

London Borough of Hammersmith & Fulham

Report to: Full Council

Date: 26 February 2020

Subject: Treasury Management Strategy Statement 2020/21

Report of: Councillor Max Schmid, Cabinet Member for Finance and Commercial Services

Responsible Director: Hitesh Jolapara, Strategic Director of Finance & Governance

Summary

This report sets out the Council's proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2020/21 and seeks authority for the Strategic Director of Finance and Governance to deliver the treasury management activities as set out in the report.

The report is also designed to demonstrate compliance with the Local Government Act 2003, other regulations and statutory guidance for ensuring that the Council's borrowing and investment plans are prudent, affordable and sustainable, and comply with statutory requirements.

Recommendations

1. That approval is given to the future borrowing and investment strategies as outlined in this report.
2. That the Strategic Director of Finance and Governance, in consultation with the Cabinet Member for Finance and Commercial Services, be delegated authority to manage the Council's cash flow, borrowing and investments in 2020/21 in line with this report.
3. In relation to the Council's overall borrowing for the financial year, to approve the Prudential Indicators as set out in this report and the revised Annual Investment Strategy set out in Appendix E.

Wards Affected: All

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
• Building shared prosperity	Achieve best value for money in investment and borrowing decisions.
• Being ruthlessly financially efficient	Effective management of the Council's cashflow resources.

Financial Impact

This report is wholly of a financial nature.

Legal Implications

The Local Government Act 2003 requires the Council to:

- set out a statement of its treasury management strategy for borrowing, having regard to the Prudential Code and setting out the Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- prepare an Annual Investment Strategy, setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Treasury Management Strategy Statement and Annual Investment Strategy must both have regard to guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and must be approved by the full Council.

All other legal implications are contained within the body of the report.

Implications verified by: Rhian Davies, Borough Solicitor

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Background Papers Used in Preparing This Report

- Treasury Management Strategy Statement 2019/20 (approved by Council February 2019)
 - Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended
 - MHCLG guidance on minimum revenue provision (4th Edition, 2018)
 - MHCLG guidance on local government investments (3rd Edition, 2018)
 - CIPFA Prudential Code for Capital Finance in Local Authorities (2018 Edition)
 - CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2018 Edition)
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1. BACKGROUND

- 1.1 The Council is required to set a balanced budget, which means that income raised during the year is budgeted to meet expenditure. Part of the treasury management operation is to ensure that:
- The Council's capital programme and corporate investment plans are adequately funded;
 - Cash flow is adequately planned, with cash being available when needed to discharge the Council's legal obligations and to deliver Council services;
 - Surplus monies are invested wisely, in counterparties or financial instruments commensurate with the Council's low risk appetite, providing security of capital and adequate liquidity before considering investment return.
- 1.2 Treasury Management Strategies provide a guide to the borrowing needs of the Council, essentially longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, using cash flow surpluses, or restructuring any debts previously transacted to meet Council risk or cost objectives.
- 1.3 The Council has formally adopted CIPFA's Code of Practice on Treasury Management. The Code of Practice and Cross Sectoral Guidance Notes issued in 2017 require that each Local Authority has a Treasury Management Policy Statement that is approved by the Full Council, and this is set out in Appendix A.
- 1.4 The Council also follows other key requirements of the Code as set out in Appendix B. Prospects for interest rate changes and investment returns have been considered in developing and updating the Council's Treasury Management Strategies. The Bank of England published its latest Monetary Policy report (previously named Inflation Report) in November 2019. Inflation forecasts were cut to 1.25% in 2019, 1.50% in 2020 and 2.00% in 2021.
- 1.5 The Monetary Policy Committee (MPC) has warned that if the weak global economic growth continues or Brexit uncertainties intensify, then a rate cut is now more likely. On 18 December 2019, the MPC voted 7-2 to maintain the Bank Rate at 0.75%, with two members sufficiently concerned to vote for an immediate Bank Rate cut to 0.50%. The Council's treasury management advisors, Link Asset Services, are currently forecasting a first increase in rates from quarter one 2021 and second increase from quarter two 2021 (see Appendix C for more details). Any forecasts will be heavily dependent on economic and political developments.

1.6 The importance of external economic factors is also a key driver in external parties setting rates and also the availability of instruments in which to invest and borrow. Appendix D sets out the present views of our Treasury Consultant, Link Asset Services.

1.7 Sections 4 to 6 of this report comprise the Council's Treasury Management Strategy Statement which covers three main areas as summarised below:

1. Borrowing

- Overall borrowing strategy
- Limits on external borrowing
- Maturity structure of borrowing
- Capital Financing Requirement (CFR) projections
- Affordability
- The Minimum Revenue Provision (MRP) policy
- Policy on borrowing in advance of need
- Debt rescheduling

2. Capital spending plans

- Capital spending plans
- Housing Revenue Account borrowing needs.
- Other investment opportunities

3. Managing cash balances and investments

- The current cash position
- Cash flow forecast
- Prospects for investment returns
- Council policy on investing and managing risk
- Balancing short and longer term investments
- Annual Investment Strategy

1.8 Section 7 of the report summarises the key Prudential Indicators. These provide a reference point or "dashboard" so that senior officers and Members can easily identify whether approved treasury management policies are being applied correctly in practice and take corrective action as required.

- 1.9 The Annual Investment Strategy in Appendix E provides more detail on how the Council's surplus cash investments are to be managed in 2020/21. Approved schedules of specified and non-specified investments will be updated following consideration by Members and finalisation of 2020/21 budget plans.
- 1.10 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

2. BORROWING

Overall borrowing strategy

- 2.1 The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required.
- 2.2 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 long-term stability of the debt portfolio. The key factors influencing the 2020/21 strategy are:
- forecast borrowing requirements;
 - the current economic and market environment; and
 - interest rate forecasts.
- 2.3 The Council is currently maintaining an under-borrowed position. This means that capital expenditure has not been fully funded from loan debt as other funding streams (such as government grants and third-party contributions, use of Council reserves and cash balances and capital receipts) have been employed where available. This policy has served the Council well over the last few years while investment returns have been low and counterparty risk has been relatively high.
- 2.4 However, officers are constantly reviewing the situation to see if this remains the appropriate solution, or whether the Council should undertake more long term borrowing to match the anticipated Capital Financing Requirement over the next few years. Given that the Council's resources available for internal borrowing are expected to reduce as capital spending intensifies, the Council needs to maintain flexibility to borrow at opportune moments in line with the approved Prudential Indicators.
- 2.5 On 9 October 2019, the Public Works Loan Board (PWLB) increased the cost of borrowing for local authorities by 1%. All new loans are now subject to the relevant gilt yields +1.8% (certainty rate). This increase has made the cost of loans associated with the Council's capital programme more expensive.

