


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">CABINET</p> <p style="text-align: center;">4 FEBRUARY 2019</p>	
<p style="text-align: center;">TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20</p>	
<p>Report of the Cabinet Member for Finance and Commercial Services – Councillor Max Schmid</p>	
<p>Open Report</p>	
<p>Classification: For Decision Key Decision: Yes</p>	
<p>Wards Affected: All</p>	
<p>Accountable Director: Hitesh Jolapara, Strategic Director, Finance and Governance</p>	
<p>Report Author: Phil Triggs, Director of Treasury and Pensions</p>	<p>Contact Details: Tel: 0207 641 4136 E-mail: ptriggs@westminster.gov.uk</p>

1. EXECUTIVE SUMMARY

1.1 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 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 Department of Communities and Local Government (DCLG) and must be approved by the full Council.

1.2 This report sets out the Council's proposed Treasury Management Strategy and Annual Investment Strategy for 2019/20, and authorises the Strategic Finance Director to deliver the treasury management activities set out in the report.

- 1.3 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.

2. RECOMMENDATIONS

- 2.1 That approval be given to the future borrowing and investment strategies as outlined in this report and that the Strategic Finance Director, in consultation with the Cabinet Member for Finance, be authorised to manage the Council's cash flow, borrowing and investments in 2019/20 in line with this report.
- 2.2 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.

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:
- 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.
- 3.2 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 entered into to meet Council risk or cost objectives.
- 3.3 The Council has formally adopted CIPFA's Code of Practice on Treasury Management. The Code of Practice and Cross Sectoral Guidance Notes issued in 2009 and 2011 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.
- 3.4 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's Monetary Policy

Committee(MPC) has indicated they expect rates to be 2.5% in ten years' time but they declined to give a medium term forecast. It is unlikely that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Similarly, the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit. The Council's treasury management advisors, Link Asset Services (formerly Capita Asset Services), are currently forecasting a modest increase in rates to 1.00% by the June 2019 from the current 0.75% base rate (see Appendix C for more details).

3.5 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 D sets out the present views of our Treasury Consultants, Link Asset Services.

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

1. Borrowing

- Overall borrowing strategy
- Limits on external borrowing
- Maturity structure of borrowing
- 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

3.7 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.

3.8 The Annual Investment Strategy in Appendix E provides more detail on how the Council’s surplus cash investments are to be managed in 2019/20. Approved schedules of specified and non-specified investments will be updated following consideration by Members and finalisation of 2019/20 budget plans. Changes from the previous year are summarised below:

Limit	Changes proposed	Rationale
Local Authorities	Increase individual loan limit from £20m to £30m and the overall cap from £100m to £200m	Local authorities are good credit quality as they are tax-backed, and subject to a strong regulatory financial regime. All loans to authorities are subject to a balance sheet check and review of their accounts to ensure capacity to repay, and all need to be approved by the Director of Treasury and Pensions This is subject to full review and all counterparty analysis saved on file.

3.9 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and CLG Investment Guidance.

4.0 **BORROWING**

Overall borrowing strategy

4.1 The General Fund has previously maintained 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 has been prudent as investment returns are very low and counterparty risk is high. The HRA’s funding requirements differ from the General Fund’s and internal borrowing in the HRA may be required in the future.

- 4.2 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.
- 4.3 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 2019/20 strategy are:
- forecast borrowing requirements;
 - the current economic and market environment; and
 - interest rate forecasts.
- 4.4 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.
- 4.5 With interest costs on borrowing still close to historic lows officers are constantly reviewing this to see if this remains the appropriate solution, or whether the Council should undertake more long term borrowing to match the anticipated capital financing requirements over the next few years. Given 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 prudential indicators.

