officer
Jane Greer, Head of Community Wellbeing
Julie Houston, Strategy and Economic Development Manager
Alison Fox, Project Manager (Regeneration)

8. APOLOGIES FOR ABSENCE

Apologies of absence were received from Councillors David Carter, Davis, Dunne and Garnett.

9. DECLARATIONS OF INTEREST

None.

10. MINUTES

RESOLVED that the minutes of the meeting held on 15 August 2019 be agreed as a correct record.

11. MATTERS ARISING

Jane Greer updated the group that the briefing note detailing the progress on implementing a town-wide Article 4 Direction. would be forwarded to the group on Friday 11 October 2019.

12. REGENERATION STRATEGY - INTERIM REPORT

RESOLVED that the Overview Working Group:

A Established a member Working Group for the purposes of producing the Regeneration Strategy with Councillors Simon Carter, Tony Edwards and another member to be confirmed..

B Agreed the approach to the development of the Regeneration Strategy detailed in the report.

C Noted that an interim report will be delivered by March 2020.

13. HOUSING STRATEGY - INTERIM REPORT

RESOLVED that the Working Group:

A Noted the content of the report and the progress made on drafting the Housing Strategy.

B Created a sub-group, consisting of Councillors Simon Carter, Jean Clark and Nancy Watson to meet and review the content of the proposed housing strategy in more detail with a view to bringing a final draft of the Housing Strategy back to the Overview Working Group in March 2020 for recommendation for adoption by Cabinet.

14. WORK PLAN

RESOLVED that the Work Plan was noted.

15. MATTERS OF URGENT BUSINESS

None.

CHAIR OF THE OVERVIEW
WORKING GROUP

Harlow Council
Working together for Harlow

Cabinet Overview Working Group Work Plan 2019/20

Agenda Item 5

Work	Thursday 15 August 2019	Thursday 10 October 2019	Thursday 28 November 2019	Thursday 16 January 2020	Wednesday 12 March 2020
Regeneration Strategy		Interim Report			Interim Report
Local Council Tax Support Scheme			Report		
Treasury Management Strategy			Strategy Review		
Housing Strategy		Interim Report			Final Report
Climate Change Strategy	Initial Report				

REPORT TO: **CABINET OVERVIEW WORKING GROUP**

DATE: **28 NOVEMBER 2019**

TITLE: **TREASURY MANAGEMENT REVIEW**

LEAD OFFICER: **SIMON FREEMAN, DEPUTY TO THE CHIEF EXECUTIVE AND HEAD OF FINANCE AND PROPERTY (01279) 446228**

RECOMMENDED that:

A The Working Group considers the report and the underpinning principles that support the Council's Treasury Management Strategy.

B The Working Group refers any specific issues identified as a result of the review to Cabinet for consideration.

BACKGROUND

1. The Council operates within the framework of CIPFA's 'Prudential Code for Capital Finance in Local Authorities', the 'Treasury Management Code of Practice' (the Code) and, the Ministry of Housing Communities and Local Government (MHCLG) Investment Guidance. Under the Code the minimum reporting requirements are that Full Council receives the following reports:

   i) An annual treasury strategy in advance of the year.
   ii) A mid-year treasury update report.
   iii) An annual review following the end of the year describing the activity compared to the strategy.

2. The 2020/21Treasury Management Strategy will be approved in February 2020 at the same time as the Medium Term Financial Strategy (MTFS), General Fund Budget, HRA estimates and rent levels and the Capital Programme. The Strategy supports the financial activities by setting out the investment and borrowing policy and it ensures that the Councils cash holdings are safeguarded as far as possible from loss in the current economic climate.

3. The strategy also contains the Prudential indicators required under the Prudential Code which set limits and boundaries for the capital expenditure of the Council. The Capital programme and borrowing activity must be constrained within the limits set by the indicators. It is intended that these limits ensure the Council operates within financial boundaries which it can afford in the context of its wider financial strategies. The current 2019/20 strategy is set out in Appendix 1 to the report.

4. The 2019/20 mid-year treasury management update report will be presented to Cabinet at its December meeting and is set out in Appendix 2 to the report.

5. The annual report for 2018/19 has been produced in compliance with the Code and was reported to Cabinet in September 2019. The full report is set out in Appendix 3 to the report. The regulatory environment governing treasury management places onus on Councillors for the review and scrutiny of treasury management policies and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the policies approved by the Council.

ISSUES/PROPOSALS

2018/19

6. As reported to Council in September, the Council complied with its Treasury Management Strategy Statement during 2018/19.

7. The Council held significant levels of invested funds, representing income received in advance of expenditure plus balances and reserves. During 2018/19 the Council's investment balances ranged between £31.7m (2018/19 closing balance) and £53.74m. The average return received by the Council was 0.83% which compared very favourably to the average 7 day LIBID rate of 0.51%.

8. Security of capital remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20.

9. During 2018/19 the Council continued to diversify its investments which now include the CCLA Property Fund and the Royal London Cash Plus Fund.

10. The Annual report shows that this diversification has seen a move away from the unsecured investments held with banks and building societies and has focus on replacing these investments with transactions with other local authorities. This is a trend that has also continued in to the 2019/20 financial year.

11. Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

12. The end of bank bail-outs, the introduction of bail-ins, and the preference

being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options.

13. During 2018/19 the Council complied with the Prudential Indicators as set within the Council's Treasury Management Strategy Statement approved in February 2018. The indicators themselves are included as part of the Annual report attached.

2019/20

14. The Council remains compliant with its Prudential Indicators for 2019/20, set in February 2019 as part of the Council's Treasury Management Strategy Statement and has continued to look to move its investments in to vehicles that remove or limit the exposure to unsecured investments which has also increasingly included the use of short term deposits with the Debt Management Office (DMO).

15. The ongoing uncertainty during 2019/20 regarding Brexit, the imminent general election in December and the Bank of England base rate remaining at 0.75% since August 2018 all continue to create difficult treasury dealing conditions. The market experts remain uncertain of the outcomes for long-term interest rates, exchange rates, budget cuts and bank defaults at the current time.

16. In response to this situation the Council has continued to proceed in its treasury activity with great caution and continues to maintain particular emphasis on its key priority of investment security. The Council has operated within the remit of the approved Treasury Management Strategy Statement (TMSS) and is utilising the lending list of approved institutions provided by the Council's treasury advisors, Arlingclose. This lending list is regularly updated (weekly) and amended by Arlingclose in response to changes in the status and ratings of institutions and in response to forecasts and events occurring within the markets. As a result the lending list has continued to experience a reduction in the options available for investing the Council's cashflow balances, as well as shortening of investment periods and investment limits.

17. The Council's overriding response to the current market conditions is to continue to ensure the security of investments above liquidity and yield. Officers aim to ensure that investments are made in the most cost efficient and effective manner. The current investments held by the Council as at 31 October 2019 are shown below –

Investment held with -	Value £' millions
Local Authorities	13.500
Money Market Funds	13.340
Banks (Councils own bank)	1.318
CCLA Property	2.000
Royal London Cash Plus Fund	2.000
Total	**32.158**

18. In order to further protect the Council's investment options, it may also be necessary to review some of the investment parameters within the TMSS (for example investment limits) if there are indications that future market events may constrict the lending list beyond what is manageable within the Council's treasury operations.

19. Further information regarding the current TMSS assumptions are contained within the report at Appendix 1 and verbal updates on current activity and how it may influence the 2020/21 TMSS will be provided at the meeting.

IMPLICATIONS

Environment and Planning (includes Sustainability)
None specific.
Author: **Andrew Bramidge, Head of Environment and Planning**

Finance (Includes ICT and Property & Facilities)
As contained within the body of the report and appendices.
Author: **Simon Freeman, Deputy to the Chief Executive and Head of Finance and Property**

Housing
None specific.
Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)
None specific.
Author: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)
None specific.
Author: **Simon Hill, Head of Governance**

Appendices

Appendix 1 – Capital and Treasury Report 2019/20
Appendix 2 – Treasury Management Strategy Statement 2019/20: Mid-Year Review
Appendix 3 – Annual Treasury Management Report 2018/19

Glossary

DMO- Debt Management Office
MHCLG - Ministry of Housing Communities and Local Government
MTFS – Medium Term Financial Strategy
TMSS – Treasury Management Strategy Statement

REPORT TO:	**CABINET**
DATE:	**24 JANUARY 2019**
TITLE:	**CAPITAL AND TREASURY REPORT 2019**
PORTFOLIO HOLDER:	**COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES**
LEAD OFFICERS:	**SIMON FREEMAN, HEAD OF FINANCE AND DEPUTY TO THE MANAGING DIRECTOR (01279) 446228** **SENIOR MANAGEMENT BOARD (01279) 446004**

This is a Key Decision
It is on the Forward Plan as Decision Number I008579
The decision is not subject to Call-in Procedures for the following reasons:
The decision stands as a recommendation to Full Council
This decision will affect no ward specifically.

RECOMMENDED that Cabinet recommends to Full Council that:

A The following Capital and Treasury Reports be approved:

i) The Capital Strategy Report (attached as Appendix A to the report)

ii) The Capital Programme Strategy Statement 2019/20 (attached as Appendix B to the report)

iii) The Investment Strategy Report 2019/20 (attached as Appendix D to the report)

iv) The Minimum Revenue Provision Statement 2019/20 (attached as Appendix E to the report).

B The proposed revised Treasury Management Strategy Statement 2019/20 (attached as Appendix C to the report) be approved for implementation with immediate effect.

REASON FOR DECISION

A The Capital Strategy Report 2019/20 (attached as Appendix A to the report) covers the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017, including the prudential indicators.

The report should be approved by Full Council before the start of the new financial year.

B The Capital Programme Strategy Statement 2019/20 (attached as Appendix B to the report) is not a requirement of any guidance, but is included within this report to provide context for capital investment explained elsewhere. Specifically, for 2019/20, it sets out the Council's programme for building council homes.

C The Treasury Management Strategy Statement 2019/20 (attached as Appendix C to the report) covers the requirements of the new CIPFA Treasury Management Code of Practice 2017, including the treasury management indicators. In a departure from previous practice, where a Capital Strategy (attached as Appendix A to the report) is approved by Full Council. Approval of this report may be delegated to the committee responsible for the implementation and regular monitoring of treasury management policies and practices. For consistency it is included here for this year.

D The Investment Strategy Report 2019/20 (attached as Appendix D to the report) covers the requirements of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance 2018, including the investment indicators.

E The Minimum Revenue Provision Statement 2019/20 (attached as Appendix E to the report) covers the requirements of the MHCLG Guidance on Minimum Revenue Provision 2012.

BACKGROUND

1. The 'Capital and Treasury Report' brings together a number of documents in order to comply with new Government (MHCLG) and accountancy professional (CIPFA) guidance.

2. One of the new requirements is the submission of an overarching document, a Capital Strategy Statement, which sets out the Council's longer term plan for capital expenditure, and the way in which it is to be funded. The approval of the Strategy (as set out in Appendix A to the report) is a requirement of Council.