- 2.6 This also impacts on capital schemes which are 'self-funding', i.e. those that generate income which offset capital financing costs, resulting in schemes having a higher bar they must meet before being financially viable.

Alternatives to PWLB

- 2.7 The Council's treasury management strategy permits borrowing from several sources, but it has not been previously anticipated that any alternatives to PWLB would need to be utilised, given the low cost of PWLB funding formerly.
- 2.8 The key advantage of PWLB was the speed of processing and the low administration cost associated with the loans. Alternative funding to PWLB will result in lengthy due diligence, consultancy costs, legal advice and will be far more costly administratively.

Range of Options

- 2.9 Alternative options for funding to PWLB could include:
- Banks
 - Pension fund institutional investors
 - Bond investors
 - The Municipal Bonds Agency

Banks

- 2.10 Discussions with the Council's consultant suggest that the Council could access borrowing at far less duration when compared with PWLB, where the majority of loans are for periods in excess of 20 years. This could change if banks see local authority lending as a long-term opportunity following the PWLB announcement.

Pension fund institutional investors

- 2.11 Initial indications have suggested that the Council may be able to borrow from institutional investors at rates of around gilt yield plus 1.2% to 1.8% for periods of over 20 years, via Private Placement Agreement (PPA). Such arrangements will be subject to negotiations with the lenders, who will need to do due diligence on the Councils borrowing funds.
- 2.12 The process of entering into such agreements is complex and would be subject to consultancy advice. Such agreements would typically be around £50m in size (i.e. the Council would need to do multiple deals to fulfil its borrowing requirement, potentially several per year).
- 2.13 Councils who have strong balance sheets and considerable reserves will be able to negotiate better rates. Pension funds prefer deals with inflation linked yields to match their inflation linked liabilities. It is recommended that these be avoided due to the significant accounting complexities associated with changing levels of inflation.

Bond Investors

- 2.14 A bond release would first require the Council to become credit rated by one (or more) of the major ratings agencies, Fitch, S&P or Moody's. This is a complex, lengthy and costly process that has to be repeated annually.
- 2.15 Some authorities have gone down this route and then discovered that they were rated at a lower level than envisaged, resulting in being unable to access funds at a lower rate than the PWLB rate.
- 2.16 It is thought likely that investors will lend to local authorities at rates less than the new PWLB rates of gilts +1.8%. However, the precise rate offered will be market led and be dependent on the specifics of the financial strength of the authority and the market's perception of this strength.
- 2.17 Some Councils who have issued bonds recently have done so at a rate linked to inflation. Councils with large reserves will be able secure the most advantageous rates. Bond releases typically require a minimum size of at least £200m. The process will be heavy on consultancy and legal advice.

Municipal Bonds Agency

- 2.18 This has been in existence since 2013 but has only recently confirmed its first bond issuance and local authority borrower. The 1% PWLB increase will make the MBA offering more viable, and officers are waiting to engage with MBA directors on plans for further issuance and extension of the local authority client portfolio.

Future Prospects

- 2.19 Only a handful of authorities have raised external capital borrowing via alternative options as PWLB rates have traditionally been at levels that competitors could not offer. This will now change and the market is likely to gear up to the possibility of lending to Councils.
- 2.20 Alternative opportunities for the Council may well present themselves, and the borrowing strategy will be designed to allow for this. The 'benchmark' for a borrowing opportunity has now moved to gilts + 1.8%. External markets could adjust the pricing for funding to just below this new benchmark. It is unclear at this stage whether serious PWLB competition will materialise, and it is likely to take some time to do so.
- 2.21 The unavoidable scenario is that alternatives to the PWLB will require far more due diligence processes, borrowing will likely have to be done in large tranches, rather than taking small amounts (£10m or even £5m) incrementally, as was common practice from the PWLB, and rates offered will differ depending on the financial position of individual authorities, as opposed to the vanilla pricing associated with PWLB.

- 2.22 Officers will continue to explore alternatives to the PWLB, working with the Council's treasury advisor, Link. PWLB rates will also be kept under regular and active review, as future drops in gilt rates may provide advantageous borrowing rates for the council, even with the additional 1.8% margin applied.
- 2.23 There is also a possibility that the PWLB will reverse on the increased rate that has been put in place. Or offer lower rates for projects associated with housing provision. However, this is seen as very unlikely.
- 2.24 Immediate liquidity needs can be satisfied by borrowing from other local authorities in the short term.

3. Limits on external borrowing

3.1 The Prudential Code requires the Council to set two limits on its total external debt, as set out in Table 1 below. The limits for 2020/21 have remained at the same level compared with the 2019/20 Treasury Management Strategy Statement (TMSS) to reflect slippage in the capital programme from previous years. The limits are:

- **Authorised Limit for External Debt (Prudential Indicator 5a):** This is the limit prescribed by section 3(1) of the Local Government Act 2003, representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term.
- **Operational Boundary (Prudential Indicator 5b):** This is the limit which external debt is not normally expected to exceed. The boundary is based on current debt plus anticipated net financing need for future years.

Table 1: Overall borrowing limits

	2019/20	2020/21	2021/22	2022/23	2023/24
	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Authorised Limit for External:					
Borrowing and other long-term liabilities	400	450	500	600	600
Operational Boundary for:					
Borrowing	325	325	400	500	500
Other long-term liabilities	15	15	15	15	15
TOTAL	340	340	415	515	515

Maturity structure of borrowing

- 3.2 Managing the profile of when debt matures is essential for ensuring that the Council is not exposed to large fixed rate sums falling due for refinancing within a short period, and thus potentially exposing the Council to additional cost. Table 2 below sets out current upper and lower limits for debt maturity which are unchanged from 2019/20.