Limits on external borrowing

- 4.6 The Prudential Code requires the Council to set two limits on its total external debt, as set out in Table 1 below. The limits have remained at the same level compared with the 2017/18 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

2017/18		2018/19	2019/20	2020/21	2021/22	2022/23
Actual		Forecast	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m
Authorised Limit for External:						
345	Borrowing and other long term liabilities	400	400	400	450	450
Operational Boundary for:						
275	Borrowing	325	325	325	350	350
15	Other long term liabilities	15	15	15	15	15
290	TOTAL	340	340	340	365	365

Maturity structure of borrowing

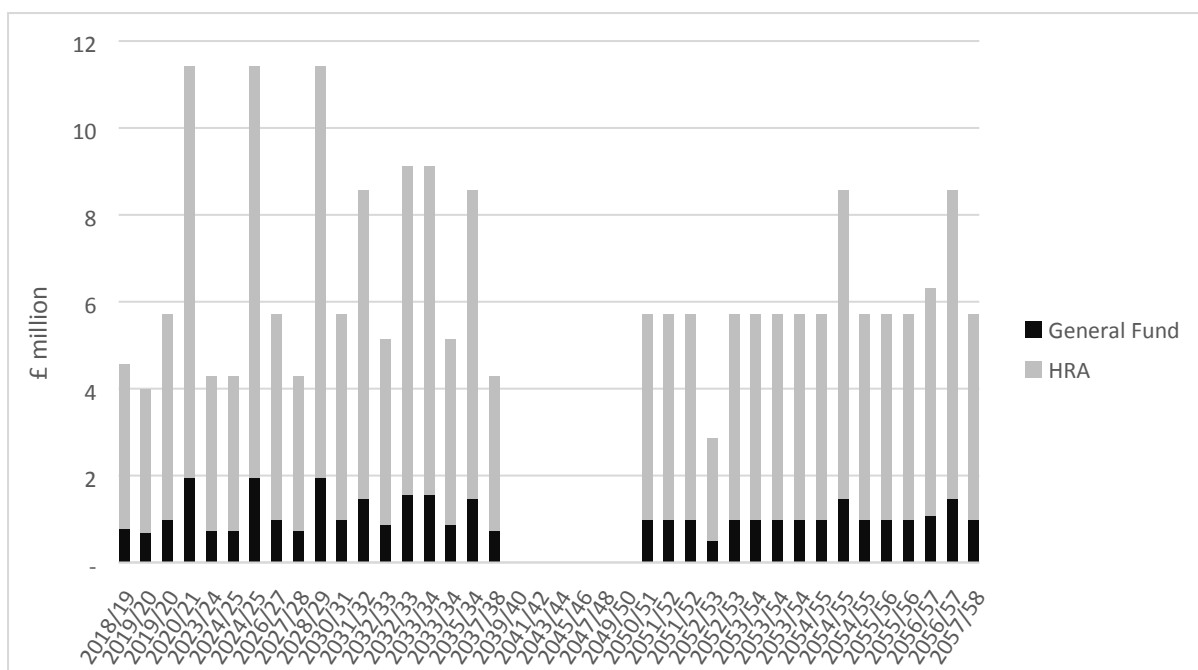
4.7 Managing the profile of when debt matures is essential for ensuring that the Council is not exposed to large fixed rate sums falling due for refinancing within a short period, and thus potentially exposing the Council to additional cost. Table 2 below sets out current upper and lower limits for debt maturity which are unchanged from 2018/19.

Table 2: Debt maturity profile limits

Actual Maturity at 30 Sep 2018		Lower Limit	Upper Limit
%		%	%
2	Under 12 months	0	15
4	12 Months and within 24 Months	0	15
7	24 Months and within 5 years	0	60
12	5 Years and Within 10 Years	0	75
74	10 Years and Above	0	100

Maturity profile of long-term borrowing

4.8 The chart below shows that the principal repayment profile for current council borrowing remains within these limits.



Capital Financing Requirement (CFR)

4.9 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.

4.10 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

2017/18		2018/19	2019/20	2020/21	2021/22	2022/23
Actual		Forecast	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m
CFR as at 31 March						
67	General Fund Closing CFR (detail in Table 3b)	97	137	173	209	210
210	Closing Forecast HRA CFR (including deferred costs of disposal)	211	222	239	256	260
277	TOTAL	308	359	412	465	470
Annual Change						
5	General Fund	30	40	36	36	1
1	HRA	1	11	17	17	4
6	TOTAL	31	51	53	53	5

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

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

2017/18		2018/19	2019/20	2020/21	2021/22	2022/23
Actuals		Forecast	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m
50	General Fund CFR excluding DSG funded borrowing	80	88	94	102	106
7	DSG funded borrowing for schools windows	8	11	12	12	11
	Joint Venture		30	59	88	87
10	PFI and Finance lease liabilities	9	9	8	7	6
67	TOTAL	97	138	173	209	210

4.12 The schools window replacement programme is a £13m programme. The increase in MRP arising from this spend is to be met by top-slicing the schools DSG allocation.