3. To provide further context a medium term strategy for the Capital Programme 2018/19 – 2023/24 is given (as set out in Appendix B to the report) allowing a separate report to this meeting to concentrate on approval of the current and immediate forthcoming year: 'Capital Programmes 2018/19-2019/20'.

4. At the heart of this document are statements governing treasury management, now split into three separate documents (as set out in appendices C, D and E).

5. Treasury management is defined as "the management of the Council's 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."

6. The primary requirements of the current guidance are as follows:

    a) Creation and maintenance of a Treasury Management Policy Statement

    b) Creation and maintenance of Treasury Management Practices (TMP)

    c) Receipt of an annual Treasury Management Strategy Statement (TMSS)

    d) Presentation of a mid-year review of the TMSS and an annual report (stewardship report) to Full Council

    e) Delegation by the Council for responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions

    f) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For the Council the current TMSS specifies the responsibility for the delegated scrutiny role is delegated to the Cabinet Overview Working Group, as well as to the Audit and Standards Committee as may be required

    g) Submission of an Investment Strategy (as set out in Appendix D to the report)

    h) Submission of a Minimum Revenue Provision Statement (as set out in Appendix E to the report).

ISSUES/PROPOSALS

7. All reports have been prepared in compliance with respective guidance.

8. Members are invited to refer/approve these documents as appropriate.

IMPLICATIONS

Place (Includes Sustainability)
None specific.
Author: Andrew Bramidge, Project Director – Enterprise Zone and Interim Head of Planning

Finance (Includes ICT)
Any specific implications are set out within the report and supporting appendices. The strategies are key documents underpinning key aspects of financial management across the Council which enable sound financial management to be applied and for resources and assets to be protected.
Author: Simon Freeman, Head of Finance and Deputy to the Managing Director

Housing
None specific.
Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)
None specific.
Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)
None specific.
Author: Simon Hill, Head of Governance

Appendices

Appendix A – Capital Strategy Report
Appendix B – Capital Programme Strategy Statement 2019/20
Appendix C – The Treasury Management Strategy Statement 2019/20
Appendix D – The Investment Strategy Report 2019/20
Appendix E – The Minimum Revenue Provision Statement 2019/20

Background Papers

CIPFA Prudential Code 2017
CIPFA Treasury Management Code of Practice 2017
MHCLG Investment Guidance 2018
MHCLG Guidance on Minimum Revenue Provision 2012
HRA Business Plan 2018-2048
Capital Programme 2018/19-2019/20
Arlingclose Ltd treasury management advisory documents
Treasury Management and Accounting records

Glossary of terms/abbreviations used

See Appendix C, Annex E for glossary of terms.

APPENDIX 1

Capital Strategy Report 2019/20

Introduction

1. This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance Members' understanding of these, sometimes, technical areas.

Capital Expenditure and Financing

2. Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes, in addition, spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £5,000 are not capitalised and are charged to revenue in year.

3. For details of the Council's policy on capitalisation, see Note xix (page 43) of the Council's Accounting Policies contained within the 'Statement of Accounts 2017/18' [LINK: Harlow Council Statement of Accounts 2017/18]

4. In 2019/20, the Council is planning capital expenditure of £35.2m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2017/18 actual (£m)	2018/19 forecast (£m)	2019/20 budget (£m)	2020/21 budget (£m)	2021/22 budget (£m)	*2022/23 budget (£m)*	*2023/24 budget (£m)*
General Fund services							
Core Programme	3.604	4.313	3.490	2.802	2.137	*2.137*	*1.637*
Enterprise Zone (GF)	4.195	5.790	5.319	-	-	-	-
Prentice Place (GF)	0.297	1.002	2.347	-	-	-	-
Sub-Total	8.096	11.105	11.156	2.802	2.137	*2.137*	*1.637*
Council housing (HRA)							
Core Programme	13.346	19.048	20.328	14.486	13.441	*12.843*	*14.992*
Building Council Homes (HRA)	-	0.465	3.716	9.813	6.779	*0.214*	-
Sub-Total	13.346	19.513	24.044	24.299	20.220	*13.057*	*14.992*
TOTAL	**21.442**	**30.618**	35.200	27.101	22.357	*15.194*	*16.629*

The Prudential Code requires disclosure through until 2021/22 only. This table includes figures covering the Council's Medium Term Financial Strategy.

5. A significant element of the General Fund Capital Programme relates to the ongoing development of Harlow's Enterprise Zone. It is a major development which the Council is supporting by creation of a campus environment for leveraging in dynamic businesses creating new technologies and new products, thereby stimulating innovation and generating economic growth in the town.

6. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. Housing capital expenditure is therefore recorded separately, and includes the anticipated building of 93 new homes over the forecast period at a cost of nearly £21 million.

7. Further details of projected capital expenditure are contained in the 'Capital Programme Strategy Statement' (see Appendix B to this Report).

8. **Governance**: Service Managers commence a process annually in September to bid for projects in the Council's Non Housing Capital Programme. Bids are collated by the Finance Department who

calculate the financing costs (which can be nil if the project is fully externally financed) and formulate capital project appraisals. The Head of Finance presents capital appraisals to the Capita Group for review. The review is based on a comparison of corporate priorities and service priorities and considers projected capital costs, financing costs and any resulting ongoing service costs. Recommendations from the group formalise the Capital Programme for approval by Cabinet and to Full Council in January / February each year.

9. For full details of the Council's latest Capital Programme, see the report entitled 'Capital Programmes 2019/20', which is presented separately in the agenda to Cabinet (24 January 2019 then to Full Council on 7 February 2019) and, upon publication, is available on the Council's website pages for Committees.

10. Capital expenditure may only be financed either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, and leasing).

11. The planned financing of the above expenditure (Table 1) is as follows:

Table 2: Capital financing in £ millions

	2017/18 actual (£m)	2018/19 forecast (£m)	2019/20 budget (£m)	2020/21 budget (£m)	2021/22 budget (£m)	*2022/23 budget (£m)*	*2023/24 budget (£m)*
General Fund services							
Capital Receipts: RTB	0.203	0.205	0.207	0.209	0.212	*0.214*	*0.216*
Capital Receipts: Other	1.057	1.973	0.250	-	-	-	-
Grants	2.352	0.634	0.535	0.655	0.605	*0.605*	*0.605*
Direct Revenue Financing	0.616	0.534	0.156	0.156	0.156	*0.156*	*0.156*
Internal borrowing	3.868	7.759	3.708	-	-	-	-
External borrowing	-	-	6.300	1.782	1.164	*1.162*	*0.660*
Sub-Total	8.096	11.105	11.156	2.802	2.137	*2.137*	*1.637*
Council housing (HRA)							
Capital Receipts	-	2.752	0.953	0.677	0.692	*0.708*	*0.723*
Grants	0.042	0.230	-	-	-	-	-
Major Repairs Reserve	11.801	9.940	10.085	10.249	10.430	*10.695*	*10.874*
Direct Revenue Financing	1.503	6.451	9.191	3.629	2.664	*1.590*	*3.395*
Pooling Receipts	-	0.140	1.115	2.944	2.034	*0.064*	-
External borrowing	-	-	2.700	6.800	4.400	-	-
Sub-Total	13.346	19.513	24.044	24.299	20.220	*13.057*	*14.992*
TOTAL	**21.442**	**30.618**	35.200	27.101	22.357	*15.194*	*16.629*

12. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2017/18 actual (£m)	2018/19 forecast (£m)	2019/20 budget (£m)	2020/21 budget (£m)	2021/22 budget (£m)	*2022/23 budget (£m)*	*2023/24 budget (£m)*
General Fund HRA		0.250 -	0.275 -	0.403 -	0.623 -	*0.773* -	*0.803* -

13. The Council's full 'Minimum Revenue Provision Statement' forms part of this Capital Report (Appendix E).

14. The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £10.949m during 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
General Fund services	46.258	55.960	62.209	64.713	66.719
Council housing (HRA)	187.370	187.370	190.070	196.870	201.270
Capital investments	-	-	-	-	-
TOTAL CFR	**233.628**	**241.330**	**252.279**	**261.583**	**267.989**

15. **Asset management:** To ensure that capital assets continue to be of long-term use, the Council has recently reviewed its Asset Management Strategy and has undertaken a detailed stock condition survey of all of its non housing property assets. The strategy and associated action plan combined with the outputs of the stock condition survey will be applied to develop a future non housing capital investment programme. The strategy also sets out the desire to dispose of or transfer those assets which no longer fulfil an operational, community or commercial objective especially where there is a clear investment requirement which would outweigh the long term benefits of undertaking that investment. The objective of the strategy is to recognise the Council's asset portfolio as a resource which whilst providing operational and community benefits naturally consumes resources if it is to be maintained in a fit for purpose state. The Strategy sets out a framework for governance of the portfolio which seeks to achieve greater engagement with users and elected

councillors in order to ensure that capital investment decisions are aligned with the agreed corporate priorities as set out in the Council's Corporate Plan.

16. **Asset disposals:** When a capital asset is no longer required and is assigned to the designated "Opportunity" asset portfolio as set out in the strategy, it may be sold so that the proceeds, known as capital receipts, can be spent on existing or new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £1.410m of capital receipts in the coming financial year, 2019/20, as follows:

Table 5: Capital receipts in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Asset sales	6.425	1.860	1.410	0.887	0.905
Loans repaid	-	-	-	-	-
TOTAL	**6.425**	**1.860**	**1.410**	**0.887**	**0.905**

17. Further details of projected asset disposals are included in the 'Capital Programme Statement' (Appendix B).

Treasury Management

18. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by temporary borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

19. Due to decisions taken in the past, the Council currently (as at 31 December 2018) has £211.837m borrowing at an average interest rate of 3.309% and £46.335m treasury investments at an average rate of 0.93%. This is detailed in Annex B of the 'Treasury Management Statement' (Appendix C).

20. **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting,

and the Council therefore seeks to strike a balance between low cost short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0% to 3.0%). The Council also utilises its ability to “internally borrow” which is very attractive when it has surplus funds available and it is unable to achieve any significant return through its Treasury Management activities with external interest rates for investments being at historic lows.

21. Projected levels of the Council’s total outstanding borrowing are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Borrowing	211.837	211.837	220.837	232.637	238.837
Capital Financing Requirement	233.628	241.330	252.279	261.583	267.989

22. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

23. **Liability benchmark:** To compare the Council’s actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end. This benchmark is currently £198.901m and is forecast to rise to £238.754m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Outstanding borrowing	211.837	211.837	220.837	232.637	238.837
Liability benchmark	184.349	198.901	218.555	232.607	238.754

24. The table shows that the Council expects to remain borrowed above its liability benchmark. This is because cash outflows to date have been below the assumptions made when the loans were borrowed.