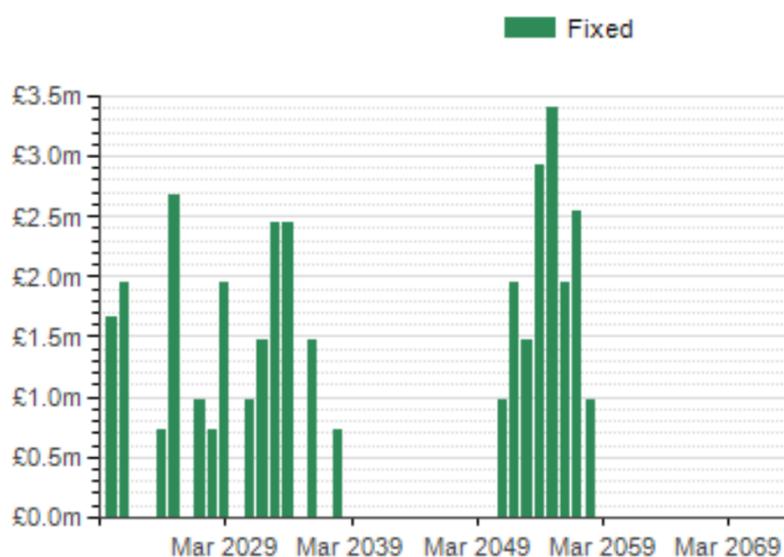
Table 2: Debt maturity profile limits

Actual Maturity at 30 Sep 2019		Lower Limit	Upper Limit
%		%	%
5	Under 12 months	0	15
5	12 Months and within 24 Months	0	15
4	24 Months and within 5 years	0	60
15	5 Years and Within 10 Years	0	75
71	10 Years and Above	0	100

Maturity profile of long-term borrowing

- 3.3 The chart below shows that the principal repayment profile for current council borrowing (as at 30th September 2019) remains within these limits.

Loan Maturities by Type



Capital Financing Requirement (CFR)

- 3.4 The CFR measures the extent to which capital expenditure has not yet been financed from either revenue or capital resources. Essentially, it measures the

Council's underlying borrowing need. Each year, the CFR will increase by the amounts of new capital expenditure not immediately financed.

3.5 Table 3 shows that the CFR will increase over the medium term. Consequently, the capital financing charge to revenue will increase, reflecting the capital spending plans.

Table 3a: Capital Financing Requirement forecast

2018/19		2019/20	2020/21	2021/22	2022/23	2022/23
Actual		Forecast	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m
	CFR as at 31 March					
88	General Fund Closing CFR (detail in Table 3b)	130	164	218	334	288
205	Closing Forecast HRA CFR (including deferred costs of disposal)	218	255	267	278	300
293	TOTAL	348	419	485	612	588
	Annual Change					
21	General Fund	42	34	54	116	-46
-5	HRA	13	37	12	11	22
16	TOTAL	55	71	66	127	-24

3.6 A more detailed analysis of the closing Forecast CFR is shown below:

Table 3b: General Fund Capital Financing Requirement forecast (detailed)

2018/19		2019/20	2021/22	2021/22	2022/23	2023/24
Actuals		Forecast	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m
71	General Fund CFR excluding self-financing schemes and loans	112	125	140	140	142
7	Self-financing schemes and loans	9	31	71	188	140
10	PFI and Finance lease	9	8	7	6	6

liabilities						
88	TOTAL	130	164	218	334	288

3.7 Table 4 below confirms that the Council's gross debt does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for current year and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

Table 4: Borrowing compared to the Capital Financing Requirement

2018/19		2019/20	2020/21	2021/22	2022/23	2023/24
Actual		Forecast	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m
213	Gross Projected Debt	233	324	390	517	493
293	Capital Financing Requirement	348	419	485	612	588
80	Under / (over) borrowing	115	95	95	95	95

Affordability

3.8 The objective of the affordability indicators is to ensure that the level of investment in capital assets proposed remains within sustainable limits and, in particular, the impact on the Council's "bottom line" as reflected in the impact on council tax and rent levels. Table 5 below sets out the expected ratio of capital financing costs to income for both General Fund and HRA activities:

Table 5: Ratio of capital financing costs to income

2018/19		2019/20	2020/21	2021/22	2022/23	2023/24
Actual		Forecast	Estimate	Estimate	Estimate	Estimate
%		%	%	%	%	%
0.10	General Fund	0.32	1.81	2.44	3.03	3.31
30.93	HRA	31.33	28.94	33.18	34.69	35.50

3.9 From 2020/21 onwards, gross capital financing charges (loan interest, MRP and finance and PFI payments) for the General Fund capital programme will start to increase as a proportion of the income from investments and the commercial property portfolio, as new debts are raised to close the gap between funding and the CFR.

- 3.10 The capital financing charges arising from the HRA capital programme increase in line with the forecast increased income, hence capital charges as a proportion of the HRA net revenue stream will remain fairly steady.

4 Minimum Revenue Provision (MRP) Policy

- 4.1 Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year. The accounting approach is to spread the cost over the estimated useful life of the asset. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is funded by Council Tax.
- 4.2 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument (SI) 3146/2003) requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.
- 4.3 The Council's proposed MRP policy for 2020/21 is reported at Appendix 5 of the Four-Year Capital Programme 2020/21 – 2023/24.

Borrowing in advance of need

- 4.4 The Council has the power to borrow in advance of need in line with its future borrowing requirements under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated, and that the Council can ensure the security of such funds. Currently, there are no plans to incur any additional external borrowing in the medium term.
- 4.5 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt rescheduling

- 4.6 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the cost of debt repayment (premiums incurred), which are very costly.
- 4.7 The reasons for any rescheduling to take place will include:

- generating cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhancing the balance of the portfolio by amending the maturity profile and/or the balance of volatility.

4.8 Consideration will also be given to identifying the potential for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are likely to be lower than rates paid on current debt.

4.9 Any rescheduling must be authorised by the Strategic Director of Finance and Governance in consultation with the lead cabinet Member.

5. CAPITAL

Capital spending plans

5.1 The Prudential Code requires that any borrowing and investment decisions are taken in the light of capital spending plans and consideration of how that proposed capital expenditure will be purchased. The Council's capital expenditure plans have been reported in the Four-Year Capital Programme 2020/21 - 2023/24 reported elsewhere on the Committee's agenda, both in terms of those agreed previously, and those forming part of the current budget cycle.