4.13 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

2017/18		2018/19	2019/20	2020/21	2021/22	2022/23
Actual		Forecast	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m
217	Gross Projected Debt	213	203	192	192	192
277	Capital Financing Requirement	308	359	412	465	470
60	Under / (over) borrowing	95	156	220	272	278

Affordability

4.14 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

2017/18		2018/19	2019/20	2020/21	2021/22	2022/23
Actual		Forecast	Estimate	Estimate	Estimate	Estimate
%		%	%	%	%	%
0.10	General Fund	0.18	0.65	1.92	2.71	3.27
30.93	HRA	32.88	32.61	32.25	33.30	33.70

- 4.15 For 2017/18 and 2018/19, gross capital financing charges (loan interest, MRP and finance and PFI payments) for the General Fund capital programme are largely outweighed or balanced by income from investments and the commercial property portfolio.
- 4.16 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.

Minimum Revenue Provision (MRP) Policy

- 4.17 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.
- 4.18 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.
- 4.19 The Council's proposed MRP policy for 2019/20 is reported at Appendix 4 of the Four Year Capital Programme 2019/20 – 2022/23.

Borrowing in advance of need

- 4.20 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.

4.21 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

4.22 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).

4.23 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.

4.24 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.

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

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 2019/20-2022/23 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

5.3 Borrowing for the HRA has to remain within the HRA Debt Limit (prescribed in the HRA Self Financing Determinations 2012) as detailed in the table below. Borrowing for the HRA is measured by the HRA CFR.

HRA borrowing

- 5.4 For the period 2018/19 to 2022/23, based on the planned four-year capital programme and other sources of capital resources, borrowing will be funded principally from internal resources. This will be kept under review and the HRA will need to maintain flexibility to undertake new borrowing under appropriate conditions.
- 5.5 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.
- 5.6 The HRA debt cap was scrapped in the autumn 2018 budget, which may change the way the HRA looks at affordability in the future.

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 Investment Strategy.

MANAGING CASH BALANCES

Current position and cash flow forecast

- 6.1 Table 7 below shows that cash balances have increased by £27m 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. Whilst the level of cash has increased during the current financial year, it is expected to decline to £330m by the year-end. An explanation of specified and non-specified investments is explained in section 12 appendix E.

Table 7: Cash position at 30 September 2017

As at 31 March 2018			As at 30 September 2018		
Principal	Average Rate		Principal	Average Rate	
£m	%		£m	%	
Investments					
321	0.58	Specified	354	0.66	
18	1.14	Non-Specified	18	1.11	
339		Total	354		
Borrowing					
217	4.86	Public Works Loan Board	217	4.86	
217		Total	217		

- 6.2 The Council aims to manage daily cash flow peaks and troughs to achieve a nil current account balance throughout the year. As such the average yearly surplus cash balances should be fully invested throughout. The medium-term cash flow forecast shows that the Council has a substantial positive cashflow position with an average cash position fluctuating around £346m for the medium term.

Prospects for Investment Returns

- 6.3 Investment returns on cash based deposits are likely to remain low during 2019/20 and beyond. Borrowing interest rates were on an upward trend during most of 2018; they fell sharply to historically low levels after the EU referendum and then even further after the MPC meeting of August 2016 when a new package of quantitative easing purchasing of UK gilts was announced. In November 2017, the MPC raised rates from 0.25% to 0.50% and again to 0.75% in August 2018.
- 6.4 Gilt yields have since been volatile due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The Council is therefore committed to investigating and pursuing alternatives to cash-based investments where it is considered prudent to do so.

Council policy on investing and managing risk

- 6.5 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

- 6.6 During the first half of 2018/19, there has been no new investments of surplus funds for more than 364 days. The 2017/18 Annual Investment Strategy permits

investing for more than 365 days. Using longer term maturity investments should improve yields.

Table 8: Investment limits

2017/18		2018/19	2019/20	2020/21	2021/22
Actual		Forecast	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m
Upper limit for fixed interest rate exposure					
217	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
18	Upper Limit for principal sums invested for more the 364 days	120	120	120	120

Annual Investment Strategy

- 6.7 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 £346m and the cash flow projections show this pattern is expected to continue in the coming year, but with additional regeneration projects expected to take place, average cash balances are expected to reduce in 2019/20.
- 6.8 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.
- 6.9 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 return.

