


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">CABINET</p> <p style="text-align: center;">6 February 2017</p>	
<p>TREASURY MANAGEMENT STRATEGY REPORT 2017/18</p>	
<p>Report of the Cabinet Member for Finance – Councillor Schmid</p>	
<p>Open Report</p>	
<p>Classification - For Review & Comment Key Decision: Yes</p>	
<p>Wards Affected: ALL</p>	
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1. EXECUTIVE SUMMARY

- 1.1 The report sets out the Council's Treasury Management Strategy for 2017/18. It seeks approval for the Strategic Finance Director to arrange the Treasury Management Strategy in 2017/18 as set out in this report.

2. RECOMMENDATIONS

- 2.1 That approval is given to the future borrowing and investment strategies as outlined in this report and that the Strategic Finance Director be authorised to arrange the Council's cash flow, borrowing and investments in 2017/18.
- 2.2 In relation to the Council's overall borrowing for the financial year, to note the comments and the Prudential Indicators as set out in this report and the four year capital programme 2017/18 to 2020/21.
- 2.3 That approval is given to pay the Housing Revenue Account (HRA) investment income on unapplied HRA receipts and other HRA cash balances calculated at the average rate of interest (approximately 0.40% p.a.) earned on temporary investments throughout the year to the 31st March 2017.

3. BACKGROUND

- 3.1 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 this cash flow is adequately planned, with cash being available when needed.

Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

- 3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These plans provide a guide to the borrowing need of the Council, essentially the 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, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 3.3 CIPFA¹ defines treasury management 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."
- 3.4 The Council is required to receive and approve, as a minimum, three main reports each year: a Treasury Strategy Report (this report), Mid-year report and an Outturn report. These reports are required to be adequately scrutinised before being recommended to the Council by the Cabinet. This role is undertaken by the Audit, Pensions and Standards Committee and the Finance and Delivery PAC.
- 3.5 The Treasury Management Strategy is set out in section 7 of this report, and the remainder of the report covers the list below. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and CLG Investment Guidance. This includes:
- * prospects for interest rates;
 - * economic background;
 - * current treasury position;
 - * proposed investment strategy;
 - * borrowing strategy;
 - * prudential indicators; and,
 - * approach to debt rescheduling.
- 3.6 Section 7 of this report sets out the investment approach, and takes account of the specified and non-specified² approach. The Council is likely only to consider non-specified investments where an investment is made for longer than one year.
- 3.7 The CIPFA recommendations contained in the Code of Practice and Cross-Sectoral Guidance Notes issued as a revised version in 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. This is set out in Appendix A of this report.

4. PROSPECTS FOR INTEREST RATES

- 4.1 A key driver of both investment and debt decisions are prospective interest rates and the rates by which the Council can borrow funds. The Table in Appendix B (provided by our Treasury Consultants – Capita) set out the present rates.

¹ Chartered institute of Public Finance and Accountancy

² Specified and non-specified investments are defined in Section 7.17 to 7.19

5. ECONOMIC BACKGROUND

5.1 The importance of external economic factors is also a key driver in external parties setting rates and also availability of instruments in which to invest and borrow. Appendix C sets out the present views of our Treasury Consultants Capita

6. CURRENT TREASURY POSITION

6.1 At the 31st December 2016, the Council had £360 million cash investments. The cash is made up of the Council's usable reserves, capital receipts and unspent government grants. The level of cash has remained broadly at the same level as the start of the financial year, and it is anticipated the cash levels at the end the financial year will be approximately £300 - £330 million.

6.2 The Capital Financing Requirement (CFR) is stated below with and without schools' windows in the table below. This is because the Dedicated Schools Grant (DSG) will compensate the council for any cost of borrowing associated with the Schools' Windows programme. The forecast closing General Fund debt as measured by the CFR for 2016/17 is £45.42m. This is subject to the application of forecast capital receipt surpluses to debt reduction at the year-end. The CFR³ with the DSG-funded Schools Windows will be £ 49.37m.

Forecast Movement in the General Fund Capital Financing Requirement (CFR) ⁴

£m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Closing Capital Finance Requirement (Including DSG-funded Schools Windows borrowing)	49.37	58.56	66.52	67.23	67.91
Closing Capital Finance Requirement (Excluding DSG-funded Schools Windows borrowing)	45.42	45.59	47.24	48.71	50.13

6.3 The CFR measures an authority's underlying need to borrow for a capital purpose. It is considered by the Chartered Institute of Public Finance Accountancy (CIPFA) as the best measure of Council debt as it reflects both external and internal borrowing. It was introduced by the Government in 2004 and replaced the 'credit ceiling' as the Council's measure of debt.