25. **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory

guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2018/19 limit	2019/20 limit	2020/21 limit	2021/22 limit
Authorised limit - borrowing	280.000	283.000	292.000	298.000
Operational boundary - borrowing	270.500	273.000	282.000	288.000

26. Further details on borrowing are given in paragraphs 30 to 40 of the ‘Treasury Management Strategy’ (Appendix C).

27. **Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

28. The Council’s policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, which might include bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Near-term investments	35.488	20.936	10.282	8.030	8.083
Longer-term investments: Property Fund	2.000	2.000	2.000	2.000	2.000
TOTAL	**37.488**	**22.936**	**12.282**	**10.030**	**10.083**

29. Further details on treasury investments are in paragraphs 41 to 64 of the ‘Treasury Management Strategy’ (Appendix C).

30. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of

Finance and staff, who must act in line with the treasury management strategy approved by Full Council. Half-yearly reports on treasury management activity are presented to Cabinet. The Cabinet Overview Working Group is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

31. The Council makes investments to assist local public services, including making loans to promote economic growth and lending to its subsidiary company, HTS (Property and Environment) Ltd, which provides extensive building maintenance services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to, at least, break even after all costs.

32. **Governance:** All decisions to date have been made subject to formal reporting and approval by Cabinet.

33. Further details on service investments are in paragraphs 6 to 10 of the 'Investment Strategy' (Appendix D).

Commercial Activities

34. With central government financial support for local public services declining, some Councils are investing in commercial property purely or mainly for financial gain. Harlow Council has not followed this course of action to date.

35. New Guidance requires Councils to disclose any property that it holds primarily or partially to generate a profit.

36. Harlow Council has nine such assets, mainly telecommunication masts on top of high rise blocks, the golf course, two cottages and a former farmhouse. These generate an income of just over £100,000 a year (see Appendix D, 'Investment Strategy').

37. Construction commenced in 2018 on the new Nexus building at the Harlow Enterprise Zone. This will be a wholly owned asset which will be let to commercial tenants and whilst it will deliver an income stream to the Council a key determinant in the decision to proceed with the building was the regeneration and economic benefits it would bring to Harlow.

Liabilities

38. In addition to debt of £211.837m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £91.696m as at 31 March 2018). It has also set aside £0.955m to cover risks of Business Rates appeals and £0.162m for other minor provisions. The Council is also covers the risk of having to pay for small-value insurance claims for which self-insurance is in place and managed through earmarked reserves.

39. **Governance:** Decisions on incurring new discretional liabilities are taken by Senior Management Board in consultation with the Head of Finance. It is the responsibility of Senior Managers to consult the Head of Finance on any matter liable to affect the Council's finances materially (for values above £50,000). In the event of any substantial liabilities arising during the course of the financial year, these are highlighted in the financial and performance monitoring reports, presented quarterly to Cabinet and onwards to Full Council.

40. Further details guarantees are set out in the Investment Strategy 2019/20 (Appendix D, paragraph 14), whilst further details of contingent liabilities are contained in Note 38 of the 'Statement of Accounts 2017/18'.

Revenue Budget Implications

41. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. for the General Fund, the amount funded from Council Tax, business rates and general government grants; and for the Housing Revenue Account, predominantly housing rent income.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Financing costs (£m)	7.010	7.010	7.167	7.638	7.955
Proportion of net revenue stream	0.57%	2.35%	3.29%	5.54%	7.53%
HRA					
Financing Costs (£m)	6.639	6.588	6.518	6.677	6.878
Proportion of net revenue stream	13.24%	14.21%	15.16%	13.72%	13.30%

42. Further details on the revenue implications of capital expenditure are on pages 28 to 29 of the General Fund 2019/20 report.

43. **Sustainability**: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. Capital investment decision making is not only about ensuring the initial allocation of capital funds meets the corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life, which also includes the affordability of its debt financing costs. In approving the inclusion of schemes and projects within the Capital Programme the Head of Finance will need to have been satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

44. The Council employs professionally qualified and experienced staff across a range of disciplines including finance, legal and property that follow Continuous Professional Development (CPD) which is reflected within Personal Performance Plans (PPP) for those individuals. The Council encourages apprenticeships and study programmes for staff with the ambition to achieve a professional qualification.

45. Recognising the scale of the Council's staffing, where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, Wilks Head and Eve LLP as property valuation advisers, as well as other reputable firms of property consultants to support it in assessing the condition of its asset, advising on property transactions and any new developments. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

46. Internal and external training is offered to elected Members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the administration, the Strategic Management Board and the Head of Finance.

Capital Programme Strategy Statement 2019/20

Introduction

1. This document sets out the Council's Capital Programme Medium Term Financial Strategy, providing more information to that given in the 'Capital Strategy Report' (Appendix A).

Capital Expenditure: Medium Term Financial Strategy

2. Estimates for Capital Expenditure through to 2023/24 are summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2017/18 actual (£m)	2018/19 forecast (£m)	2019/20 budget (£m)	2020/21 budget (£m)	2021/22 budget (£m)	*2022/23 budget (£m)*	*2023/24 budget (£m)*
General Fund services							
Core Programme	3.604	4.313	3.490	2.802	2.137	*2.137*	*1.637*
Enterprise Zone (GF)	4.195	5.790	5.319	-	-	-	-
Prentice Place (GF)	0.297	1.002	2.347	-	-	-	-
Sub-Total	8.096	11.105	11.156	2.802	2.137	*2.137*	*1.637*
Council housing (HRA)							
Core Programme	13.346	19.048	20.328	14.486	13.441	*12.843*	*14.992*
Building Council Homes (HRA)	-	0.465	3.716	9.813	6.779	*0.214*	-
Sub-Total	13.346	19.513	24.044	24.299	20.220	*13.057*	*14.992*
TOTAL	**21.442**	**30.618**	**35.200**	**27.101**	**22.357**	***15.194***	***16.629***

3. The above table repeats that given in the 'Capital Strategy Report' (Appendix A) with the forecast 2018/19 and estimates for 2019/20 requiring Council approval given in more detail in a separate report 'Capital Programmes 2018/19 & 2019/20' to this meeting.

4. The Capital Programme is divided, for convenience, between a Housing Capital Programme (HCP) and Non Housing Capital Programme (NHCP). Both are then sub-divided between their Core Programmes and specific projects: in the NHCP this is the Enterprise

Zone and regeneration of Prentice Place; in the HCP this covers the first major programme to build Council homes. The financing of the Capital Programme (see Table 3 below) is likewise treated separately, the Housing Capital Programme being funded exclusively through the Housing Revenue Account.

Building Council Homes

5. The Council's 'Corporate Plan 2017-2020' places emphasis on 'More and Better Housing', tackling the housing need of Harlow residents, both in quantity, affordability, range and quality.

6. In addition to projects included in the 'HRA Business Plan 2017-2047', a cross-departmental Officer Task Group has identified a further programme of house building which was approved by Cabinet on 6 December 2018. This includes developments at The Readings, Bushey Croft and Lister House for which planning permission has already been granted.

7. The programme will be financed from retained pooling receipts and external borrowing, both within the Council's Housing Revenue Account. The Government allows Councils to keep receipts from a proportion of 'Right To Buy' sales on condition that these are spent within three years on building replacement council homes. Failure to deliver would result in retained receipts being repaid to Government at a penalty of base rate plus 4%. It is therefore essential that the programme is delivered in a timely manner, and that further retained receipts are drawn down prior to need.

8. The outline intention is to build homes and let at either social rent or an affordable level of rent.

9. A programme for house building is set out below.

Table 2: Council House Building Programme

	Number of Units	2018/19 forecast (£m)	2019/20 budget (£m)	2020/21 budget (£m)	2021/22 budget (£m)	*2022/23 budget (£m)*	*2023/24 budget (£m)*
Programme							
Temporary Accom-modation	7	0.250	0.054	-	-	-	-
Sumners Farm Close	4	0.050	0.450	-	-	-	-
The Readings	3	0.075	0.560	0.261	0.010	-	-
Bushey Croft	16	0.078	2.621	0.463	0.040	-	-
Lister House, Perry Road	46	-	0.031	5.734	5.961	*0.156*	-
Elm Hatch	17	0.012	-	3.355	0.768	*0.058*	-
TOTAL (see Table 1)	**93**	**0.465**	**3.716**	**9.813**	**6.779**	***0.214***	**-**
Financed by							
Pooling Receipts (see Table 3)		0.140	1.115	2.944	2.034	*0.064*	-
HRA balances, including External Borrowing		0.325	2.601	6.869	4.745	*0.150*	-
TOTAL		**0.465**	3.716	9.813	6.779	*0.214*	-

10. This programme has been included in the 'HRA Business Plan 2018-2048', included for approval at this same meeting.

11. It is the intention that external borrowing will finance the balance of the house building programme. The HRA Business Plan has set out an indicative draw down of finance to support this goal: £2.7m in 2019/20, £6.8m in 2020/21 and a further £4.4m in 2021/22 with repayment after 15 years. Borrowing will be utilised as the need arises, as indicated in Table 3 below.

<u>Capital Financing: Medium Term Financial Strategy</u>

12. The planned financing of the above expenditure (Table 1) is as follows:

Table 3: Capital financing in £ millions

	2017/18 actual (£m)	2018/19 forecast (£m)	2019/20 budget (£m)	2020/21 budget (£m)	2021/22 budget (£m)	*2022/23 budget (£m)*	*2023/24 budget (£m)*
General Fund services							
Capital Receipts: RTB	0.203	0.205	0.207	0.209	0.212	*0.214*	*0.216*
Capital Receipts: Other	1.057	1.973	0.250	-	-	-	-
Grants	2.352	0.634	0.535	0.655	0.605	*0.605*	*0.605*
Direct Revenue Financing	0.616	0.534	0.156	0.156	0.156	*0.156*	*0.156*
Internal borrowing	3.868	7.759	3.708	-	-	-	-
External borrowing	-	-	6.300	1.782	1.164	*1.162*	*0.660*
Sub-Total	8.096	11.105	11.156	2.802	2.137	*2.137*	*1.637*
Council housing (HRA)							
Capital Receipts	-	2.752	0.953	0.677	0.692	*0.708*	*0.723*
Grants	0.042	0.230	-	-	-	-	-
Major Repairs Reserve	11.801	9.940	10.085	10.249	10.430	*10.695*	*10.874*
Direct Revenue Financing	1.503	6.451	9.191	3.629	2.664	*1.590*	*3.395*
Pooling Receipts	-	0.140	1.115	2.944	2.034	*0.064*	-
External borrowing	-	-	2.700	6.800	4.400	-	-
Sub-Total	13.346	19.513	24.044	24.299	20.220	*13.057*	*14.992*
TOTAL	**21.442**	**30.618**	35.200	27.101	22.357	*15.194*	*16.629*

Treasury Management Strategy Statement 2019/20

Summary of the Report

1. This Treasury Management Strategy Statement (TMSS) is now nestled within an overarching sequence of capital related reports but is of no less importance than before. It sets out the treasury management issues in accordance with proper practice.

2. It provides an update of external economic conditions impacting on the Council. The major issues of borrowing and investments are now covered in the new ‘Investment Strategy’ (Appendix D).