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, Finance and Governance has a responsibility to ensure that appropriate PIs are set and monitored and that any breaches are reported to Members.

7.3 The Strategic Director, Finance and Governance has confirmed that the PIs set out below are all expected to be complied with in 2018/19 and he does not envisage at this stage that there will be any difficulty in achieving compliance with the suggested indicators for 2019/20

PI ref	Para ref		2017/18 actual	2018/19 forecast	2019/20 proposed
1	5.1	Capital expenditure	£73m	£92m	£121m
2	4.10	Capital Financing Requirement (CFR)	£277m	£308m	£359m
3	4.13	Net debt vs CFR	£60m underborrowing	£95m underborrowing	£156m underborrowing
4	4.14	Ratio of financing costs to revenue stream	GF 0.10% HRA 30.93%	GF 0.18% HRA 32.61%	GF 0.65% HRA 32.25%
5a	4.6	Authorised limit for external debt	£345m	£400m	£400m
5b	4.6	Operational debt boundary	£275m	£340m	£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	£120m	£120m
8	4.7	Maturity structure of borrowing	Upper limit under 12 months - 15% Lower limit 10 years and above - 100%	Upper limit under 12 months - 15% Lower limit 10 years and above - 100%	Upper limit under 12 months - 15% Lower limit 10 years and above - 100%

7.4 CIPFA is currently updating the Prudential Code and Treasury Management Code to take effect for 2019/20. This TMSS has been prepared based on the current versions of these Codes and will be updated when the revised Codes are published.

8. FINANCIAL IMPLICATIONS

8.1 The comments of the Strategic Director, Finance and Governance and the Head of Corporate Accountancy and Capital are contained within this report.

8.2 This report is wholly of a financial nature.

9. LEGAL IMPLICATIONS

9.1 The legal implications are contained within the body of the report.

9.2 Implications completed by Joyce Golder, Principal Solicitor, tel. 020 7361 2181.

10. EQUALITY IMPLICATIONS

- 10.1 There will be no negative implications for protected groups arising from the Treasury Management Strategy.
- 10.2 Implications completed by Peter Smith, Head of Policy & Strategy, tel. 020 8753 2206.

11. IT IMPLICATIONS

- 11.1 There are no IT technical implications for the council.
- 11.2 Implications verified by: Veronica Barella, interim Chief Information officer, tel 020 8753 2927

12. IMPLICATIONS FOR BUSINESS

12. There are no business implications for the council.
- 12.1 Implications for Business completed by: David Burns, Interim Head of Economic Development (Regeneration, Planning and Housing Services).

13. RISK IMPLICATIONS

- 13.1 The financial risk categories typically managed by a treasury operation (and described in the report) include:
- liquidity risk
 - funding risk
 - interest rate risk
 - foreign exchange risk
 - commodity price risk
 - credit risk
 - operating risk.
- 13.2 The type and extent of exposure to financial risks will depend on the nature of its borrowings and its underlying business. Local authorities are required to report annually to full council on their treasury management strategy (TMS) before the start of the year, which sets the objectives and boundaries for its approach to treasury activity.
- 13.3 The authority supplements this with treasury management practice schedules (TMPs), which set out and provide assurance for the practical arrangement to achieve those objectives. The TMPs inform the day-to-day practices applied to manage and control treasury activities. A prudent investment policy has two key priorities: security (protecting the capital sum from loss) and then liquidity (resources readily available to meet cash demands when required). As these priorities are determined within the report 4.2 and 4.3, the Council seeks to optimise performance consistent with those risks to achieve a yield.

13.4 Implications verified by: Michael Sloniowski, Risk Manager, tel. 020 8753 2587.

14 **COMMERCIAL IMPLICATIONS**

14.1 There are no procurement implications resulting from this report. Commercial implications are contained within the main body of the report.

