APPENDIX E

Treasury management, investment strategy, prudential indicators and Minimum Revenue Provision (MRP) policy

Introduction

In 2009 the Chartered Institute of Public Finance and Accountancy (CIPFA) amended its Treasury Management Code of Practice. The Council is required to comply with all aspects of the CIPFA Code. Hounslow adopted the revised Code at the Council meeting on 2 March 2010. There were some further minor amendments to the Code in November 2011, primarily to reflect the changes arising from Housing Revenue Account (HRA) reform, which have been accepted by Borough Council.

Treasury Management Annual Strategy 2019/20

1.1. The strategy for 2019/20 is based upon the Strategic Director, Finance & Corporate Services' views on interest rates, as informed by leading market forecasts provided by the Council's external treasury advisor. The strategy covers:

- The current treasury position – Base Portfolio Position
- Prospects for interest rates
- The borrowing requirement and strategy for the General Fund
- The borrowing requirement and strategy for the Housing Revenue Account
- Policy on borrowing in advance of need
- Debt rescheduling and repayment
- The Annual Investment Strategy
- The Minimum Revenue Provision (MRP) Strategy
- Money laundering
- Policy on use of external service providers
- Training
- Risk
- Highways Maintenance PFI (Private Finance Initiative) – Treasury Risk
- Treasury Limits and Prudential Indicators
- Financial implications
- Lampton 360 Property Investment Plans.

1.2. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. In particular a local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that any increases in capital expenditure must be limited to a level where increases in charges to revenue are kept to a level that is affordable within the projected income of the Council for the foreseeable future. Such charges to revenue arise from increases in debt charges caused by increased borrowing to finance additional capital expenditure, and from any increases in running costs from new capital projects.

Base Portfolio Position

1.3. The Council's external borrowing & investment position at 31 March 2018 was as follows: -

		Total Principal £m	HRA £m	GF £m	Average Rate %
Fixed rate funding	PWLB	121.5	111.5	10.0	5.06
	Market	72.0	66.0	6.0	4.19
Total Borrowing		**193.5**	**177.5**	**16.0**	4.74
Total Investments		**(151.0)**	**(37.0)**	**(114.0)**	0.75
Net Borrowing/Investments		**42.5**	**140.5**	**(98.0)**	

HRA – Housing Revenue Account
GF – General Fund
PWLB - Public Works Loan Board

1.4. As previously reported, the Council's external borrowings were split into two portfolios as at 1 April 2012, following the move to self-financing of the Housing Revenue Account (HRA). This split was made on the basis of the Capital Financing Requirement (CFR) at 1 April 2012. Hence the HRA has £178m of external loans, whereas the General Fund only has £16m.

1.5. The Capital Financing Requirement (CFR) measures the authority's underlying need to borrow for capital (not revenue) purposes. The HRA CFR is covered by loans, external as referred to above, and some internal loans from the General Fund. The General Fund CFR at the start of 2018/19 was actually £170m. As detailed above only £16m of this was covered by external debt. The remainder, £154m, has been financed from internal debt i.e. from using temporary investments. It has been more cost effective to use internal cashflow monies, which would currently earn a very low rate of interest if invested, than to borrow externally on the market, and pay higher interest rates.

1.6. All of the authority's existing external borrowing is fixed rate, and hence will not be directly affected by rising interest rates. The authority would currently benefit from rising interest rates on its temporary investments. The monies available for investing are primarily cash flow derived and are only available temporarily pending expenditure. The Council does not generally have funds available for long-term investments. The exception to this are the funds for the Private Finance Initiative (PFI) (see annual investment strategy section.)

Prospects for Interest Rates

1.7. The Council has appointed Link (formerly Capita) Asset Services as its treasury advisor. Part of their role is to assist the Council to formulate a view on interest rates.

Economic background

1.8. The Monetary Policy Committee (MPC) increased base rate from 0.50% to 0.75% on 2 August 2018. This is the highest it has been since 2009 in the aftermath of the financial crash. The current economic outlook has several key treasury management implications:

- We will continue to use only high quality counterparties, as detailed in our Investment Strategy, at Appendix A.

- Investment returns are likely to remain relatively low during 2019/20 but to be on a gently rising trend over the next few years;

- Borrowing interest rates have been volatile so far in 2018-19 and have increased moderately since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, timing of new external borrowing needs to be carefully reviewed to avoid incurring higher borrowing costs than necessary in the future, both to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a "cost of carry" to any new long-term borrowing that causes a temporary increase in short term investments as this would currently incur a revenue loss between borrowing costs and investment returns.

Interest rate forecast

1.9. The following table gives the Link view on interest rates: -

(%)	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Sep 20	Dec 20	Mar 21	Jun 21
Bank rate	0.75	1.00	1.00	1.00	1.25	1.25	1.50	1.50	1.75
5yr PWLB rate	2.10	2.20	2.20	2.30	2.30	2.50	2.50	2.60	2.60
50yr PWLB rate	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20	3.30

Bank rate

1.10. The Monetary Policy Committee (MPC) increased bank base rate from 0.50% to 0.75% on 2 August 2018. This is the highest it has been since 2009 in the aftermath of the financial crash.