3. The Council uses treasury management advisors to help its decision making, keeping officers up to date with economic developments and providing training and support. Arlingclose Limited has been the Council’s appointed advisor since December 2012.

4. Economic background and commentary has been provided by Arlingclose and included throughout the Statement. Treasury management continues to operate in a challenging environment with low interest rates and inflation above the Bank of England’s target of 2%.

5. The UK economy is in an uncertain state as the government continues to navigate its exit from the European Union.

6. As a steward of public finance, the Council will continue to take all practical steps to protect its investment portfolio. In this respect emphasis remains in this order of priority:

- **Security:** which includes the following, some of which might appear contradictory:
    - Reducing risk in order to protect the return of capital sums, particularly in relation to the Council’s investments;
    - The repayment of the sums invested ; and / or
    - Attempting as far as possible, within the parameters of this document, a total return equal to or higher than the prevailing rate of inflation.

- **Liquidity:** availability of cash when needed (adequate but not excessive liquidity).

- **Yield:** a return commensurate with the level of risk.

7. Harlow Council has embarked on a number of major projects which will deplete surplus cash held. It is anticipated that, during 2019/20, the Council will need to undertake external borrowing.

Introduction

8. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

9. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice 2017 Edition' (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the 'Local Government Act 2003' to have regard to the CIPFA Code.

10. Investments held for service purposes or for commercial profit are considered in a different report, the 'Investment Strategy' (Appendix D).

External Context. (Commentary provided by Arlingclose Ltd.)

11. **Economic background:** The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2019/20.

12. UK Consumer Price Inflation (CPI) for October was up 2.4% year on year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

13. The rise in quarterly Gross Domestic Product (GDP) growth to 0.6% in Q3 (Jul – Sep 2018) from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related

weakness in Q1 (Jan – Mar 2018). At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the Bank of England, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

14. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

15. While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

16. **Credit outlook:** The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

17. The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management have been factored in. The Bank of England did not require any bank to raise additional capital.

18. European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

19. **Interest rate forecast:** Following the increase in Bank Rate to 0.75% in August 2018, the Council's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's Monetary Policy Committee (MPC) has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

20. The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

21. Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the European Central Bank's (ECB) forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

22. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

23. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.39%, and that new long-term loans will be borrowed at an average rate of 3.5%.

<u>Local Context</u>

24. On 31 December 2018, the Council held £211.837m of borrowing and £45.5m of investments. This is set out in further detail at ***Annex B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
General Fund CFR	46.258	53.960	62.209	64.713	66.719
HRA CFR	187.370	187.370	190.070	196.870	201.270
Total CFR	**233.628**	**241.330**	**252.279**	**261.583**	**267.989**
Less: Other debt liabilities *	-	-	-	-	-
Borrowing CFR	**233.628**	**241.330**	**252.279**	**261.583**	**267.989**
Less: External borrowing **	(-)211.837	(-)211.837	(-)220.837	(-)232.537	(-)238.537
Internal borrowing	**21.791**	**29.493**	**31.442**	**28.946**	**29.152**
Less: Usable reserves	(-)51.581	(-)44.684	(-)35.979	(-)31.231	(-)31.490
Less: Working capital	(-)7.698	(-)7.745	(-)7.745	(-)7.745	(-)7.745
Investments	**(-)37.488**	**(-)22.936**	**(-)12.282**	**(-)10.030**	**(-)10.083**

25. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

26. The Council has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £27m over the forecast period (to March 2022).

27. CIPFA's 'Prudential Code for Capital Finance in Local Authorities' recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2019/20.

28. **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
Borrowing CFR	233.628	241.330	252.279	261.583	267.989
Less: Usable reserves	(-)51.581	(-)44.684	(-)35.979	(-)31.231	(-)31.490
Less: Working capital	(-)7.698	(-)7.745	(-)7.745	(-)7.745	(-)7.745
Plus: Minimum investments	10.000	10.000	10.000	10.000	10.000
Liability Benchmark	**184.349**	**198.901**	**218.555**	**232.607**	**238.754**

29. Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £27.8m, minimum revenue provision on new capital expenditure based on a 40 year asset life and income, expenditure and reserves all increasing by inflation of.

Borrowing Strategy

30. The Council currently holds £211.837m of loans, being the same as the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £9m in 2019/20. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £283 million.

31. **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

32. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it remains likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. Where longer-term loans are utilized, they will be considered in the context of ensuring interest rates will be adequately balanced by income streams associated with the capital investment being financed.

33. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/ short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring

borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

34. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages, although this eventuality is highly unlikely to occur because the spread of investments provides for sufficient cash liquidity to meet forecast cash flows.

35. **Sources of borrowing:** The Council’s preferred source of long-term and short-term borrowing is the Public Works Loan Board (PWLB) and any successor body. Other options for sources of borrowing are:

- any institution approved for investments, including public sector bodies (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except [your local] Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

36. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but are increasingly classed as other debt liabilities as accounting regulations require:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

37. The Council has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

38. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more

complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet and Full Council.

39. **Short-term and variable rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

40. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

41. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £22.936m and £53.740m, and but reduced levels are expected to be maintained in the forthcoming year.

42. **Objectives:** The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

43. **Negative interest rates:** If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation has already existed in many other European countries. In this event, security will be measured as receiving the contractually agreed

amount at maturity, even though this may be less than the amount originally invested.

44. **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2018/19 where cash is identified as available for longer-term investment. This diversification will represent a continuation of the current strategy.

45. **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

46. The cash limits assume an investment portfolio between £30m and £40m. If, as anticipated, the cash holding falls then the approved investment limits will be reduced accordingly on instruction to officers by the Head of Finance.

47. Harlow Council's typical day-to-day investments are with local authorities for up to one year, the maximum investment currently being £4m per local authority (see below).

Table 3: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£4m 20 years	£4m 50 years	£2m 20 years	£2m 20 years
AA+	£2m 5 years	£4m 10 years	£4m 25 years	£2m 10 years	£2m 10 years
AA	£2m 4 years	£4m 5 years	£4m 15 years	£2m 5 years	£2m 10 years
AA-	£2m 3 years	£4m 4 years	£4m 10 years	£2m 4 years	£2m 10 years
A+	£2m 2 years	£4m 3 years	£2m 5 years	£2m 3 years	£2m 5 years
A	£2m 13 months	£4m 2 years	£2m 5 years	£2m 2 years	£2m 5 years
A-	£2m 6 months	£4m 13 months	£2m 5 years	£2m 13 months	£2m 5 years
None	£1m 6 months	n/a	**£4m 25 years**	£50,000 5 years	£2m 5 years
Pooled funds and real estate investment trusts	£4m per fund or trust				

This table must be read in conjunction with the notes below

48. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. 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.

49. **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, 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. See below for arrangements relating to operational bank accounts.

50. **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.

51. **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 generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may, in principle, be made in unlimited amounts for up to 50 years, although tying up the Council's cashflow for such an extensive period is particularly unlikely and an unforeseen occurrence.

52. **Local Authorities:** The Council's day-to-day investment transactions have moved more towards investments with other local authorities rather than banks. Councils have a legal duty to pass a balanced budget, have revenue raising powers, and a lender of last resort in the form of the Public Works Loan Board. In unusual circumstances, the lender is able to recoup the principal sum lent under the Local Government Act 2003, sections 6 and 13. In spite of continued reductions in central government funding, making the setting of budgets and budget monitoring even more challenging, the risk of default remains very low. Where a Council issues a notice under Section 114(3) of the Local Government Finance Act 1988 – as is currently the case with Northamptonshire County Council – then section 115(6) of the Act prevents local authority lending. The local government community is becoming more concerned about some entering into a new field of excessive commercial activity. This Council will exercise a degree of caution and will not lend where it feels the risk

is too great. The Council may consider using an investment platform (iDealTrade) which contains qualitative information about borrowers.

53. **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 either following an external credit assessment or to a maximum of £50,000 per company as part of a diversified pool in order to spread the risk widely.

54. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

55. **Pooled funds:** Shares or units in diversified investment vehicles consisting of the 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. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

56. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council 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 Council's investment objectives will be monitored regularly.

57. **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £4m (except over the Christmas period, defined as 20 December to 4 January inclusive when the limit will be £6m). The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

58. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

59. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

60. **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

61. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

62. **Investment limits**: The Council's revenue reserves available to cover investment losses are forecast to be £44.6m on 31 March 2019. The maximum that will be lent to any one organisation (other than the UK Government) will be £4m. 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.

63. Once again, the cash limits assume an investment portfolio between £30m and £40m. If, as anticipated, the cash holding falls then the approved investment limits will be reduced accordingly on instruction to officers by the Head of Finance.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£4m in total
Loans to unrated corporates	£4m in total
Money market funds	£35m in total
Real estate investment trusts	£10m in total

64. **Liquidity management:** The Council uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

65. The Council measures and manages its exposures to treasury management risks using the following indicators.

66. **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£347,897
Upper limit on one-year revenue impact of a 1% fall in interest rates	£347,897

67. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

68. **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

69. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

70. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£5m	£5m	£5m

Related Matters

71. The CIPFA Code requires the Council to include the following in its treasury management strategy.

72. **Policy on apportioning interest to the Housing Revenue Account:** On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-

term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

73. **Policy on the use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the 'Localism Act 2011' removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

74. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

75. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

76. **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Head of Finance believes this to be the most appropriate status.

Financial Implications

77. The budget for investment income in 2019/20 is £244,000, based on an average investment portfolio of £17.6 million at an interest rate of 1.385%. The budget for debt interest paid in 2019/20 is £7.167 million, based on an average debt portfolio of £216.337 million at an average interest rate of 3.31%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

78. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Portfolio Holder (Resources), 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
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Annex A – Arlingclose Economic & Interest Rate Forecast December 2018

Underlying assumptions:

1. The Monetary Policy Committee (MPC) left the Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.

2. Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.

3. The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.

4. Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by Members of Parliament. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.

5. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4 (Oct – Dec 2018). Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

6. Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.

7. Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of Quantitative Easing (QE), the timing of the first rate hike (2019) and

their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.

8. Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

9. The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

10. Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.13
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-0.85
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
Arlingclose Central Case	0.90	0.95	1.10	1.30	1.40	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35	1.27
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.76
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.70	1.60	1.50	1.40	1.35	1.35	1.35	1.35	1.35	1.40
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.77
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.50	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.33
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.66
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.50	1.65	1.70	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.71
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.18
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.99
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B – Existing Investment & Debt Portfolio Position

	31.12.18 Actual Portfolio £m	31.12.18 Average Rate %
External borrowing: Public Works Loan Board **Total external borrowing**	 **211.837** **211.837**	 **3.31%** **3.31%**
Other long-term liabilities:	-	-
Total gross external debt	211.837	3.31%
Treasury investments: Banks & building societies (unsecured) Government (incl. local authorities) Money Market Funds Other pooled funds: Property Fund Cash Plus Fund	 (-)2.250 (-)24.500 (-)15.585 (-)2.000 (-)2.000	 0.60% 0.85% 0.71% 4.13% 0.75%
Total treasury investments	(-)46.335	0.93%
Net debt	165.502	

<u>Mortgage and other loans rate</u>

Schedule 16 of the Housing Act 1985 specifies that Councils must set the interest rate on mortgages arranged since October 1985 on an annual basis. Councils are required to charge the higher of:

i. The Standard National Rate, which is set by the Secretary of State (currently 3.13%), or,
ii. The applicable local average rate, based on the Council's own borrowing costs and a small percentage (0.25%) for administration.