6.4 The CFR is the difference between capital expenditure incurred and the resources set aside to pay for this expenditure. Put simply it can be thought of as capital expenditure incurred but not yet financed in-full and serves as a measure of an authority's indebtedness. An important caveat is that the CFR does not necessarily equal the outstanding loans of the authority. A council may be 'cash rich' and pay for a new asset in full without entering into new loans. However unless the council simultaneously sets aside reserves (either through recognising a revenue cost or transferring existing reserves from 'usable' to 'unusable') the CFR will increase. In this example the authority has effectively borrowed internally. The CFR should therefore be thought of as the total of internal and external borrowing.

³ All references to CFR are taken from the latest Financial Monitoring documents & Capital Monitoring & Budget Variations report

⁴ It should be noted that because of the timing of the report process the CFR figures will change before reaching Full Council in February 2016.

6.5 There are 5 Prudential Indicators for 2017/18 relating to capital stated in the Capital Programme 2017/18 to 2020/21 report to Budget Council in February 2017, (to meet CIPFA's Prudential Code requirements).

6.6 The Council's borrowing and Capital Financing Requirement (CFR) positions are summarised in the tables.

Current Portfolio Position

£'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing at 1 April	247,599	231,897	224,822	217,405	212,841	203,142
Expected change in borrowing during the year	(15,703)	(7,074)	(7,418)	(4,564)	(5,705)	(11,410)
Actual Borrowing at 31 March	231,897	224,822	217,405	212,841	203,142	191,732
Total investments at 31 March	(299,237)	(330,000)	(300,000)	(300,000)	(300,000)	(300,000)
Net borrowing/ (investment)	(67,340)	(105,177)	(82,595)	(87,159)	(96,858)	(108,268)

Split between the Housing Revenue Account and General Fund: External borrowing (PWLB) position at Year End

£'000 External Borrowing only	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Housing Revenue A/c (HRA)	192,283	186,416	180,266	176,482	168,440	158,979
General Fund (GF)	39,614	38,406	37,139	36,359	34,702	32,753
Total borrowing at year end	231,897	224,822	217,405	212,841	203,142	191,732

Sets out the Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account.

Closing CFR only £'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
GF CFR (Excluding DSG funded Schools Windows Borrowing)	44,180	45,425	45,587	47,231	48,709	50,130
GF CFR (DSG funded Schools Windows borrowing)	1,116	3,945	12,972	19,285	18,514	17,780
HRA CFR	210,132	209,175	220,737	225,165	227,864	232,130
TOTAL CFR	255,428	258,545	279,296	291,681	295,087	300,040

Excludes Finance Leases and PFIs which are fully funded through revenue budgets

7. ANNUAL INVESTMENT STRATEGY

7.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a rating 'uplift' due to implied levels of sovereign

support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these “uplifts” with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have “netted” each other off, to leave underlying ratings either unchanged or little changed.

- 7.2 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into rating through the financial crisis. In keeping with the agencies’ new methodologies, the rating element of our own credit assessment process now focuses on the Short and Long Term ratings of an institution as well as Credit Default Swaps⁵ (CDS).
- 7.3 The evolving regulatory environment, in tandem with the rating agencies’ new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, the Council typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a **minimum sovereign rating of AA+**. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

Investment Policy

- 7.4 The Council’s investment policy has regard to the CLG’s Guidance on Local Government Investments (“the Guidance”) and the revised 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, and then return.
- 7.5 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 7.6 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess 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.
- 7.7 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 7.8 This section sets out the Council’s annual investment strategy for 2017/18 and any proposed changes from the 2016/17 Treasury Management Strategy, the table overleaf summarises the maximum amounts and tenors of investments that the Council can hold. The table also shows the maximum proposed limits that Officers can work within.