5.2 Any slippage against the capital programme will impact on the figures reported throughout this report.

Housing Revenue Account (HRA) borrowing

5.3 From October 2018 onwards, local authorities with an HRA are no longer constrained by government controls over borrowing for housebuilding and are able to borrow against their expected rental income, in line with the Prudential Code.

5.4 For the period 2020/21 to 2023/24, based on the planned four-year capital programme and due to reduced cash balances from the latter half of 2019/20 onwards, the HRA may need to actively consider new external borrowing.

5.5 Where the HRA is borrowing below its level of CFR and is under borrowed, the general fund will make an accounting charge to the HRA based on the average one-year LIBOR rate applied to the under borrowed position.

5.6 The availability of internal borrowing is achieved through the use of monies received classed as capital receipts. Use of this money is classed as borrowing, although cash is received from developers on a phased basis, receipts are only deemed usable for funding purposes as assets transfer to the purchaser. This does not prevent the Council from spending the cash it receives but, until such time that assets transfer, any such use is classed as borrowing. This borrowing unwinds when the receipt becomes usable.

Other investment opportunities

5.7 As well as investing in assets owned by the Council and used in the delivery of services, the Council also invests, or may invest, where appropriate, in:

- Infrastructure projects, such as green energy;
- Loans to third parties;
- Shareholdings in limited companies and joint ventures.

5.8 Such investments are treated as expenditure for treasury management and Prudential borrowing purposes, even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities will be agreed as part of the Council's budget setting and ongoing monitoring processes and considered as part of the Annual Investment Strategy.

6. MANAGING CASH BALANCES

Current position and cash flow forecast

6.1 Table 6 below shows that cash balances have increased by £22m in the past six months which is mainly due to income such as council tax, business rates and grants received in advance. The cash largely comprises the Council's usable reserves, capital receipts and unspent grants.

Table 6: Cash position at 30 September 2019

As at 31 March 2019		As at 30 September 2019		
Principal	Average Rate	Principal	Average Rate	
£m	%	£m	%	
Investments				
319	0.96	Specified	341	0.91
7	1.35	Non-Specified	7	1.35
326		Total	348	
Borrowing				
213	4.77	Public Works Loan Board	213	4.77
213		Total	213	

6.2 Table 7 below shows as at 17 January 2020, the investment position declines to around £234.2m due to payment for Earls Court of £89.6m and the purchase of the leased office building at 145 King Street for £18.6m.

Table 7: Cash position at 17 January 2020

As at 31 March 2019		As at 17 January 2020		
Principal	Average Rate	Principal	Average Rate	
£m	%	£m	%	
Investments				
319	0.96	Specified	227	0.94
7	1.35	Non-Specified	7	1.35
326		Total	234	
Borrowing				
213	4.77	Public Works Loan Board	213	4.77
0.0	0.00	Local Authority	10	0.76
213		Total	223	

- 6.3 The combination of Earls Court and 145 King Street payment reduced investment balances by £108.2m, resulting in reduced investment income of around £1.03m per annum, unless cash balances are increased through borrowing.
- 6.4 Before the termination of Earls Court conditional land sale agreement, it was expected that the cash held and received would have been spent over the medium term to secure the vacant possession of the site, including the cost of buying out leaseholders. The HRA business plan has been updated to reflect the net capital cost avoidance of £63m, after the repayment of the capital receipt, as a result of the termination. These costs were based on estimates in December 2015 and therefore are likely to be understated due to increases in property values and other costs since that time.
- 6.5 In relation to the purchase of 145 King Street, acquiring the freehold asset avoids the rental payments made by the Council, with the lease payments being in excess of the capital repayment and interest charges over the life of the asset.
- 6.6 The Council aims to manage daily cash flow peaks and troughs to achieve a nil current account balance daily throughout the year. As such the average yearly surplus cash balances should be fully invested throughout.

Prospects for investment returns

- 6.7 Investment returns on cash-based deposits are likely to remain low during 2020/21 and beyond. The 1% hike in PWLB rates in October 2019 has not

resulted in any dramatic increase in interest earnings from short term investments in the Local Authorities market. The latest MPC meeting has warned that if global growth does not pick up or Brexit uncertainties intensify, then a bank rate cut is now more likely.

Council policy on investing and managing risk

- 6.8 The aim is to manage risk and reduce the impact of any adverse movement in interest rates on the one hand but, at the same time, not setting the limits to be so restrictive that they impair opportunities to reduce costs or improve performance.

Balancing short and longer term investments

- 6.9 During the first half of 2019/20, there have been no new investments of surplus funds for more than 364 days. The 2020/21 Annual Investment Strategy permits investing for more than 364 days. Using longer term maturity investments would improve yields, however, this needs to be balanced with liquidity needs.

Table 8: Investment limits

2018/19		2019/20	2020/21	2021/22	2022/23
Actual		Forecast	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m
	Upper limit for fixed interest rate exposure				
213	Net principal re fixed rate borrowing	400	400	400	450
	Upper Limit for variable rate exposure				
0	Net Principal for variable rate borrowing	0	0	0	0
7	Upper Limit for principal sums invested for more the 364 days	120	120	120	120

Annual Investment Strategy

- 6.10 The Council holds significant invested funds, representing income received in advance of expenditure, balances and reserves. During the first half of the current year, the Council's average investment balance has been around £344m, however, this is projected to fall to around £250m in the latter half of 2019/20. With additional regeneration projects expected to take place, average cash balances are expected to continue to reduce in 2020/21 unless new external borrowing takes place.
- 6.11 The Local Government Act 2003 requires the Council to prepare an Annual Investment Strategy, setting out the Council's policies for managing its

investments and for giving priority to the security and liquidity of those investments. This strategy is set out in Appendix E.

6.12 Investments are made with reference to the core balance, future cash flow requirements and the outlook for interest rates. The Council's investment priorities will always be security first, liquidity second, then yield.

7. SUMMARY OF PRUDENTIAL INDICATORS (PIs)

7.1 The purpose of prudential indicators (PIs) is to provide a reference point or "dashboard" so that senior officers and Members can:

- easily identify whether approved treasury management policies are being applied correctly in practice; and
- take corrective action as required.

7.2 As the Council's S151 officer, the Strategic Director of Finance and Governance, has responsibility to ensure that appropriate Prudential Indicators are set and monitored and that any breaches are reported to Members.