The interest rate chargeable is therefore 3.56%.

Annex C
Treasury Management Scheme of Delegation

(i) Full Council

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

(ii) Cabinet

- review of/ amendments to the Council's adopted clauses and Treasury Management Strategy Statement and making associated recommendations to Full Council;
- budget consideration and recommendation to Full Council;
- approval of the division of responsibilities;
- receiving ad hoc treasury management monitoring reports and acting on recommendations.

(iii) Portfolio Holder for Resources

- receiving and reviewing regular monitoring reports and making recommendations to Cabinet;
- reviewing the treasury management policy and procedures and making recommendations to the Cabinet;
- reviewing the treasury management practices;
- approving the selection of external service providers and agreeing terms of appointment in conjunction with normal contract approval procedures.

(iv) Section 151 Officer

- recommending clauses, treasury management policy for approval, reviewing the same regularly, and monitoring compliance;
- setting treasury management practices;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources, skills and training, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Annex D
Credit Ratings Table

The Credit Ratings Table has been included as an annex in order to assist with understanding of the ratings referred to within the TMSS. Generally the Council will invest in 'High Grade' or 'Upper Medium Grade' investments.

	Moody's	S&P	Fitch	Meaning
Investment Grade	Aaa	AAA	AAA	Prime
	Aa1	AA+	AA+	High Grade
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
	Baa3	BBB-	BBB-	
Junk	Ba1	BB+	BB+	Non Investment Grade Speculative
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Highly Speculative
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC+	Substantial Risks
	Caa2	CCC	CCC	Extremely Speculative
	Caa3	CCC-	CCC-	In Default w/ Little Prospect for Recovery
	Ca	CC	CC+	
		C	CC	In Default
			CC-	
	D	D	DDD	

Annex E
Glossary of Terms and Definitions

Bank Rate:
The term 'Bank Rate' is 'the official Bank Rate paid on commercial bank reserves', i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets. Previously referred to as "repo rate" this term has been replaced as a result of the change in terminology used by the Bank of England as from May 2006

Base Rate:
The term Base Rate refers to the rate which is set by each high street bank; it is the key foundational rate on which they each base all their various lending rates to customers. It is normally set at the same rate as the Bank Rate (q.v.) and changes in line with, and very soon after changes in Bank Rate.

BRRD: 'Bank Recovery and Resolution Directive'

CD: see 'Certificate of deposit'.

CDS: see 'Credit Default Swaps'

CFR: see 'Capital Financing Requirement'

CP: see 'Commercial paper'.

CRA: see 'Credit Rating Agency'.

Call Account: 'Call account' is a bank deposit where funds can be withdrawn at any time.

Callable Deposit
Placing a deposit with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates before maturity. This decision is based upon how market rates have moved since the deal was agreed. If rates have fallen, the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.

Capital Financing Requirement
The Capital Financing Requirement reflects the Council's underlying need to borrow for capital purposes. Thus, if new capital expenditure is incurred and not financed from sources other than by borrowing, the CFR will increase by the amount of that expenditure. Borrowing, up to the value of the CFR, may be either from internal cash balances or externally, such as from the Public Works Loan Board (q.v.).

Certificate of Deposit
A certificate of deposit is an unsecured investment issued by a bank or building society which is a fixed deposit, giving a guaranteed interest return. These differ from term deposits in that the lender is not obliged to hold the investment through to maturity and may realise the cash by selling the CD into an active secondary market. This may be useful in instances where the counterparty receives a downgraded credit rating, or the investor encounters an unexpected cashflow issue. CDs are obtained through specialist brokers who deal through the primary and secondary market. CDs offer liquidity and greater access to counterparties who do not trade in term deposits.

CIPFA: Chartered Institute of Public Finance and Accountancy.

CIPFA Treasury Management Code of Practice
This represents official practitioners' guidance, which is produced by CIPFA. The government expects Councils and other public service authorities to adopt and comply with the code. The recommendations made in the Code provide a basis for all these public service organisations to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

CLG: Department of Communities and Local Government.

Commercial Paper
Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.

Corporate Bond
Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies

Counterparty
A counterparty is a party with which a transaction is done.

CPI: Consumer Prices Index

Credit Default Swaps
A CDS is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event (e.g. default) of the reference entity (i.e. the third party on whom the contract is based). The contract essentially provides a means of insurance to the buyer of the CDS against default by a borrower. The "spread" (effectively the premium paid by the CDS buyer) provides an indication of the perceived risk of a default occurring.

Credit Rating
A credit rating is an estimate of the quality of a debt from the lender viewpoint in terms of the likelihood of interest and capital not being paid and of the extent to which the lender is protected in the event of default.

An individual, a firm or a government with a good credit rating can borrow money from financial institutions more easily and cheaply than those who have a bad credit rating.

Credit Ratings are evaluated by Credit Rating agencies (q.v.).

Credit rating agency
'Credit rating agency', or 'rating agency', or CRA, is a firm that issues opinions on companies' ability to pay back their bonds. These opinions are often abbreviated on an alphanumeric scale ranging from AAA to C (or equivalent). The three CRAs used by the Council are Fitch, Moody's and Standard and Poor's.

DMADF: see 'Debt Management Agency Deposit Facility'

DMO: see 'Debt Management Office'

Dealing
Is the process of carrying out transactions with a counterparty (q.v.), including agreeing the terms of an investment. This is usually conducted through a broker.

Debt Management Agency Deposit Facility
Deposit Account offered by the Debt Management Office (q.v.), guaranteed by the UK government.

Debt Management Office
The Debt Management Office (DMO) is an executive agency of HM Treasury responsible for carrying out the government's debt management policy and managing the aggregate cash needs of the Exchequer. It is also responsible for lending to local authorities and managing certain public sector funds.

Derivative
A contract whose value is based on the performance of an underlying financial asset, index or other investment. e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.

ECB: European Central Bank

Equity
A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.

EU: European Union

Fed: The Federal Reserve (US)

FLS: Funding for Lending Scheme

Floating Rate Notes
Bonds on which the rate of interest is established periodically with reference to short-term interest rates

Forward Deal
The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.

Forward Deposits: see ‘forward deal’

Fund Manager
The individual responsible for making decisions related to any portfolio of investments in accordance with the stated goals of the fund.

GDP: Gross Domestic Product

Gilt
Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.

Gilt Funds
Pooled fund investing in bonds guaranteed by the UK government.

HRA: Housing Revenue Account

HRACFR: Housing Revenue Account Capital Financing Requirement

iTraxx benchmark
A group of international credit derivative indexes that are monitored by the International Index Company (IIC). The credit derivatives market that iTraxx provides allows parties to transfer the risk and return of underlying assets from one party to another without actually transferring the assets. iTraxx indexes cover credit derivatives markets in Europe, Asia and Australia.

Lender Option Borrower Option
'Lender Option Borrower Option' (LOBO) is a floating rate instrument which allows the lender to designate an adjustment rate at periodic reset dates and lets the borrower decide whether to pay the rate or redeem the bond.

Liquidity
Liquidity refers to an asset that can be turned into cash or the ability to quickly sell or buy an asset

LIBID: see 'London Interbank Bid Rate'

LIBOR: see 'London Interbank Offer Rate'

LOBO: see 'Lender Option Borrower Option'

London Interbank Bid Rate
The 'London Interbank Bid Rate' (LIBID) is the rate of interest at which first-class banks in London will bid for deposit funds. Often used as a benchmark for deposit rates. LIBID is not fixed in the same way as LIBOR (q.v.), but is typically one-sixteenth to one-eighth of a per cent below LIBOR.

London Interbank Offer Rate
'London Interbank Offer Rate' (LIBOR) is the interest rate which banks pay when lending to each other. It is calculated at a specified time each day and based on what it would cost a panel of banks to borrow funds for various periods of time and in various currencies. It then creates an average of the individual banks' figures.

Markets in Financial Instruments Directive II
New client classification rules were introduced from 3 January 2018 as a result of the UK's implementation of the second Markets in Financial Instruments Directive (MiFID II). Local authorities were transferred to 'client status' unless it requested to institutions to continue to be treated as a professional client in respect of all the regulated financial services that are provided.

MHCLG: Ministry of Housing, Communities and Local Government

MiFID II: see Markets in Financial Instruments Directive II

MMF: see 'Money Market Fund'

Money Market Fund
Money Market Funds are mutual funds that invest in short-term debt instruments. They provide the benefits of pooled investment, as investors can participate in a more diverse and high-quality portfolio than they otherwise could individually. Like other mutual funds, each

investor who invests in a money market fund is considered a shareholder of the investment pool, a part owner of the fund. Money market funds are actively managed within rigid and transparent guidelines to offer safety of principal, liquidity and competitive sector-related returns. It is very similar to a unit trust, however, in a MMF equities are replaced by cash instruments. Returns are typically around 1 month LIBID (q.v.), and the average maturity is generally below 60 days.

MPC: Monetary Policy Committee

MRP: Minimum Revenue Provision, for the repayment of debt.

Open Ended Investment Companies (OEIC)
Investment funds that partly resemble an investment trust and partly a unit trust. Like investment trusts, they issue shares on the London Stock Exchange and invest money raised from shareholders in other companies. The term open-ended means that when demand for the shares rises the fund manager just issues more shares, instead of there being a rise in the share price. The price of OEIC shares is determined by the value of the underlying assets of the fund.

Other Bond Funds
Pooled funds investing in a wide range of bonds.

PWLB: see 'Public Works Loan Board'

Programme of Development
The balance of Programme of Development funding (POD) represents monies received from Central Government for regeneration in the east of England, and is held by the Council on behalf of a Partnership comprising local councils and partners from the third and private sectors. The funding was received after a series of successful bids by the Partnership.

Public Works Loan Board
The Public Works Loan Board (PWLB) is a UK Government statutory body whose function is to lend money from the National Loans Fund to Councils and other public bodies and to collect the repayments.

Rating Agency: see 'Credit Rating Agency'

Repo: see 'Repurchase Agreement'

Repurchase Agreement
'Repurchase agreement', or repo, is a contract where the seller of certain securities agrees to buy them back from the purchaser at a specified time for an agreed price.

Reverse Gilt Repo
This is a transaction as seen from the point of view of the party which is buying the gilts. In this case, one party buys gilts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gilts on a specified future date, or at call, at a specified price.

Sovereign Issues (Ex UK Gilts)
Bonds issued or guaranteed by nation states, but excluding UK government bonds.