⁵ Credit ratings are based on historical information and Credit Default Swaps (CDS) reflect current market sentiment if the CDS value raises significantly over a short period this could be an early warning of possible changes in credit rating and trigger further investigation. (see Appendix D for a definition)

Institution Type	Minimum Long Term Credit Rating Required 2017/18 (S&P / Moodys / Fitch)	Maximum Individual Counterparty Investment limit 2017/18 (£m)	Maximum tenor of deposit / investment 2017/18	Changes from the 2016/17 Strategy
DMO Deposits	UK Government Rating AA+	Unlimited	6 months	No change
UK Government (Gilts / T-Bills / Repos)	UK Government Rating AA+	Unlimited	Unlimited	No change
Supra-national Banks	AA- / Aa3 / AA-	£100m	5 years	No change
European Agencies	AA- / Aa3 / AA-	£100m	5 year	No change
Network Rail	UK Government Rating	£200m	Oct 2052	No change
TFL	AA- / Aa3 / AA-	£100m	3 years	No change
GLA	N/A	£100m	3 years	No change
UK Local Authorities	N/A	£20m per Local Authority, £100m in aggregate	3 years	Increased from £10m to £20m per Local Authority and aggregate from £50m to £100m Extension of duration from 1 to 3 years
Commercial Paper issued in sterling by UK and European corporate	Long Term AA- / Aa3 / AA- Short Term F2/ P-2 /A-3	£20m per name, £80m in aggregate	1 year	No change
Covered Bonds issued in sterling by UK and European corporate	AA+/Aa1/AA+ The bond issue; Investment grade of underlying assets	£100m	5 years	No change
Institution Type	Minimum Long Term Credit Rating Required 2017/18 (S&P / Moodys / Fitch)	Maximum Individual Counterparty Investment limit 2017/18 (£m)	Maximum tenor of deposit / investment 2017/18	Changes from the 2016/17 Strategy

Money Market Funds MMF	AAA by at least one of the credit agencies	£30m per fund manager, £200m in aggregate	Up to three day notice	No change
Enhanced Money Funds	AAA by at least one of the credit agencies	£20m per fund manager, £60m in aggregate	Up to seven day notice	No change
UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	AA- / Aa3 / AA- and above (or UK Government ownership of greater than 25%) Short Term F2/ P-2 /A-3	£70m	5 years	No change
UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long Term A- / A3 / A- Short Term F2/ P-2 /A-3	£50m	3 years	No change
Non-UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long term AA- / Aa2 / AA- Short Term F2/ P-2 /A-3	£50m	3 years	No change
Non-UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long Term A / A2 / A Short Term F2/ P-2 /A-3	£30m	1 year	No change
Building Societies Fixed Deposits / Short Dated Bonds	Long Term A / A2 / A Short Term F2/ P-2 /A-3	£20m	1 years	New category

7.9 The remainder of this section covers the following in further detail:

- Current investment types
- Proposed changes to investment limits and tenors
- Non-specified investments
- Creditworthiness criteria
- Country limits.
- Potential Alternative Investments

Current Investment Types⁶

7.10 As per the 2016/17 Treasury Management Strategy, it is proposed that for 2017/18 the Council can continue to invest in financial institutions, external funds and certain capital market instruments as set out below. All investments would be in Sterling. The investment types listed below are as per the current TMSS.

- (i) Investment with the Debt Management Office with no financial limit (UK government)
- (ii) Investment in financial institutions of a minimum Long and Short Term credit rating, with the parent company domiciled only in certain jurisdictions;
- (iii) Investment in UK Treasury Bills (T-Bills) and Gilts (conventional or indexed-linked) with no financial limit (UK government guaranteed)
- (iv) Investments in UK Government repurchase agreements (“Repos” and “Reverse Repos”);
- (v) Lending to certain public authorities (Unitary Authorities, Local Authorities, Borough and District Councils, Met Police, Fire and Police Authorities)
- (vi) Investment in close to maturity AA-rated corporate bonds and commercial paper backed by UK Government guarantees;
- (vii) Investment in Supra-national Banks/European Agencies AA- rated issuer bonds and commercial paper;
- (viii) Investment in AAA-rated Sterling Money Market Funds and Enhanced Money Funds.
- (ix) Investment in commercial paper (CP) of UK domiciled entities with minimum short term credit rating of A3/P-2/F-2.
- (x) Investment in Certificate of Deposit (CD) issued by a financial institution short length tenor entities with minimum short term credit rating of A3/P-2/F-2.
- (xi) Investment in Covered Bonds debt instruments issued by a financial institutions where security has been granted over a pool of underlying assets.