7.3 The Strategic Director of Finance and Governance has confirmed that the PIs set out below are all expected to be complied with in 2019/20 and he does not envisage at this stage that there will be any difficulty in achieving compliance with the suggested indicators for 2020/21

PI ref	Para ref		2019/20 indicator	2019/20 forecast	2020/201 proposed
1	5.1	Capital expenditure	£121m	£115m	£103m
2	4.10	Capital Financing Requirement (CFR)	£359m	£338m	£402m
3	4.13	Net debt vs CFR	£156m underborrowing	£125m underborrowing	£95m underborrowing
4	4.14	Ratio of financing costs to revenue stream	GF 0.65% HRA 32.25%	GF 0.32% HRA 31.33%	GF 1.81% HRA 28.94%
5a	4.6	Authorised limit for external debt	£400m	£213m	£400m
5b	4.6	Operational debt boundary	£340m	£213m	£340m
6	6.2	Working capital balance	£0m	£0m	£0m
7	6.6	Limit on surplus funds invested for more than 364 days (i.e. non-specified investments)	£120m	£7m	£120m
8	4.7	Maturity structure of borrowing	Upper limit under 12 months - 15% Lower limit 10	Upper limit under 12 months - 5% Lower limit 10	Upper limit under 12 months - 15% Lower limit 10

			years and above - 100%	years and above - 71%	years and above - 100%
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7.4 CIPFA is currently updating the Prudential Code and Treasury Management Code to take effect for 2020/21. This TMSS has been prepared based on the current versions of these Codes and will be updated if/when any revised Code is published.

8. Reasons for Decision

This report represents the Council's Treasury Management Strategy Statement for 2020/2021. It is a regulatory requirement for this report to be reported to the Council. It is recommended that approval is given to the future borrowing and investment strategies as outlined in this report.

9. Equality Implications

The report is for noting. There are no equality implications for groups with protected characteristics (under the Equality Act 2010) as a result of this report.

Implications verified by Fawad Bhatti, Policy & Strategy Officer, Public Services Reform, tel. 07500 103617.

10. Risk Management Implications

Treasury Management contributes to all the Council Values and Delivery of Objectives. Management of treasury risks are commensurate to the risk appetite of the Council. The effective understanding, control and management of the many aspects of risk associated with treasury management are essential to achieving an authority's objectives. Risk management is therefore embedded throughout treasury guidance, policies and practices.

Treasury risks present themselves in many forms, from failure to optimise performance by not taking advantage of opportunities, to managing exposure to changing economic circumstances, most recently the situation is somewhat uncertain due to this Government's negotiations over the UK's departure from the European Union as expressed in section 6 of this report. In adopting a policy of managing risk, an authority is determining its level of risk acceptance.

The key challenge is to understand, identify, monitor and manage risks in a planned and effective way. Local authorities are required to report annually to full council on their treasury management strategy statement (TMSS) before the start of the year, which sets the objectives and boundaries for the approach to treasury activity.

The authority supplements this with treasury management practice schedules (TMPs), which set out the practical arrangement to achieve those objectives. The TMPs inform the day-to-day practices applied to manage and control treasury activities. Local authorities are typically financially risk averse and greatly value stability in order to form council tax and housing rent levels, through to general fund and HRA budgets.

Implications verified by: David Hughes, Director of Audit, Risk and Fraud, tel. 020 7361 2389.

11. Other Implications

The Council's borrowing and investment activity represents significant expenditure and income within the Borough and, consequently, where supplies are sourced locally, changes in borrowing or investment may impact either positively or negatively on local contractors and sub-contractors. Where capital expenditure increases, or is brought forward, this may have a beneficial impact on local businesses; conversely, where expenditure decreases, or is slipped, there may be an adverse impact on local businesses.

Implications verified by: Albena Karameros, Economic Development Team, tel. 07739316957

12. Consultation

Consultation took place with the Council's investment advisor, Link Asset Services, in respect of the economic and interest rate update.

List of Appendices:

- Appendix A: Treasury Management Policy Statement
- Appendix B: Meeting CIPFA requirements
- Appendix C: Interest Rate Prospects
- Appendix D: Economic Update
- Appendix E: Annual Investment Strategy
- Appendix F: Credit Ratings
- Appendix G: Approved countries investment list

THE TREASURY MANAGEMENT POLICY STATEMENT

The CIPFA recommendations contained in the Code of Practice and Cross Sectoral Guidance Notes issued as a revised version in 2009 and 2011 for Treasury Management in the Public Services require that each Local Authority has a Treasury Management Policy Statement that is approved by the Full Council.

CIPFA recommends that the Council's treasury management policy statement adopts the following form of words below to define the policies and objectives of its treasury management activities.

This Council defines its Treasury Management activities 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.
- This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

This Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance.

MEETING CIPFA REQUIREMENTS

The Council has formally adopted CIPFA's Code of Practice on Treasury Management (updated 2018) and complies with the requirements of the Code as detailed below:

- Maintaining a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities
- Maintaining a statement of Treasury Management Practices that sets out the manner in which the Council will seek to achieve these policies and objectives
- Presenting the Full Council with an annual Treasury Management Strategy Statement, including an annual investment strategy and Minimum Revenue Provision policy for the year ahead (this report), a half year review report and an annual report (stewardship report) covering compliance during the previous year
- A statement of delegation for treasury management functions and for the execution and administration of treasury management decisions (see below).
- Delegation of the role of scrutiny of treasury management activities and reports to a specific named body. At the London Borough of Hammersmith and Fulham, this role is undertaken by the Audit, Pensions and Standards Committee.

Treasury Management Delegations and Responsibilities

The respective roles of the Council, Cabinet, Audit, Pensions and Standards Committee, and of the Section 151 officer and the Director of Treasury and Pensions are summarised below. Further details are set out in the Statement of Treasury Management Practices.

Council

Council will approve the annual treasury management strategy statement, including borrowing and investment strategies. In doing so, Council will establish and communicate its appetite for risk within treasury management having regard to the Prudential Code.

Cabinet

Cabinet will recommend to Council the annual treasury strategy, including borrowing and investment strategies and receive a half-year report and annual outturn report on treasury activities. Cabinet also approves revenue budgets, including those for treasury activities.