Supranational Bonds
Bonds issued by supranational bodies, e.g. European Investment Bank. These bonds – now known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield ("spread") given their relative illiquidity when compared with gilts.

T-bills: see 'Treasury Bills'.

Term Deposit
(or 'Time deposit') is a generic term for a bank deposit where funds cannot be withdrawn for a fixed period of time. The lender receives a fixed rate of interest. These are unsecured investments and place the lender at risk of bail-in should this occur during the term of the investment.

Time Deposit: see 'Term Deposit'

Treasury Bills
Treasury bills are a AAA/AA+ rated, short-dated form of Government debt, issued by the Debt Management Office (q.v.), via a weekly tender, on a Friday. Lenders would use the services of a specialist broker to access the market. These usually have a maturity of one, three or six months and provide a return to the investor by virtue of being issued at a discount to their final redemption value. There is also an active secondary market for T-bills which means that lending may be available for a range of dates. Interest rates tend to be higher than the DMADF (q.v.).

Treasury Management Strategy
This is the Council's overall policy and framework by which it will carry out that policy in relation to its borrowing and investment needs in the coming financial year.

Treasury Management Policy Statement
This is the Council's statement of intention in respect of its treasury management. It is prescribed by the CIPFA Treasury Management Code of Practice (q.v.).

Variable Rate Asset Value
'Variable Rate Asset Value' (VNAV) occurs where the net asset value, or principal sum, invested may change depending on trading conditions. The value is calculated at the end of the business day based on the value of investments less any liabilities divided by the number of shares outstanding. With investments carrying this attribute, the capital sum invested may not be equal to the capital sum repaid.

VNAV: see 'Variable Net Asset Value'.

Weighted Average Maturity
'Weighted average maturity', or WAM, is used to measure interest rate risk. WAM is calculated by taking the maturity of the underlying money market instruments held by the fund, weighted according to the relative holdings per instrument.

Investment Strategy Report 2019/20

Introduction

1. The Council invests its money for three broad purposes:
   - because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
   - to support local public services by lending to other organisations (**service investments**), and
   - to earn investment income (known as **commercial investments** where this is the main purpose).

2. This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

3. The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £12.2m and £22.9m during the 2019/20 financial year.

4. **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

5. **Further details:** Full details of the Council's policies and its plan for 2019/20 for treasury management investments are covered in a separate document, the 'Treasury Management Strategy' (Appendix C).

Service Investments: Loans

6. **Contribution:** The Council has lends money to its subsidiary and a local business, to support local public services and stimulate local economic growth.

7. HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. The Council provided a

start-up loan to the business of £1.209m repayable over five years, two months, approved on 21 July 2016. The balance outstanding as at 31 March 2018 was £0.936m.

8. Harlow Property Limited was provided with two loans to support the development of an Enterprise Zone, approved on 23 January 2014. The amounts loaned were £1m on 15 March 2016 and a further £1.5m on 3 March 2017. Interest accrues on these loans. The total outstanding as at 31 March 2018 was £2.761m.

9. **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	**31.3.2018 Actual**			**2019/20**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Subsidiaries	0.936	-	0.936	0.600
Local businesses	2.761	-	2.761	3.000
Local residents	0.034	-	0.034	0.100
TOTAL	**3.731**	**-**	**3.731**	**3.700**

10. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The Council considers that this loss should be zero because, (1) HTS is the sole shareholder of the Council; (2) HPL loans are a charge secured against property which considerably exceeds the value of the loan.

Commercial Investments: Property

11. The Ministry of Housing, Communities and Local Government (MHCLG) defines property to be an investment if it is held primarily or partially to generate a profit.

12. **Contribution:** The Council has historically held nine commercial and residential properties with the intention of making a profit that will be spent on local public services. These include telecommunication masts, a Golf Club, and three other properties. Annual income from all these assets is about £125,000.

Table 2: Property held for investment purposes in £ millions

Property [type]	Actual	31.3.2018 Actual		31.3.2019 expected	
	Value	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Telecommunication Masts (x5)	0.569	-	0.569	-	0.569
Property (x3): Stewards Farm, 1 Canons Cottage, Barrow Farm Cottage	0.510	-	0.510	-	0.510
Golf Club	0.782	-	0.782	-	0.782
TOTAL	**1.861**	**-**	**1.861**	**-**	**1.861**

Loan Commitments and Financial Guarantees

13. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

14. In 1987 and 1992 the Council agreed to undertake joint liability with a number of other local authorities to guarantee loans of £66.3 million and £17.3 million to Home Housing Association (previously called North Housing Association) in support of their private initiative for the provision of housing in Harlow and surrounding authorities. The guarantee is for a 50-year period ending 2037. The Council's proportion of the total liability is £4.5 million. The Council considers that the probability of the guarantee being called upon is low.

Capacity, Skills and Culture

15. **Elected members and statutory officers**: Strategic investment decisions are subject to the advice from officers or treasury management advisors. Elected members are also invited to formal or informal training. The process is subject to scrutiny through the Overview Working Group, Cabinet and Full Council.

Investment Indicators

16. The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

17. **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is

contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Table 3: Total investment exposure in £millions

Total investment exposure	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	37.488	22.936	10.030
Service investments: Loans	3.697	3.577	3.429
Service investments: Shares	-	-	-
Commercial investments: Property	1.861	1.861	1.861
TOTAL INVESTMENTS	**43.046**	**28.374**	**15.320**

18. **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 4: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	211.837	211.837	220.837
TOTAL FUNDED BY BORROWING	**211.837**	**211.837**	**220.837**

19. **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 5: Investment rate of return (net of all costs)

Investments net rate of return	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Treasury management investments	0.53%	0.82%	1.39%
Service investments: Loans	4.53%	4.53%	4.53%
Commercial investments: Property	6.67%	6.67%	6.67%

Minimum Revenue Provision Statement 2019/20

1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The 'Local Government Act 2003' requires the Council to have regard to the Department for Communities and Local Government's 'Guidance on Minimum Revenue Provision' (the CLG Guidance), with revisions relating to MRP most recently issued in 2012.

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

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

4. For capital expenditure incurred before 1 April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31 March 2008. For Harlow Council, the adjusted Capital Financing Requirement upon which the MRP is calculated is negative in each year prior to April 2008. The MRP on this portion of CFR is therefore zero. *(Option 1 in England & Wales)*

5. For unsupported capital expenditure incurred after 31 March 2008, with the exception of pump-priming economic development (defined below), MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. *(Option 3, the "Asset Life method", in England and Wales)*

6. Economic development is defined as the following capital expenditure projects: Prentice Place and the Enterprise Zone.

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

8. Minimum Revenue Provision will not be made in relation to the following specific circumstances:

- Capitalised loan advances to other organisations or individuals. Instead of MRP, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. However, revenue MRP contributions would still be required equal to the amount of any impairment of the loan advanced.
- Any capital investment made in projects aligned with Harlow's Enterprise Zone where third party funding is guaranteed to meet the costs of that investment (repayment of debt principal and interest) and borrowing has been aligned with the life of the designated enterprise zone.
- The Housing Revenue Account (HRA) is not subject to a statutory requirement to make a minimum revenue provision payment, and is not currently doing so.

9. Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.

10. Based on the Council's latest estimate of its Capital Financing Requirement on 31 March 2019, the budget for MRP has been set as follows:

	31.03.2019 Estimated CFR £m	**2019/20 Estimated MRP £**
Capital expenditure before 01.04.2008	**5.455**	0
Capital expenditure after 31.03.2008	**48.505**	275,000
Total General Fund	**53.960**	**275,000**
Assets in the Housing Revenue Account	**187.370**	0
Total Housing Revenue Account	**187.370**	**0**
Total	**241.330**	**275,000**

REPORT TO:	**CABINET**
DATE:	**5 DECEMBER 2019**
TITLE:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20: MID-YEAR REVIEW**
PORTFOLIO HOLDER:	**COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES**
LEAD OFFICER:	**SIMON FREEMAN, HEAD OF FINANCE (01279) 446228**
CONTRIBUTING OFFICER:	**ANDREW SMITH, FINANCE MANAGER (01279) 446212**

This is a Key Decision
It is on the Forward Plan as Decision Number I010143
This decision is not subject to Call-in procedures for the following reasons:
The decision stands as a recommendation to Council
This decision will affect no ward specifically.

RECOMMENDED that:

A The Mid-Year Review of the Treasury Management Strategy, as set out in Appendix A to the report, be noted and referred to Council for consideration.

REASON FOR DECISION

A Compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, requires that Council is presented with a mid-year report on The Treasury Management Strategy Statement (TMSS).

BACKGROUND

1. Treasury management is defined as: “The management of the local authority’s 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.”

2. The Council operates within the framework of CIPFA’s ‘Prudential Code for Capital Finance in Local Authorities’ (Prudential Code), the ‘Treasury Management Code of Practice’ and, the Ministry of Housing Communities and Local Government (MHCLG) Investment Guidance.

3. The primary requirements of the Code are as follows:

    a) Creation and maintenance of a Treasury Management Policy Statement;

    b) Creation and maintenance of Treasury Management Practices (TMPs);

    c) Receipt by the Council of an annual Treasury Management Strategy (TMS), including Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-Year Review of the Treasury Management Strategy and an Annual Report (stewardship report);

    d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;

    e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the current TMS specifies that responsibility for the delegated scrutiny role is delegated to the Cabinet Overview Working Group.

ISSUES/PROPOSALS

4. As part of the primary requirements for reporting to Council, the mid-year review of the TMS has been prepared in compliance with CIPFA's Code of Practice and is attached to this report as Appendix A. Economic commentary has been provided by the Council's Treasury Management Advisors, Arlingclose Ltd.

5. Whilst no new external borrowing has been undertaken by the Council so far in 2019/20, existing borrowing comprises the protection and certainty of fixed-term debt.

6. The Bank Rate has remained at 0.75 per cent since August 2018. Some analysts believe that base rate is unlikely to rise over the next two to three years. The Council's overriding response is to ensure the security of investments above liquidity and yield. The effect of Brexit with prospect of a 'no deal' is a cause for concern. Officers aim to ensure that investments are made in the most cost efficient and effective manner.

7. On an on-going basis, officers continue to work within the scope of the TMS in order to contain counterparty risk as far as practically possible. Treasury management activities operate under a high-profile reporting mechanism, and

any significant issues that may arise through the year are reported in accordance with protocols set out in the TMS.