7.11 In determining whether to place deposits with any institution or fund, the Treasury Manager will remain within the limits set out above, but take into account the following when deciding how much to invest within the limit set out above:

- (xii) the financial position and jurisdiction of the institution;
- (xiii) the market pricing of credit default swaps for the institution;
- (xiv) Standard & Poor’s, Moody’s and Fitch’s short and long term credit ratings;
- (xv) Core Tier 1 capital ratios; and
- (xvi) other external views as necessary.

7.12 The investment portfolio average balance has been £335 million throughout the year to date. The shape of the current yield curve, the likely low level of interest rates for the

⁶ Appendix E provides more detail on the various asset classes.

immediate future and the opportunities for investment, it is proposed that limits and tenors of investment also remains at the same for the majority of investment types.

7.13 The graph in Appendix B shows a steep current and one-year forward yield curve, and that marginally higher returns for tenors up to five years (for a core level of cash) would provide greater returns rather than a shorter investment. In summary, the bank investment limits are shown in the table below (no change from 2016/17).

Institution Type	Minimum Credit Rating Required (S&P / Moodys / Fitch)	Maximum Individual Counterparty Investment limit (£m)	Maximum tenor of deposit / investment
UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	AA- / Aa3 / AA- and above (or UK Government ownership of greater than 25%) Short Term F2/ P-2 /A-3	70	No change
UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long Term A- / A3 / A- Short Term F2/ P-2 /A-3	50	No change
Non-UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long term AA- / Aa2 / AA- Short Term F2/ P-2 /A-3	50	No change
Non-UK Bank Fixed Deposits / Certificates of Deposit / Short Dated Bonds	Long Term A / A2 / A Short Term F2/ P-2 /A-3	30	No change

Proposed changes to investment limits and tenors

Building Societies

7.14 Financial/ Mutual institutions which pays interest on investments by its members and lends capital for the purchase or improvement of houses. The top five building societies currently have credit ratings and only three are within the minimum short term credit rating of A3/P-2/F-2.

7.15 Local Authorities category has been extended to reflect the growth in this area.

7.16 A Green Investment policy is now proposed as follows:

1. Investments in solar farms (as an example) 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 and approval must be sought from the Cabinet Member for Finance to proceed.

2. The following limitations will apply when investing in Green Energy Bonds;

- Maximum duration of 5 years
- Maximum investment of £10m per bond representing less than 25% of the aggregate project investment. Maximum of £30m in Green Energy Bonds.
- By definition, these would be Non-specified investments

Non-specified investments

7.17 Under section 15(1) of the Local Government Act 2003, restrictions are placed on Local Authorities around the use of so-called specified and non-specified investments. A specified investment is defined as an investment which satisfies all of the conditions below:

- (i) The investment and any associated cash flows are denominated in sterling;
- (ii) The investment has a maximum maturity of one year;
- (iii) The investment is not defined as capital expenditure; and
- (iv) 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.

7.18 A non-specified investment is any investment that does not meet all the conditions above. The only likely non-specified investment that the Council may make is for any investment greater than one year. For such an investment, a proposal will be made to the Strategic Finance Director on the recommendation from the Director of Treasury and Pensions after taking into account cash flow requirements, the outlook for short to medium term interest rates and the proposed investment counterparty.

7.19 Long term investments (for periods over 364 days) will be limited to no more than £120 million with a tenor of up to five year.

Creditworthiness Criteria

7.20 As has been the case for 2016/17, the Council's investment priorities continue to be the security of capital and the liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

7.21 In accordance with this, and in order to minimise the risk to investments, the Council has set the minimum acceptable credit quality of counterparties for inclusion on the lending list. As at present, if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, any further use will be stopped immediately and any existing investments will be matured at the earliest possible convenience.

7.22 For the financial institution sector, the Council will invest in entities with a minimum credit as set out above (A-/A3/A- for a UK bank, and A/A2/A for a non-UK bank as appropriate), as long as that entity has a short term rating F2/P-2/A-3 or better. Where a split rating applies the lowest rating will be used. This methodology excludes banks with UK Government

ownership. Banks would need to be rated by at least two of the three main credit rating agencies and where there was a split rating the lower rating would be used.

- 7.23 The limits can change if there are rating changes, however the maximum limit would never be more than specified by institution type in paragraph 7.8. Officers are likely to work well within these limits to ensure headroom for short term liquidity.