Audit, Pensions and Standards Committee

This committee is responsible for ensuring effective scrutiny of treasury strategy and policies.

Section 151 Officer

The role of the Section 151 is vested in the Strategic Director of Finance and Governance post (the S151 Officer), pursuant to Section 101 of the Local Government Act 1972 and by the Executive under Section 15 of the Local Government Act 2000.

The S151 Officer may authorise officers to exercise on their behalf functions delegated to them. Any decisions taken under this authority shall remain the responsibility of the S151 Officer and must be taken within the guidelines of the Treasury Management Strategy.

The S151 Officer has full delegated powers from the Council and is responsible for the following activities:

- Investment management arrangements and strategy;
- Borrowing and debt strategy;
- Monitoring investment activity and performance;
- Overseeing administrative activities;
- Ensuring compliance with relevant laws and regulations;
- Provision of guidance to officers and members in exercising delegated powers.

Director of Treasury and Pensions

Has responsibility for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Policy Statement and CIPFA's 'Standard of Professional Practice on Treasury Management'.

Treasury Team

Undertakes day-to-day treasury investment and borrowing activity in accordance with strategy, policy, practices and procedures.

Training

The CIPFA code requires the S151 officer to ensure that Members with responsibility for making treasury management decisions and for scrutinising treasury functions to receive adequate training. The training needs of all officers are reviewed periodically as part of the Learning and Development programme. Officers attend various seminars, training sessions and conferences during the year and appropriate

Member training is offered as and when needs and suitable opportunities are identified.

Monitoring and Reporting

The Treasury Management activities during the year will be included in the monitoring reports to the Audit, Pensions and Standards Committee.

The Council's Treasury Management Strategy will be approved annually by full Council and there will also be a mid-year report. The aim of these reporting arrangements is to ensure that those with the responsibility for treasury management policies and activities and those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The Council will adopt the following reporting arrangements in accordance with the

Area of Responsibility	Council / Committee / Officer	Frequency
Treasury Management Strategy	Full Council	Annually at meeting before the start of the financial year.
Scrutiny of Treasury Management Strategy	Audit, Pensions and Standards Committee	Annually
Treasury Management Strategy: Mid-year report	1. Audit, Pensions and Standards Committee 2. Cabinet	Annually after the first half of the financial year
Treasury Management Strategy: Updates / revisions at other times	1. Audit, Pensions and Standards Committee 2. Full Council	As and when required
Treasury Outturn Report	1. Audit, Pensions and Standards Committee 2. Full Council	Annually after year-end
Treasury Management Monitoring Reports	Strategic Director of Finance and Governance and Lead Cabinet Member for Finance and Commercial Services	Weekly/Monthly

requirements of the revised code:

PROSPECTS FOR INTEREST RATES

- The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view:

Bank Rate	Interest Rate Forecasts							
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Link	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%
Cap Econ	0.75%	0.75%	0.50%	0.50%	0.50%	-	-	-
5Y PWLB RATE								
Link	2.30%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	3.00%
Cap Econ	2.40%	2.40%	2.40%	2.40%	2.40%	-	-	-
10Y PWLB RATE								
Link	2.60%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%
Cap Econ	2.60%	2.60%	2.60%	2.60%	2.60%	-	-	-
25Y PWLB RATE								
Link	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%
Cap Econ	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-
50Y PWLB RATE								
Link	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%
Cap Econ	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-

Source: Link Asset Services

- As reflected in the table above, the PWLB rate increased by a 1% margin for new loan advances from 9 October 2019. This increase affects the cost of any future borrowing by the Council from the PWLB and the Council may consider other lenders should borrowing be required.
- Link Asset Services undertook its last review of interest rate forecasts on 11th November 2019 after the quarterly Bank of England Monetary Policy Report (previously named Inflation Report). There was no change in MPC policy at that meeting. However, there were increasing concerns among MPC members around weak global economic growth and Brexit uncertainties delaying UK economic recovery. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely.
- Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Treasury Management team will continue to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances (within their approved remit).
- If it were considered that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- Because the council existing borrowing is on fixed interest terms the Council is protected from future interest rate raises. However, any new borrowing would reflect current market rates which may fluctuate.

ECONOMIC UPDATE

UK: While the Bank of England went through the routine of producing the latest quarterly Monetary Policy Report, it is very questionable how much all the writing and numbers are worth when faced with the uncertainties of where the UK are post the general election on 12 December 2019. In October 2019, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January 2020; with the Conservative Government achieving a comfortable majority in the election, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020.

The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that is worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 on 18 December 2019 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. Inflation forecasts were cut – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence inflation poses little concern.

USA: While the USA is not heading towards a recession, the Federal Reserve has now made three cuts in rates of 0.25% in 2019 in order to counter the slowdown in growth during this year.

Europe: The European Central Bank (ECB) is increasingly concerned by the headwinds facing the Eurozone (EZ) economy as a whole, but especially the German and Italian economies. Germany is particularly exposed to a downturn in the world economy due to exports being a very important part of its economy. Italy just looks stuck in weak growth and successive governments have done little to face up to major issues that need dealing with. The ECB has therefore emphasised that while it can tinker at the edges with cuts in rates, and boosting liquidity in financial markets, the heavy lifting will have to be done by fiscal policy measures through national government action. Such siren noises have generally fallen on deaf ears in years gone by and Italy has again had a rap on its knuckles from the ECB for not doing enough to reduce its structural deficit.

China: China's growth rate has been cooling during 2019, partly as a result of the trade war, despite repeated interventions by the central bank to boost growth through monetary easing. The US tariff war with China continues but, more recently, a phase one deal has been agreed which gives some hope for progress in resolving this dispute.

Japan: Japan is, as always for the last two decades, mired in a battle with trying to get inflation consistently up from near zero, and with weak economic growth. Despite massive monetary policy measures, quantitative easing, and fiscal measures by the government, it is achieving little despite having its foot flat on the floor of the accelerator pedal of measures to stimulate growth.