14.2 Implications provided by Andra Ulianov, Procurement Consultant, tel. 020 8753 2284.

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT (all published)

Treasury Management Strategy Statement 2018/19 (approved by Council February 2018)

Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended

DCLG guidance on minimum revenue provision 2003

DCLG guidance on local government investments March 2010

CIPFA Prudential Code for capital finance in local authorities 2011

CIPFA Treasury Management Code of Practice 2011

If you have any queries about this report or wish to inspect any of the background papers please contact:

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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 November 2011) 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 officer is delegated to the Strategic Director, Finance and Governance (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 Pension Fund

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 requirements of the revised code:

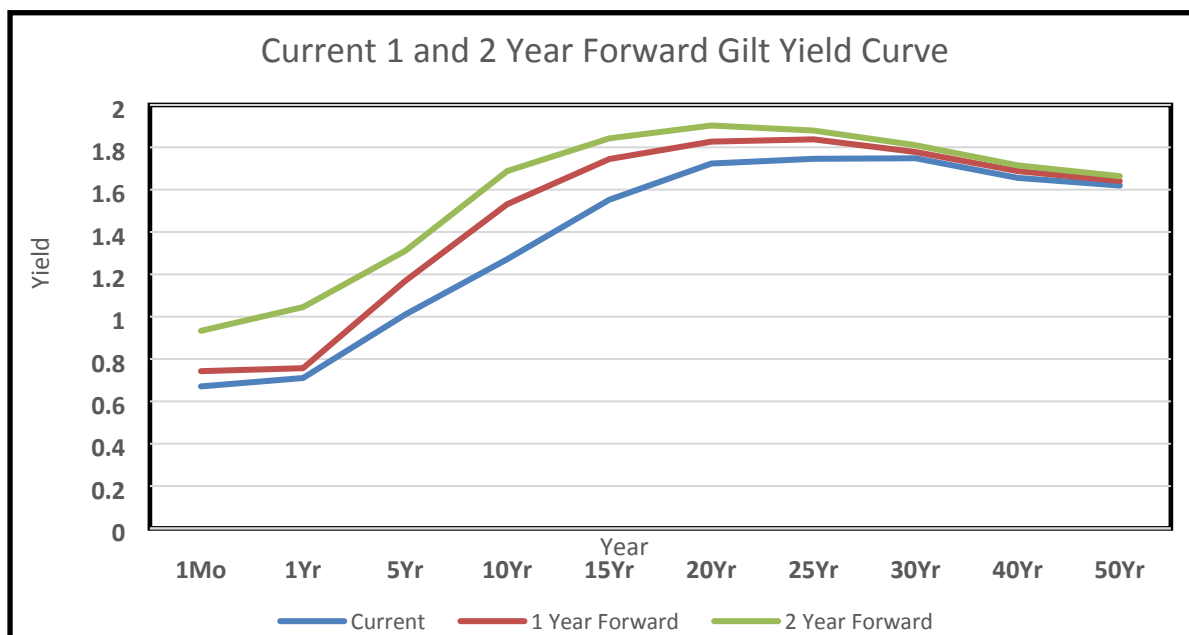
Area of Responsibility	Council / Committee / Officer	Frequency
Treasury Management Strategy	Full Council	Annually at meeting before the start of the financial year.
Scrutiny of Treasury Management Strategy	Audit, Pensions and Standards Committee	Annually
Treasury Management Strategy: Mid-year report	1. Audit, Pensions and Standards Committee	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 Finance Director and Lead Cabinet Member for Finance	Monthly

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

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
5 yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.50%
10 yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	2.90%	2.90%
25 yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.40%
50 yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.20%

- Link Asset Services undertook its last review of interest rate forecasts on 9 August 2017 after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September 2017 revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate “over the coming months”.
- The November 2017 MPC meeting increased the Base Rate from 0.25% to 0.50%. there was a further increase of 0.25% in August 2018.
- The graph below shows the current UK Gilt curve, together with the one and two year forward Gilt curve (i.e. current market expectations for the Gilt rates in twelve and twenty-four months’ time).