Country Limits

- 7.24 The Council has determined that it will only use approved counterparties from any country outside the United Kingdom with a minimum sovereign credit rating of AA+. The current TMSS is based on a ratings approach to country of domicile, for 2017/18, it is proposed that deposits / investments are made with financial entities domiciled only in the following countries: Australia, Canada, Denmark, Finland, France, Germany, Japan, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, UK and USA (see Appendix G).

8. BORROWING STRATEGY

- 8.1 The Council is currently maintaining an under-borrowed (internal borrowing) position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loan debt as cash supporting the Council's Reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.
- 8.2 The HRA will fund its requirements from additional internal borrowing. The General Fund has no expectation of borrowing in the near future.
- 8.3 The Strategic Finance Director is responsible for implementing the Annual Minimum Revenue Provision Statement and has managerial, operational and financial discretion necessary to ensure that MRP is calculated in accordance with regulatory and financial requirements and resolve any practical interpretation issues. The Strategic Finance Director may also make additional revenue provisions, over and above those set out in the statement, or set aside capital receipts to reduce debt liabilities should it be prudent for financial management of the HRA or the General Fund. In addition, the Strategic Finance Director, in consultation with the Cabinet Member for Finance, may defer or reduce MRP charges while continuing to ensure a prudent provision is made over the medium term.
- 8.4 Against this background and the investment risks described in this paper, caution will be adopted with the 2017/18 treasury operations. The treasury team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances and advise the Strategic Finance Director accordingly.
- 8.5 If there was a significant risk of a much sharper rise in long and short term rates than the currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.
- 8.6 The General Fund has a debt strategy of no new borrowing and where borrowing has fallen due for repayment it has not been replaced. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with borrowing, as cash balances and cash flow has been used as a temporary measure instead. This strategy is prudent as investment returns are low and counterparty risk is high. HRA's funding requirements differ from the General Fund's and external borrowing in the HRA may be required in 2017/18 as a result of the rent reduction, 1% each year for the next four years, imposed by Government in July 2015.

8.7 Under the regulatory requirement, there are three borrowing related treasury activity limits. The purpose of these are to monitor and control the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

8.8 The tables below sets out these treasury indicators and limits. The Council is currently compliant with all these indicators. The Council's existing level of fixed interest rate exposure is 100.0% and variable rate exposure is 0.0%.

Interest Rate Exposure for borrowing

£m / %	2016/17		2017/18		2018/19		2019/20	
Upper Gross Borrowing Limits on fixed interest rates	385	100%	385	100%	385	100%	385	100%
Upper Gross Borrowing Limits on variable interest rates	77	20%	77	20%	77	20%	77	20%

Structure limits for debt maturity

Maturity structure of fixed rate borrowing during 2016/17	Upper Limit	Lower Limit	Actual Limits as at 30 September 2016
Under 12 months	15%	0%	4.4%
12 months and within 24 months	15%	0%	2.0%
24 months and within 5 years	60%	0%	9.3%
5 years and within 10 years	75%	0%	11.3%
10 years and above	100%	0%	73.0%

9. POLICY ON BORROWING IN ADVANCE OF NEED

- 9.1 Under CIPFA's Prudential Code, any decision to borrow in advance of need has to be:
- Within forward approved Capital Financing Requirement (CFR) estimates.
 - Would have to be considered carefully to ensure that value for money can be demonstrated;
 - And that the Council can ensure the security of such funds.

10. PRUDENTIAL INDICATORS FOR TO BORROWING ACTIVITY

- 10.1 The Prudential Code requires that the Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of prudential indicators, for the next three years ensuring the capital investment plans are affordable, prudent and sustainable.
- 10.2 The Authorised Limit for external borrowing. A control on the maximum level of borrowing and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Authorised Limit

£m	2015/16 Actual	2016/17	2017/18	2018/19	2019/20	2020/21
Borrowing	325	325	325	325	325	325
Other long term liabilities	20	20	20	20	20	20
Total	345	345	345	345	345	345

- 10.3 The Operational Boundary is the focus of day to day treasury management activity within the authority and is set at £50m below authorised limit for borrowing. It is a means by which the Council manages its external debt to ensure that it remains within the self-imposed Authorised Limit. Sustained breaches of the Operational Boundary would give an indication that the Authority may be in danger of stepping beyond the Prudential Indicators it set itself.