IMPLICATIONS

Environment and Planning (includes Sustainability)
None specific.
Author: **Andrew Bramidge, Head of Environment and Planning**

Finance and Property (Includes ICT and Properties and Facilities)
As contained in the report.
Author: **Simon Freeman, Head of Finance and Property and Deputy to the Chief Executive**

Housing
None specific.
Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)
None specific.
Author: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)
None specific.
Author: **Simon Hill, Head of Governance**

Background Papers
Treasury Management Strategy 2019/20

Glossary of terms/abbreviations used

Arlingclose – The Council's appointed treasury management advisors.
CIPFA – Chartered Institute of Public Finance and Accountancy
MHCLG – Ministry of Housing Communities and Local Government
TMPs – Treasury Management Practices
TMS – Treasury Management Strategy
TMSS – Treasury Management Strategy Statement

Appendices

Appendix A – Harlow Council Treasury Management Strategy Mid-Year Review 2019/20

Appendix 2

HARLOW COUNCIL
TREASURY MANAGEMENT STRATEGY
MID-YEAR REVIEW, 2019/20

Summary of the Report

1. This report provides an update on economic conditions impacting on the Council and focusses on any major issues affecting borrowing and investments.

2. A full commentary is provided within this report by the Council's treasury management advisors, Arlingclose Ltd.

3. The economy is functioning within uncertain times. Brexit, which includes the possibility of 'no deal' with European nations, remains a concern with a further extension of the withdrawal date up until 31 January 2020. In the meantime the UK is going to the polls on 12 December 2019.

4. At all times the Council will take steps to protect its investment portfolio by placing security (the reduction of risk in order to protect the return of capital sums) and liquidity (being able to have immediate access to a reasonable amount of funds so that cashflow obligations may be met) above yield (i.e. the interest paid on investments).

5. In setting the Council's strategy for 2020/21, a full report will be presented to Cabinet and Council in January / February 2020. This will be in conjunction with the 2020/21 budget proposals and Capital Strategy.

6. The Treasury Management Strategy for 2019/20 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' (the CIPFA Code) which requires the Council to approve treasury management half-year and annual reports.

7. The Council is supported by treasury management advisors, Arlingclose Ltd., in decision making.

Background

8. The Council's treasury management strategy for 2019/20 was approved at a meeting of Council on 7 February 2019. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing

interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.

9. The Council operates within the framework of CIPFA's 'Prudential Code for Capital Finance in Local Authorities' (Prudential Code), the 'Treasury Management Code of Practice' and, the Ministry of Housing Communities and Local Government (MHCLG) Investment Guidance.

10. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by Council on 7 February 2019.

External Context: Based upon commentary provided by the Council's Treasury Management advisors, Arlingclose Ltd. (October 2019)

11. **Economic background:** UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, below the expected forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate at 3.8% while the employment rate remained at 76.1%. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.

12. The Quarterly National Accounts for Q2 (Apr-Jun) GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 (Jan-Mar) which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 (Oct-Dec) 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.

13. The political climate both nationally and internationally has continued to be a big driver of financial markets over the last quarter.

14. Tensions continue between the US and China with no trade agreement and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September mainly to maintain economic growth. There are also escalating concerns over the trade war and in turn a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a possible global recession. Market expectations are for further interest rate cuts from the Fed

and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1 November 2019.

15. The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction.

16. **Financial markets:** After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a move security and in anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

17. Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

18. Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

19. **Credit background:** Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps (0.8%) by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps (0.4%). The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps (0.34% - 0.76%) at the end of the period.

20. There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

Local Context

21. On 31 March 2019, the Council had net investments of £31.700m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.19 Actual £m
General Fund CFR	53.358
HRA CFR	187.370
Total CFR	**240.728**
Less: Other debt liabilities	-
Loans CFR	**240.728**
External borrowing	(-)211.837
Internal borrowing	28.891
Less: Usable reserves	(-)54.175
Less: Working capital	(-)6.416
Net investments	**(-)31.700**

22. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

23. The treasury management position at 30 September 2019 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.19 Balance £m	Movement £m	30.9.19 Balance £m	30.9.19 Rate %
Long-term borrowing: Public Works Loan Board	211.837	-	211.837	3.309
Total borrowing	**211.837**	**-**	**211.837**	**3.309**
Long-term investments Short-term investments Cash and cash equivalents	(-)4.000 (-)7.500 (-)20.200	- 7.500 (-)6.080	(-)4.000 - (-)26.280	2.53 - 0.75
Total investments	**(-)31.700**	**1.420**	**(-)30.280**	**0.99**
Net borrowing	**180.137**	**1.420**	**181.557**	

Borrowing Strategy during the period

24. At 30 September 2019 the Council held £211.837m of loans as part of its strategy for funding previous years' capital programmes. Outstanding loans on 30 September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.19 Balance £m	Net Movement £m	30.9.19 Balance £m	30.9.19 Weighted Average Rate %	30.9.19 Weighted Average Maturity (years)
Public Works Loan Board	211.837	-	211.837	3.309	15.8
Total borrowing	**211.837**	**-**	**211.837**		

25. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

Treasury Investment Activity

26. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balances ranged between £29.420m and £42.270m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.19 Balance £m	Net Movement £m	30.9.19 Balance £m	30.9.19 Income Return %
Banks & building societies (unsecured)	3.710	(-)3.270	0.440	0.50
Government	5.280	(-)5.280	-	-
Local authorities	9.000	3.500	12.500	0.83
Money Market Funds	9.710	3.630	13.340	0.69
Other Pooled Funds				
Cash plus funds	2.000	-	2.000	0.91
Property funds	2.000	-	2.000	4.15
Total investments	**31.700**	**(-)1.420**	**30.280**	

27. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

28. In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Council is not routinely placing unsecured deposits with individual banks and building societies preferring instead to spread risk in Money Market Funds, a Cash Plus Fund and a Property Fund. It has found local authority investment to be a secure means of investment. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2019	4.16	AA-	48%	71	1.09%
30.09.2019	3.99	AA-	52%	36	1.01%
Similar LAs	**4.26**	**AA-**	**61%**	**91**	**1.58%**
All LAs	**4.28**	**AA-**	**62%**	**64**	**1.22%**

Note: Through benchmarking information provided by Arlingclose, the Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. The table above shows that Harlow Council's exposure to risk is similar to other Councils, but with less bail-in exposure as a consequence of not making direct investments in banks or building societies at this time.

Investments in Money Market Funds carry bail-in risk but the risk itself is spread across numerous counter-parties.

29. The Council's £4m of externally managed pooled property and multi asset funds is likely to generate an average total return of £101,200 (2.53%). 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 Council's investment objectives are regularly reviewed.

30. Readiness for Brexit: The revised leave date for the UK to leave the EU is now 31 January 2020. The Council will ensure that it holds sufficient facilities with UK-domiciled banks and Money Market Funds to enable sufficient liquidity to be held within the UK coupled with the ongoing use of its account with the Debt Management Account Deposit Facility (DMADF) with HM Treasury to manage the situation leading up to and after the UK leaves the EU.

Non-Treasury Investments

31. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

Service Investments: Loans

32. The Council lends money to its subsidiary and a local business, to support local public services and stimulate local economic growth.

33. HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. The Council provided a start-up loan to the business of £1.209m repayable over five years, two months, approved on 21 July 2016. The balance outstanding as at 31 March 2018 was £0.702m. A report elsewhere on the Cabinet agenda also details proposals for a second loan to HTS (P&E) Ltd associated with the acquisition of replacement fleet for a sum of £670,000.

34. Harlow Property Limited was provided with two loans to support the development of the Enterprise Zone, approved on 23 January 2014. The amounts loaned were £1m on 15 March 2016 and a further £1.5m on 3 March 2017 secured against the value of the properties at the KAO Park facility. Interest accrues on these loans with the total outstanding as at 31 March 2019 being £2.802m.

35. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The Council considers that this loss should be zero because, (1) HTS is the sole shareholder of the Council; (2) HPL loans are a charge secured against property which considerably exceeds the value of the loan.

Commercial Investments: Property

36. The Ministry of Housing, Communities and Local Government (MHCLG) defines property to be an investment if it is held primarily or partially to generate a profit.

37. The Council has historically held nine commercial and residential properties with the intention of making a profit that will be spent on local public services. These include telecommunication masts, a Golf Club, and three other properties with a total value of £1.861m. Annual income from all these assets is about £125,000.

Loan Commitments and Financial Guarantees

38. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

39. In 1987 and 1992 the Council agreed to undertake joint liability with a number of other local authorities to guarantee loans of £66.3 million and £17.3 million to Home Housing Association (previously called North Housing Association) in support of their private initiative for the provision of housing in Harlow and surrounding authorities. The guarantee is for a 50-year period ending 2037. The Council's proportion of the total liability is £4.5 million. The Council considers that the probability of the guarantee being called upon is low.

Compliance

40. The Deputy to the Chief Executive and Head of Finance & Property reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Outlook for the remainder of 2019/20

41. The global economy is entering a period of slower growth in response to

political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth as a response to the downturn in global activity and also as a result of the ongoing uncertainty regarding Brexit. In response, global and UK interest rate expectations have also reduced.

42. Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

43. The Council's treasury advisor Arlingclose expects the Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Cas	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

REPORT TO:	**CABINET**
DATE:	**12 SEPTEMBER 2019**
TITLE:	**ANNUAL TREASURY MANAGEMENT REPORT 2018/19**
PORTFOLIO HOLDER:	**COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES**
LEAD OFFICER:	**SIMON FREEMAN, HEAD OF FINANCE AND DEPUTY TO THE CHIEF EXECUTIVE (01279) 446228**
CONTRIBUTING OFFICER:	**ANDREW SMITH, FINANCE MANAGER (01279) 446212**

This is a Key Decision
It is on the Forward Plan as Decision Number I010141
The decision is not subject to Call-in Procedures for the following reason:
The decision stands as a recommendation to Full Council.
This decision will affect no ward specifically.

RECOMMENDED that Cabinet recommends to Full Council:

A The annual Treasury Management Report for 2018/19, as set out in Appendix A to the report, including that the Council operated within the Treasury Management Strategy Statement during 2018/19, be noted and approved.

REASON FOR DECISION

A In complying with latest Codes of Practice, Full Council is required to receive an annual report on the prior year's treasury management functions of the Council, which should also receive review by Cabinet in advance of its presentation to Full Council.

B The Prudential Indicators are also required to be reported to Full Council. These are included within the annual treasury management report.

BACKGROUND

1. Treasury management is defined as: "The management of the local authority's 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."

2. During 2018/19 the minimum reporting requirements were that Full Council should receive the following reports:

    a) An annual treasury strategy in advance of the year (Full Council, 1 February 2018).

    b) A mid-year treasury update report (Full Council, 6 December 2018).

    c) An annual review following the end of the year describing the activity compared to the strategy (this report).

3. The annual report for 2018/19 has been produced in compliance with the Code and is set out in Appendix A to this report. The regulatory environment governing treasury management places onus on Councillors for the review and scrutiny of treasury management policies and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Councillors.

ISSUES/PROPOSALS

4. As stewards of public funds, the Council continues to take all practical steps to protect its investment portfolio. In this respect, emphasis remains in this order of priority: security, liquidity and yield.

5. Security is defined as 'reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments'. In practice this means placing investments with organisations which have a high quality credit rating, i.e. banks and other bodies which have a Fitch rating of A(-) and above. Local authorities do not, usually, have credit ratings but are inherently safe havens for investment.