Source: Bloomberg

5. Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 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).
6. 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.
7. 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: The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee (MPC) to unanimously (9-0) vote to increase Bank Rate on 2 August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August 2018 Quarterly Inflation Report suggested that growth will pick up to 1.8% in 2019, albeit there were several caveats, mainly related to whether or not the UK achieves an orderly withdrawal from the European Union on 29 March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressure, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation is currently running at 2.5% but is expected to fall back towards the 2% inflation target over the next two years, given a scenario of minimal increases in Bank Rate. The MPC has indicated that the Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

Re unemployment, this is now at a 43-year low of 4% on the Independent Labour Organisation measure but, despite that, wage inflation is currently weak. This is a global theme for the major economies of the world. Indeed, with UK wages running in line with the CPI measure of inflation, real earnings are, in effect, neutral. Given the UK economy is very much services sector driven, any weakness in household spending power is likely to feed through into tepid economic growth. This is another reason why the MPC will need to tread cautiously before increasing the Bank Rate again, especially given all the uncertainties around UK exit from the EU. Additionally, business sentiment surveys, such as the Purchasing Managers Index collated by Markit, suggest the UK is set for only modest GDP growth in the second half of 2018 with the monthly updated figure for annual growth being 1.5% as at the end of July 2018. The housing market is going through a weak phase, with UK wide house price growth averaging 2% to 3%, but with London and the south-east experiencing price falls.

As for the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over UK exit from the EU. However, Prime Minister May's government could endure, despite various setbacks, along the route to 29 March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

EU: Growth has undershot early forecasts for a strong economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports, e.g., cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

USA: President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth to around 1% in Q2 2018, but also an upturn in inflationary pressures. With inflation moving towards 3%,

the Fed has already tightened the Fed Funds interest rate to between 1.75% and 2%, and a further two increases to 2.25% to 2.5% are expected before the end of 2018 with the prospect of another increase or two next year. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

China: Economic growth has been weakening over successive years and, despite repeated rounds of central bank stimulus, medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan: struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite significant monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

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 £346m and the cash flow projections shows this pattern is expected to continue in the forthcoming year. 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 was increased in November 2017 from 0.25% to 0.50% and a further 0.25% to 0.75% in August 2018. The question still remains as to whether or not they will stop at this point for a lengthy pause, or will launch into a series of further rate increases in 2019 and beyond as Brexit uncertainties remain. The Bank Rate forecasts for financial year ends (March) are:

2018/19: 0.75%
2019/20: 1.00%
2020/21: 1.25%
2021/22: 1.50%
2022/23: 2.00%

5. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows

2018/19: 0.75%
2019/20: 0.75%
2020/21: 1.00%
2021/22: 1.25%
2022/23: 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 2019/20, 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 Finance Director 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 & Poors, Moodys and Fitch short and long term credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries; and
- Core Tier 1 capital ratios ².

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:

- 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;

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 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 Finance Director in consultation with the lead Cabinet Member for Finance 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: Australia, Canada, Denmark, Finland, France, Germany, Hong Kong, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, UK and USA. 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 2018/19 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 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 main agencies	£25m per fund manager, £100m in aggregate	Up to 7 day notice	No change
	ST: F2/P-2/A-3			
	ST: F2/P-2/A-3			

Investments	Minimum Credit Rating Required	Maximum Individual Counterparty Investment Limit	Maximum tenor	Changes from the 2017/18 TMSS
	S&P/Moody's/Fitch	£m		
UK Bank (Deposit/Certificate Deposit/Short Dated Bonds)	LT: AA-/Aa3/AA- (UK Government Ownership greater than 25%)	£70m	5 years	No change
UK Bank (Deposit/Certificate Deposit/Short Dated Bonds)	LT: A-/A3/A	£50m	3 years	No change
Non UK Bank (Deposit/Certificates of Deposit/Short Dated Bonds)	LT: AA-/Aa2/AA-	£50m	3 years	No change
	ST: F2/P-2/A-3			
	LT: A/A2/A ST: F2/P-2/A-3	£30m	1 years	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: A-/A3/A ST: F2/P-2/A-3	£30m	3 year	No change
Approved countries investments list:	See Appendix G			

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

APPENDIX G

APPROVED COUNTRIES FOR INVESTMENTS

The list of approved countries set out below is based on the credit ratings as at 1 December 2018. Countries included on the approved list are those whose lowest rating, from Moodys, Fitch and Standard & Poors, meet or exceed the UK's credit rating of AA.

Country	Lowest rating
Australia	AAA
Canada	AAA
Denmark	AAA
Germany	AAA
Finland	AA+
France	AA
Hong Kong	AA+
Luxembourg	AAA
Netherlands	AAA
Norway	AAA
Singapore	AAA
Sweden	AAA
Switzerland	AAA
UK	AA
USA	AA+