Operational Boundary

£m	2015/16 Actual	2016/17	2017/18	2018/19	2019/20	2020/21
Borrowing	275	275	275	275	275	275
Other long term liabilities	15	15	15	15	15	15
Total	290	290	290	290	290	290

- 10.4 The HRA CFR is required to remain within a 'Debt Cap' as set by the Department for Communities and Local Government as part of the transition to HRA self-financing. The Council's debt cap is currently set at £254.62m.
- 10.5 The Strategic Finance Director reports that the Council complied with the prudential indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

11. DEBT RESCHEDULING

- 11.1 Consideration will be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 11.2 However, these savings will need to be considered in the light of the current treasury position and premia incurred in prematurely repaying debt. Given the current approach, Officers monitor the situation continually for an opportunity to repay voluntary any debt. The reasons for any rescheduling to take place will include:

- Generating cash savings.
- Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

12. HOUSING REVENUE ACCOUNT

- 12.1 For the period 2017/18 – 2020/21, based on the planned four year capital programme and other sources of capital resources, borrowing will be funded principally from internal resources.
- 12.2 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 as 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. The total available to the HRA for the purposes of internal borrowing is the difference between the HRA CFR and the external borrowing in each year. This is shown in the table in paragraph 6.6 above.
- 12.3 Full details of the Housing Revenue Account's likely borrowing requirements is set out in the Long Term Financial Plan for Council Homes which is also being presented to Cabinet on the 6th February 2017.

13. TRAINING

- 13.1 The CIPFA Code requires the lead officer to ensure that Members with Treasury Management responsibilities receive adequate training in Treasury Management. This especially applies to Members responsible for scrutiny. Members will be offered training and arrangements will be made as required.
- 13.2 The Council is a member of the CIPFA treasury management network which provides a forum for the exchange of views of treasury management staff independent of the treasury management consultants. Officers attend the CIPFA network and other providers meetings on a regular basis throughout the year to ensure that they are up to date at all times on developments in treasury management and continue to develop their expertise in this area.
- 13.3 The training needs of the Treasury Management team are periodically reviewed.

14. GOVERNANCE

- 14.1 The revised CIPFA Treasury Management Code (2011) requires the Council to outline a scheme of delegation thereby delegating the role of scrutiny of treasury management strategy and policy to a specific named body (Audit, Pensions and Standards Committee). In this way treasury management performance and policy setting will be subject to proper scrutiny. The Code also requires that members are provided adequate skills and training to effectively discharge this function.
- 14.2 The role of the Section 151 officer is delegated to the Strategic Director of Finance (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.
- 14.3 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.

- 14.4 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.

Monitoring and Reporting

- 14.5 The Treasury Management activities during the year will be included in the monitoring reports to the Audit, Pensions and Standards Committee.
- 14.6 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 requirements of the revised code:

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. Finance and Delivery PAC	Annually, after the first half of the financial year
Treasury Management Strategy: Updates / revisions at other times	1. Audit, Pensions and Standards Committee 2. Finance and Delivery PAC 3. Full Council	As and when required
Treasury Out-turn Report	1. Audit, Pensions and Standards Committee 2. Finance and Delivery PAC 3. Full Council	Annually, after year-end
Treasury Management Monitoring Reports	Director for Finance	Monthly

15. FINANCIAL AND RESOURCE IMPLICATIONS

- 15.1 The comments of the Strategic Finance Director and the the Head of Corporate Accountancy & Capital are contained within this report.
- 15.2 This report is wholly of a financial nature.

16. LEGAL IMPLICATIONS

- 16.1 The statutory requirements are set out in the body of the report.
- 16.2 Implications verified by Rhian Davies, Chief Solicitor, Shared Legal Services, 0207 641 2729.

17. IMPLICATIONS FOR BUSINESS

- 17.1 The report sets out the Council's Treasury Management Strategy for 2017/18. It seeks approval for the Strategic Finance Director to arrange the Treasury management Strategy in 2017/18 as set out in this report.

This represents significant expenditure 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 business.

Implications verified by Antonia Hollingsworth, Principal Business Investment Officer, HRD Ext. 1698.