Source: Link Asset Services

ANNUAL INVESTMENT STRATEGY

1. The Council holds significant invested funds, representing income received in advance of expenditure, balances and reserves. During the first half of the current year, the Council's average investment balance has been around £344m, however, cashflow projections indicate that the investment balance is to fall to around £250m in the latter half of 2019/20, with payments transacted for Earls Court and potentially for 145 King Street. Investments are made with reference to the core balance, future cash flow requirements and the outlook for interest rates.
2. The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments ("the Investment Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.
3. In accordance with the above guidance and to minimise the risk to investments, the Council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties, which will provide security of investments, enable diversification and minimise risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Investment returns and time limits

4. The Bank Rate has remained at 0.75%, the rate since August 2018. However, the MPC have warned that there could be interest rate cuts if global economic growth remains slow and Brexit uncertainties intensify. The Bank Rate forecasts for financial year ends (March) are:

2019/20: 0.75%
2020/21: 1.00%
2021/22: 1.00%

Source: Link Asset Services

5. The suggested budgeted investment earnings rates for returns on investments placed for periods up to around three months during each financial year are as follows

2019/20: 0.75%
2020/21: 0.75%
2021/22: 1.00%
2022/23: 1.25%
2023/24: 1.50%

Source: Link Asset Services

Investment time limits

6. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. For the year 2020/21, the proposed limit of investments for over 364 days is £120m as set out in the TMSS.

Investment Policy

7. The Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to assess continually and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
8. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Creditworthiness Policy

9. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
 - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security; and
 - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
 - The Strategic Director of Finance and Governance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
10. The Council takes into account the following relevant matters when proposing counterparties:
 - the financial position and jurisdiction of the institution;

- the market pricing of credit default swaps¹ for the institution;
 - any implicit or explicit Government support for the institution;
 - Standard & Poor, Moody's and Fitch short and long term credit ratings;
 - Sovereign ratings to select counterparties from only the most creditworthy countries; and
 - Core Tier 1 capital ratios².
11. Changes to the credit rating will be monitored and, in the event that a counterparty is downgraded and does not meet the minimum criteria specified in Appendix E, the following action will be taken immediately:
- no new investments will be made;
 - existing investments will be recalled if there are no penalties; and
 - full consideration will be given to recall or sale existing investments which would be liable to penalty clause.

Specified and Non-specified investments

12. The DCLG Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on Local authorities around the use of specified and non-specified investments. A specified investment is defined as an investment which satisfies all of the conditions below:
- The investment and any associated cash flows are denominated in sterling;
 - The investment has a maximum maturity of one year;
 - The investment is not defined as capital expenditure; and
 - The investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.
13. Investments with UK local authorities are deemed to be high credit quality because of the strong regulatory financial framework within which local authorities are required to operate and which mitigates against the risk of default, summarised below:

¹ Credit Default Swaps (CDS) are tradable instruments where the buyer receives a pay-out from the seller if the party to whom the CDS refers (often a financial institution) has a "credit event" (e.g. default, bankruptcy, etc.). The price of the CDS gives an indication to the market's view of likelihood: the higher the price the more likely the credit event.

² The Tier 1 capital ratio is the ratio of a bank's core equity capital to its total risk-weighted assets (RWA). Risk-weighted assets are the total of all assets held by the bank weighted by credit risk according to a formula determined by the Regulator (usually the country's central bank). Most central banks follow the Basel Committee on Banking Supervision (BCBS) guidelines in setting formulae for asset risk weights.

The Core Tier 1 ratios for the four UK banks that the Council uses are: Barclays: 10.2%, HSBC: 11.2%, Lloyds: 12.0% and RBS: 10.8%.

- The requirement to set a balanced budget annually under sections 31A and 42A of the Local Government Finance Act 1992;
- The requirement to budget for a minimum level of reserves including risk under the Local Government Act 2003;
- The requirement for the S151 officer to issue a statutory report in the event that the authority intends to not set an adequate level of reserves or intends to undertake a course of action which he considers to be unlawful;
- The requirement for long-term borrowing to be solely for capital expenditure;
- The cap on excessive borrowing through the operation of the limits in the Prudential Code;
- All borrowing has to be secured on revenues of a local authority rather than assets.

14. A non-specified investment is any investment that does not meet all the conditions above. In addition to the long-term investments listed in the table at the end of Appendix E, the following non-specified investments that the Council may make include:

- **Green Energy Bonds:** Investments in solar farms are a form of Green Energy Bonds that provide a secure enhanced yield. The investments are structured as unrated bonds and secured on the assets and contracts of solar and wind farms. Before proceeding with any such investment, internal and external due diligence will be undertaken in advance of investments covering the financial, planning and legal aspects.
- **Loans:** The Council may consider advancing loans (as a form of investment) to organisations delivering services for the Council where this will lead to the enhancement of services to Council Stakeholders. The Council will undertake due diligence checks to confirm the borrower's creditworthiness before any sums are advanced and will obtain appropriate levels of security or third party guarantees for loans advanced. The Council would expect a return commensurate with the type and duration of the loan. All loans would need to be in line with the Council's Scheme of Delegation and Key Decision thresholds levels.
- **Shareholdings in limited companies and joint ventures:** The Council may invest in three forms of company:
 - Small scale businesses aimed at promoting economic growth in the area. Individual investments are no more than £0.5m and the aim is for these to be self-financing over the medium term. Any such loans will be subject to due diligence and the Council's Scheme of Delegation and Key Decision thresholds levels.
 - Trading vehicles which the Council has set up to undertake particular functions. Currently the Council has interests in the following companies: Lyric Theatre Hammersmith Ltd, Hammersmith and Fulham Urban Studies Centre, Hammersmith and Fulham Bridge Partnership, HFS Developments LLP, HFS Developments 2 LLP, LBHF Ventures Ltd,

LBHF Joint Ventures Ltd and LBHF Family Support Services Ltd. These are not held primarily as investments but to fulfil Council service objectives. Any new proposals will be subject to due diligence as part of the initial business case. As these are not to be held primarily as investment vehicles, then there is an expectation that they will break even.

- Trading vehicles held for a commercial purpose where the Council is obliged to undertake transactions via a company vehicle. These will be wholly owned subsidiaries of the Council with the aim of diversifying the investment portfolio risk.
15. For any such investments, specific proposals will be considered by the Director of Treasury and Pensions, and the Strategic Director of Finance and Governance in consultation with the lead Cabinet Member for Finance and Commercial Services and approvals to be in accordance with the Council's Constitution and governance processes, after taking into account:
- cash flow requirements
 - investment period
 - expected return
 - the general outlook for short to medium term interest rates
 - creditworthiness of the proposed investment counterparty
 - other investment risks
 - due diligence review
 - The value of non-specified investments will not exceed their investment allocation.
 - All investments with local authorities will be subject to due diligence review of their accounts and financial health by the Director of Treasury and Pensions.