6. Liquidity means 'ensuring that investments are not committed for excessive time-periods in order to facilitate the Council's cash flow requirements and to reflect the risk of not having immediate access to funds'. Councils are discouraged from investing disproportionate sums of money for long periods of time at what seem attractive rates of return.

7. Yield is 'obtaining a reasonable return on investments'. Once again 2017/18 has been a year of continued low interest rates. The Bank of England's Base Rate increased from 0.5 per cent to 0.75 per cent in August 2018. The Council has attempted to gain the best yields without compromising security and liquidity. The average rate achieved was 0.83 per cent.

8. The advice from Arlingclose, the Council's treasury advisors, is that the Council must aim towards a good investment spread as this is the best defence to protect the Council from a possible capital loss. As a result, and within the overarching powers given by members in the Treasury Management Strategy, the Council held investments with the CCLA (the Local Authority property fund),

a Cash-Plus Fund, Money Market Funds, local authorities and the Treasury's Debt Management Office. It does not currently have any investments with Banks and Building Societies other than funds held overnight with its own banker, Barclays Bank PLC.

IMPLICATIONS

Environment and Planning (Includes Sustainability)
None specific.
Author: Andrew Bramidge, Head of Environment and Planning

Finance (Includes ICT, and Property and Facilities)
As contained within the report.
Author: Simon Freeman, Head of Finance and Deputy to the Chief Executive

Housing
None specific.
Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)
None specific.
Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)
None specific.
Author: Simon Hill, Head of Governance

Appendices

Appendix A – Treasury Management Strategy 2018/19

APPENDIX 3

HARLOW COUNCIL
ANNUAL TREASURY MANAGEMENT REPORT 2018/19

Introduction

1. This Report sets out the Council's outturn position in accordance with recommended practice.

2. It provides a review of external economic conditions impacting on the Council and focuses on the major issues affecting its borrowing and investments.

3. The Council uses specialist treasury management advisors to support its decision making, keep officers up to date with economic and more specifically market developments and providing specialist training and support.

4. Economic background and commentary provided by Arlingclose features within this Report.

5. The country remains in the process of exiting the European Union, with a revised departure date of 31 October 2019 and economic uncertainty continues.

6. As a steward of public finance, the Council continues to take all practical steps to protect its investment portfolio. In this respect emphasis remains in this order of priority:

Security: some of the following might appear contradictory or elusive in this challenging economic environment

- Reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments
- The repayment of the sum invested; and / or,
- A return equal to or higher than the prevailing rate of inflation.

Liquidity: availability of cash when needed (adequate but not excessive liquidity)

Yield: a return commensurate with the level of risk.

7. The Council invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remain central to the Council's treasury management strategy.

8. Treasury management activity is guided by the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) The Code requires the Council to approve

a treasury management strategy before the start of each financial year and, as a minimum, a mid-year and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

9. The Council's Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by Full Council on 1 February 2018, and was superseded by the TMSS 2019/20, contained within the Capital Strategy, approved by Cabinet on 7 February 2019.

External Context (supplied by Arlingclose)

10. **Economic background**: Oil prices were volatile during the year hitting a peak in October 2018 of $85 a barrel falling back to just over $50 in late December 2018 before steadily climbing back toward $70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year on year, broadly in line with the Bank of England's February Inflation Report. .

11. After rising to 0.6% in the third calendar quarter (Jul-Sep), economic growth slowed in the fourth quarter of 2018 (Oct-Dec) to 0.2% largely as a result of weaker expansion in production, construction and services. Annual GDP growth at 1.4% continues to remain below trend. There were no further changes to monetary policy after the Bank of England decision to increase Bank Rate to 0.75% in August 2018.

12. The US Federal Reserve increased rates to the 2.25%-2.50% range in December 2018 but at the last Federal Open Market Committee (FOMC) meeting in March it agreed to pause any further increases in interest rates.

13. Brexit failed to be achieved by the original exit date of 29 March 2019, with a revised date of 31 October 2019. EU leaders have been clear that the terms of the deal are not a matter for further negotiation and the spectre of a no deal Brexit is now possible. The ongoing uncertainty continues to impact sterling and UK markets.

14. While the UK focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been seen a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be showing signs of a rapid slowdown in economic growth with the major drivers of its economy, Germany and France, both suffering from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

15. **Financial markets:** The FTSE 100 (a good indicator of global corporate sentiment) fell by around 13% in price terms in December 2018. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

16. Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in

October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55% respectively. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period. Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK issue but a global risk. During March US 10-year Treasury yields were lower than US 3 month money market rates and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which fell by 1.8% year on year at the end of 2018. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

17. **Credit background:** After hitting around 129 basis points (1.29%) in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps (0.96%) at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps (0.40%). The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a Credit Default Swap (CDS) perspective, traded between 33 and 79bps (0.33-0.79%) at the end of the period.

18. The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

19. In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

20. There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

Local Context

21. On 31 March 2018, the Council had net investments of £37.490m arising from its revenue and capital income.. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.18 Actual £m
General Fund CFR	46.258
HRA CFR	187.370
Total CFR	**233.628**
External borrowing	(-)211.837
Internal borrowing	**21.791**
Less: Usable reserves	(-)51.581
Less: Working capital	(-)7.700
Net investments	**(-)37.490**

22. The treasury management position at 31 March 2019 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.18 Balance £m	Movement £m	31.3.19 Balance £m	31.3.19 Rate %
Long-term borrowing	211.837	-	211.837	3.292%
Total borrowing	**211.837**	**-**	**211.837**	
Long-term investments	(-)2.000	(-)2.000	(-)4.000	2.59%
Short-term investments	(-)11.300	3.800	(-)7.500	1.06%
Cash and cash equivalents	(-)24.190	3.990	(-)20.200	0.65%
Total investments	**(-)37.490**	**5.790**	**(-)31.700**	
Net borrowing	**174.347**	**5.790**	**180.137**	

Borrowing Strategy during the year

23. At 31 March 2019 the Council held £211.837m of long term loans from the Public Works Loan Board, unchanged on the previous year.

Treasury Investment Activity

24. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £31.70 million and £53.74 million due to timing differences between income and expenditure. The investment position is shown in table 3 below.

Table 3: Treasury Investment Position

	31.3.18 Balance £m	Net Movement £m	31.3.19 Balance £m	31.3.19 Income Return %
Banks & building societies (unsecured)	0.020	3.690	3.710	0.50%
Government	-	5.280	5.280	0.50%
Local Authorities	19.300	(-)10.300	9.000	1.04%
Money Market Funds	14.170	(-)4.460	9.710	0.51%
Other Pooled Funds				
Cash Plus Fund (Royal London)	2.000	-	2.000	0.85%
Property Fund (CCLA)	2.000	-	2.000	4.33%
Total investments	**37.490**	**(-)5.790**	**31.700**	

25. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

26. In furtherance of these objectives Officers have preferred to invest with local authorities rather than individual banks or building societies which carry bail-in risk. Whilst investments in Money Market Funds (MMF) carry risk of bail-in, the Funds themselves are large and diversified and hence the exposure is significantly reduced.

27. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 4 below.

Table 4: Investment Benchmarking - Treasury investments managed in-house

	Credit Score (where 1 is low risk)	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Total Rate of Return %
31.03.2017	4.04	AA-	56%	43	0.51%
31.03.2018	4.10	AA-	42%	53	0.97%
31.03.2019	4.16	AA-	48%	86	1.09%
Similar LAs	**4.13**	**AA-**	**53%**	**89**	**1.80%**
All LAs	**4.20**	**AA-**	**55%**	**53**	**1.43%**

28. **Readiness for Brexit**: The Council ensured that it held accounts at UK-domiciled banks and Money Market Funds to ensure that it could hold sufficient liquidity over the year end including its account with the Debt Management Account Deposit Facility (DMADF) for any surplus cash.

Non-Treasury Investments

29. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Ministry of Housing, Communities and Local Government's (MHCLG) Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

30. The Council has lent money to its subsidiary and a local business, to support local public services and stimulate local economic growth.

31. HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. The Council provided a start-up loan to the business of £1.209m repayable over sixty two months and approved on 21 July 2016. The balance outstanding as at 31 March 2019 was £0.702m.

32. Harlow Property Limited was provided with two loans to support its developments within the Harlow Enterprise Zone, approved on 23 January 2014. The advances made were £1m on 15 March 2016 and a further £1.5m on 3 March 2017. Interest accrues on these loans. The total outstanding as at 31 March 2019 was £2.802m with security held against the increase in the property values.

33. These investments generated £167,000 of investment income for the Council, representing a rate of return of 4.5%.

Compliance

34. The Head of Finance and Deputy to the Chief Executive reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Annex A
Prudential Indicators 2018/19

Capital Expenditure: The Council's capital expenditure and financing may be summarised and is consistent with the draft statement of accounts, as follows.

Capital Expenditure and Financing	2018/19 Estimate £m	2018/19 Actual £m	Difference £m
General Fund	15.250	**10.421**	**(-)4.829**
HRA	18.804	**17.205**	**(-)1.599**
Total Expenditure	**34.054**	**27.626**	**(-)6.428**
Capital Receipts	3.999	4.243	0.244
Government Grants	0.665	1.482	0.817
Major Repairs Reserve	11.439	10.362	(-)1.077
Revenue	6.156	4.219	(-)1.937
Borrowing	11.795	7.320	(-)4.475
Total Financing	**34.054**	**27.626**	**(-)6.428**

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.19 Estimate £m	31.03.19 Actual £m	Difference £m
General Fund	62.441	**53.358**	(-)9.083
HRA	187.370	**187.370**	-
Total CFR	**249.811**	**240.728**	**(-)9.083**

Actual Debt: The Council's actual debt at 31 March 2018 was as follows:

Debt	31.03.19 Estimate £m	31.03.19 Actual £m	Difference £m
Borrowing	211.837	**211.837**	-
Finance leases	-	**-**	-
Total Debt	**211.837**	**211.837**	**-**

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt and CFR	31.03.18 Estimate £m	31.03.18 Actual £m	Difference £m
Total debt	211.837	**211.837**	-
Capital financing requirement	249.811	**240.728**	(-)9.083
Headroom	**37.974**	**28.891**	**(-)9.083**

Total debt remained below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities are not borrowing but form part of the Council's debt.

Operational Boundary and Total Debt	31.03.19 Boundary £m	31.03.19 Actual Debt £m	Complied
Borrowing	269.000	**211.837**	✓
Other long-term liabilities	1.500	**-**	✓
Total Debt	**270.500**	**211.837**	✓

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	31.03.19 Boundary £m	31.03.19 Actual Debt £m	Complied
Borrowing	275.000	**211.837**	✓
Other long-term liabilities	5.000	**-**	✓
Total Debt	**280.000**	**211.837**	✓

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**31.03.19 Estimate %**	**31.03.19 Actual %**	**Difference %**
General Fund	4.59%	**1.75%**	(-)2.84%
HRA	12.19%	**12.04%**	(-)0.15%