18. COMMENTS OF THE AUDIT, PENSIONS AND STANDARDS COMMITTEE

- 18.1 This paper went to the Audit, Pensions and Standards Committee on the 7th December. The Committee would like to see any papers on the use of Additional Investment Vehicles.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Financial monitoring documents & Capital Programme Monitor & Budget Variations 2016/17 (2nd Quarter) report	Christopher Harris Tel: 0208 753 6440	Finance Department, 2 nd Floor, HTH Extension
2.	Treasury Management Strategy 2016/17 (Approved by Full Council February 2016)	Halfield Jackman Tel: 0207 641 4354	Tri-Borough Treasury and Pensions, WCC City Hall

APPENDIX A

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.

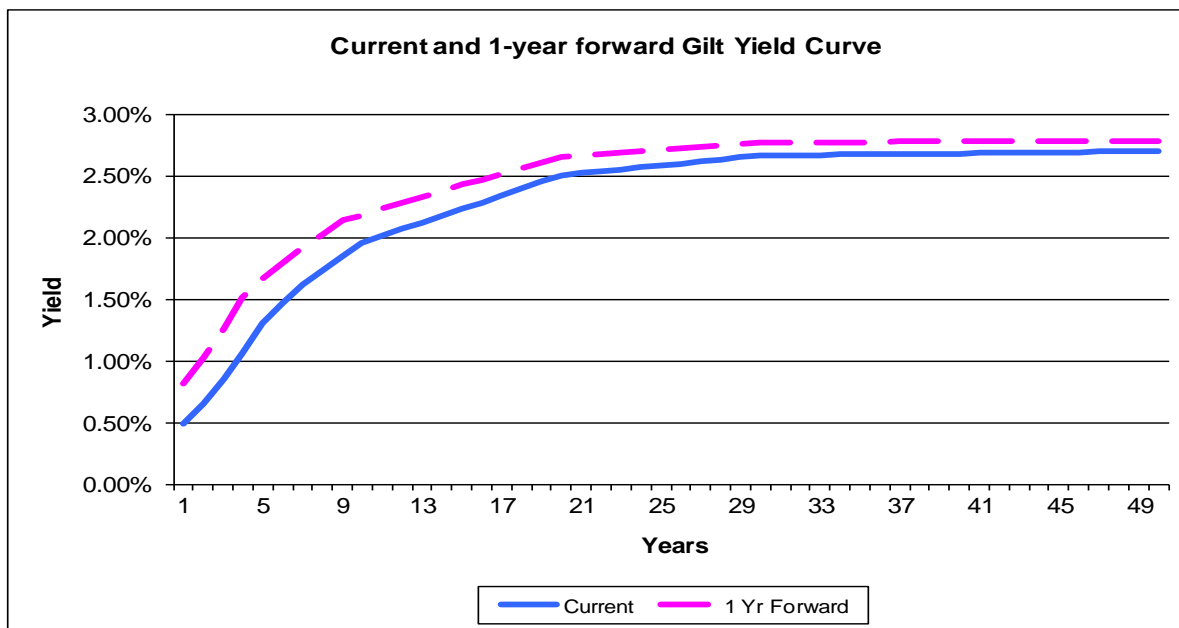
APPENDIX B

Interest Rate Forecast dated 15th November 2016

	NOW	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
BANK RATE	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
3 month LIBID	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.60	0.70	0.80	0.90
6 month LIBID	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.70	0.80	0.90	1.00
12 month LIBID	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.80	0.80	0.90	1.00	1.10	1.20	1.30	1.40
5 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.70
25 yr PWLB	3.00	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30	3.40
50 yr PWLB	2.70	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20

Source: Capita Treasury Advisory Service

The graph below shows the current UK Gilt curve, together with the one-year forward Gilt curve (i.e. current market expectations for the Gilt rates in twelve months' time). The current expectation is that Gilt rates will be slightly higher across all periods in a year's time, compared with today. This has been the case for the last three years.



Source Bloomberg

APPENDIX C

Economic Background

Source: Capita Treasury Advisory Service

UK. GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme.

The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post positive growth numbers through the second half of 2016 and in 2017, albeit at a slower pace than in the first half of 2016.