Country of Domicile

16. The current TMSS allows deposits / investments with financial entities domiciled in the following countries listed in Appendix G. This list will be kept under review and any proposed changes to the policy reported to the next meeting.

Schedule of investments

17. The current criteria for providing a pool of high quality short, medium and long-term, cash-based investment counterparties along with the time and monetary limits for institutions on the Council's counterparty list are in the table below.
18. The counterparties and specific limits have been reviewed and updated.

All investments listed below must be sterling denominated

Investments	Minimum Credit Rating Required	Maximum Individual Counterparty Investment Limit	Maximum tenor	Changes from the 2019/20 TMSS
	(S&P/Moody's/Fitch)	£m		
DMO Deposits	Government Backed	Unlimited	6 months	No change
UK Government (Gilts/T-Bills/Repos)	Government Backed	Unlimited	Unlimited	No change
Supra-national Banks, European Agencies	LT: AA-/Aa3/AA-	£100m	5 years	No change
Covered Bonds*	LT: AA+/Aa1/AA+	£100m	5 years	No change
Network Rail	Government guarantee	£200m maximum	Oct-52	No change
TfL	LT: AA/Aa/AA	£100m	3 years	No change
GLA	N/A	GLA : £100M	3 years	No change
UK Local Authorities (LA)		LA : £30m per LA, per criteria £200m in aggregate	3 years	No change
Commercial Paper issued by UK and European Corporates	LT: AA-/Aa3/AA- ST: F2/P-2/A-3	£20m per name £80m in aggregate	1 year	No change
Money Market Funds (MMF)	LT: AAA By at least one of the main credit agencies	£30m per Fund Manager £200m in aggregate	3 day notice	No change
Enhanced Money Funds (EMF)	LT: AAA By at least one of the credit agencies	£25m per fund manager, £100m in aggregate	Up to 7 day notice	No change
	ST: F2/P-2/A-3			

Investments	Minimum Credit Rating Required	Maximum Individual Counterparty Investment Limit	Maximum tenor	Changes from the 2019/20 TMSS
	S&P/Moody's/Fitch	£m		
UK Bank (Deposit/Certificates of Deposit/Short Dated Bonds)	LT: AA-/Aa3/AA- (UK Government Ownership greater than 25%)	£70m	3-5 years	No change
	LT: A-/A3/A-	£50m	1-3 years	No change*
	ST: F2/P-2/A-3	£50m	0-1 year	No change*
Non-UK Bank (Deposit/Certificates of Deposit/Short Dated Bonds)	LT: AA-/Aa2/AA-	£50m	1-3 years	No change
	ST: F2/P-2/A-3	£30m	0-1 year	No change
Green Energy Bonds	Internal and External due diligence	Less than 25% of the total project investment or maximum of £20m per bond. £50m in aggregate	10 years	No change
Rated UK Building Societies	LT: A3/A ST: P-2/A-3	£30m	3 years	No change*
Approved countries investments list:	See Appendix G			

*Change to presentation only to enable clarity

UK T-Bills: UK Government Treasury Bills (T-Bills) are short term promissory notes issued by the UK Government at a discount to par, for tenors of up to one year. T-Bills provide a greater yield than cash deposits with the DMO and can be bought at the primary sale (by market makers), or in the secondary market.

UK Gilts: UK Government Gilts provide a greater yield than cash deposits with the DMO. At present, there are a limited number of gilts that will mature in the next two years, and as the shorter dated gilts were issued in a higher interest rate environment than at present, the coupons on these gilts are higher than current interest rates.

UK Government repurchase agreements (Repos): UK Government repurchase agreements are the purchase of UK Government securities with an agreement to resell them back at a higher price at a specific future date. By their nature, repos are short term secured investments in UK Government bonds which provide a greater return than cash deposits with the DMO. Ownership of the UK Government bond is temporarily transferred to the Council, thereby providing security over the funds invested.

Commercial Paper (CP) is similar to a very short term bond issue (up to one year), issued to investors on a discounted basis, and with the interest rate based on prevailing rates at the time of pricing.

Supra-national institutions are those that sovereign backed or supported institutions that span more than one country, such as the European Investment Bank, the European Bank of Reconstruction and Development, the World Bank, etc.

Network Rail: All Network Rail infrastructure debt is directly and explicitly backed by a financial indemnity from the Secretary of State for Transport acting for and on behalf of the government of the United Kingdom of Great Britain. The financial indemnity is a direct UK sovereign obligation of the crown and cannot be cancelled for any reason (prior to its termination date in October 2052). Propose to change TMS limit to unlimited and set the maximum maturity to Oct 2052.

CREDIT RATINGS

Long term ratings	Fitch	Moody's	S&P
<i>Investment Grade</i> Focuses on liquidity and ability to meet payment obligations on time	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
<i>Non-investment grade (junk)</i> Focus on recovery percentage in the event of partial or total default	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
	B+	B1	B+
	B	B2	B
	B-	B3	B-
	CCC	Caa	CCC
	CC	Ca	CC
	C	C	C
	D		D

Short term ratings	Fitch	Moody's	S&P
Investment Grade	F1+	Prime-1	A-1+
	F1	Prime-2	A-1
	F2	Prime-3	A-2
	F3		A-3
Non-investment grade	B	Not Prime	B
	C		C
	D		D

APPROVED COUNTRIES FOR INVESTMENTS

The list of approved countries set out below is based on the credit ratings in 2019. Countries included on the approved list are those whose lowest rating, from Moody's, S&P and Fitch, meet or exceed the UK's credit rating of AA2, AA, AA. Most of these countries also have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Country	Lowest Rating
Australia	AAA
Canada	AAA
Denmark	AAA
Germany	AAA
Luxembourg	AAA
Netherlands	AAA
Norway	AAA
Singapore	AAA
Sweden	AAA
Switzerland	AAA
Finland	AA+
United States	AA+
Abu Dhabi (UAE)	AA
Hong Kong	AA
France	AA
United Kingdom	AA

Source: Link Asset Services