The Monetary Policy Committee (MPC) meeting on 4th August was dominated by consideration of the initial shock fall in business surveys and the expected sharp slowdown in growth. The result was a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing for banks to use to lend to businesses and individuals. The Bank of England quarterly Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8% and the forecast for 2018 to 1.8%. However, some forecasters think that the Bank has been too pessimistic with its forecasts; since then, later statistics and the sharp recovery in business surveys have provided support for this view. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor, Phillip Hammond, announced, after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on 23rd November.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI had already started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 18% fall in the value of sterling on a trade weighted basis, (as at late October), is likely to result in additional upward pressure on CPI. However, this further increase in inflationary pressures will take 2-3 years to gradually work its way through the economy so is unlikely to cause major concern to the MPC unless the increases are stronger than anticipated. The MPC is, therefore, on balance, expected to look thorough this one off upward blip in inflation from the devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures arising from within the UK economy. The Bank of England will most probably have to revise its inflation forecasts significantly higher in its 3rd November quarterly Inflation Report: this rise in inflation expectations has caused investors in gilts to demand a sharp rise in longer term gilt yields, which have already risen by around fifty basis points since mid-August. It should be noted that 27% of gilts are held by overseas investors who will have seen the value of their gilt investments fall by

18% as a result of the devaluation of sterling, (if their investments had not been currency hedged). In addition, the price of gilts has fallen further due to a reversal of the blip up in gilt prices in early August after further quantitative easing was announced - which initially drove yields down, (i.e. prices up). Another factor that is likely to dampen gilt investor sentiment will be a likely increase in the supply of gilts if the Chancellor slows down the pace of austerity and the pace of reduction in the budget deficit in the Autumn Statement - as he has already promised. However, if there was a more serious escalation of upward pressure on gilt yields, this could prompt the MPC to respond by embarking on even more quantitative easing, (purchases of gilts), to drive gilt yields back down.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December 2016. Overall, despite some data setbacks, the US is still probably the best positioned of the major world economies to make solid progress towards a balanced combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis.

EZ. In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016, (1.7% y/y), but slowed to +0.3%, (+1.6% y/y), in quarter 2. Forward indications are that economic growth in the EU is likely to continue at moderate levels with Germany continuing to outperform other major European economies. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant political risks within the EZ in as much as Spain has held two general elections since December 2015 and still been unable to form a functioning government holding a majority of seats, while the Netherlands, France and Germany face general elections in 2017. A further cause of major political tension and political conflict, is one of the four core principals of the EU – the free movement of people within the EU, (note – not in just the Eurozone common currency area). In addition, Greece has been a cause of major concern in terms of its slowness in delivering on implementing fundamental reforms required by the EU to reduce its budget deficit in exchange for the allocation of further bailout money.

Another area of major concern is that many Italian banks are exposed to substantial amounts of underperforming loans and are undercapitalised. Some German banks are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.

Asia. Economic growth in China has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures which further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in Japan is still anaemic, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There are also concerns around the vulnerability of some emerging countries which are particularly exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. Financial markets could also be vulnerable to risks from major sovereign wealth funds of those countries that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

CAPITA ASSET SERVICES' FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK. While there is normally a high degree of correlation between treasury and gilt yields, we would expect to see a growing decoupling between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK remains to the downside, particularly with the current uncertainty over the final terms, and impact, of Brexit.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

APPENDIX D

A Credit Default Swap (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 of the reference entity. The reference entity is the third party on whom the contract is based. A credit event depends on the Doc Clause (terms and conditions) of the CDS agreement but this usually includes events such as default on coupon payments, restructuring of debt, bankruptcy etc.

The contract essentially gives protection, or “insurance”, to the buyer of the CDS in the case of a credit event of the reference entity. As the CDS market is currently unregulated, it cannot technically be seen as insurance as the seller of the contract does not have to set aside any reserves for any possible future credit event.

As with all swap contracts, a CDS has 2 legs: a fee leg and a contingent leg. The fee leg of the CDS is the leg in which the buyer of the protection pays quarterly payments to the seller. The contingent leg of the CDS is the leg in which the seller of the CDS pays the buyer if a credit event occurs.

The fee leg payments are based on the spread currently traded in the market. The spread of a CDS indicates the market perception of the likelihood of a credit event occurring.

The higher the spread, the higher the cost of protecting against a credit event, the more likely the market considers a credit event will occur. The spread can be likened to an insurance premium paid on.

APPENDIX E

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.

APPENDIX F

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

APPENDIX G:

Approved countries for investments

November 2016

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- Netherlands
- UK
- USA