1.11. Interest rates are only expected to rise gradually, and the bank rate is forecast to remain at 0.75% until early 2019. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019 it is projected to rise to 1.00% by June 2019, 1.25% by March 2020, 1.50% by December 2020 and 1.75% by June 2021.

Long term Public Works Loan Board (PWLB) rate

1.12. The 5-year PWLB rate is expected to rise from 2.10% to reach 2.50% in 2020, and 2.60% in March 2021. The 50-year PWLB rate is forecast to rise from 2.80% to reach 3.30% in June 2021.

1.13. From the above it can be seen that the yield curve is positive, with longer-term rates being higher than short-term rates.

1.14. The PWLB introduced a new 'certainty' rate from 1 November 2012 for authorities that submitted a return of their borrowing requirements for the next three years. The 'certainty' rate is discounted at 0.20% below the published standard borrowing rates. The London Borough of Hounslow submitted an accepted return and would therefore be able to borrow at 0.20% below the standard rates, and these are the rates set out in the table within the interest rate forecast section above, if external borrowing need was to be identified. The 'project rate' identified by the Chancellor in the 2012 Autumn Statement is 0.40% below standard rates, but only applies to 'local enterprise partnerships'.

Capital Financing Strategy

1.15. The current system of capital controls allows local authorities to determine their own levels of capital expenditure, as long as that level of expenditure is affordable, prudent and sustainable. The current capital programme has been set at a level that can be financed within identified resources. The capital programme's main source of financing has historically been capital grants, primarily from the Government. Capital receipts from the disposal of properties are also used. Other sources of finance are direct revenue financing and borrowing. The borrowing arrangements to finance the capital programme are included in this Treasury Management Strategy.

1.16. There are a number of challenges facing the Council, whereby the Council will have to take out new borrowing. These cover schools, housing, civic centre relocation, ICT, waste depot and leisure.

General Fund Borrowing Requirement

1.17. The Council's General Fund borrowing requirement, as identified at 31 October 2018, is as follows:-

		2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
1	External base borrowing	16.0	15.6	15.5	14.3
2	Internal base borrowing	154.0	186.5	187.7	180.0
3	Total base borrowing	170.0	202.1	203.2	194.3
4	New borrowing for capital programme	40.6	10.7	1.0	-
5	Replacement borrowing	0.4	0.1	1.2	1.2
4+5	Total new borrowing requirement	41.0	10.8	2.2	1.2

1.18. The new borrowing refers to borrowing whose costs fall on the Council's revenue budget and do not attract government support. This covers the areas referred to above in the capital financing strategy section. These projects have been approved in previous MTFS (Medium Term Financial Strategies) and the revenue implications of borrowing have been included in the Council's general fund budget. Replacement borrowing relates to borrowing for maturing debt. The above table also shows that we are currently using £154m of internal reserves and balances to reduce external borrowing, as previously discussed in base portfolio position section. As these reserves and balances reduce they will need to be replaced with external borrowing.

1.19. The borrowing forecast in the above table takes into account the current year underspend previously reported in capital budget monitoring, and hence is less than the budgeted borrowing in the capital programme.

General Fund Borrowing Strategy

1.20. As detailed in the general fund borrowing requirement section, the General Fund revised borrowing requirement for 2018/19 is estimated to be £41.0m, with a further borrowing requirement of £10.8m in 2019/20 and £2.2m for 2020/21. This is a combination of borrowing to finance capital expenditure and replacement borrowing for maturing debts. The requirement takes account of the two main objectives of the Prudential Code, which are that:

- capital expenditure plans are affordable, and
- all external borrowing and other long-term liabilities are within prudent and sustainable limits.

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1.21. In recent years the borrowing requirement has been met by using internal resources and reducing investments.

- The £41m for 2018/19 will continue to be financed from internal resources.

- However, the borrowing requirement for 2019/20 and beyond may start to require some external borrowing. This is being closely monitored. This will be the first time that the Council has had to undertake external long-term borrowing since 2009/10. The timing of this borrowing will be dependent on interest rates. Short-term borrowing is currently cheaper than longer-term borrowing, but as interest rates are at a historically low level it may be more effective to lock in long term borrowing at current levels before interest rates rise. It may also be cheaper to borrow from the market than the PWLB. Advice will be taken from the treasury advisor on the timing, maturity and source of any new borrowings, and the Treasury Management Strategy and Medium Term Financial Strategy will be amended as appropriate.

- In addition, the General Fund has currently 'lent' the HRA £58.1m to refinance its maturing debt. The General Fund has been able to finance this from its temporary cash balances, and the result has been equitably beneficial to both parties. The interest charged has been the PWLB two-year rate. It has been beneficial to the General Fund as this rate has been higher than the authority could have earned from investing temporarily with its approved counter-parties. It has been beneficial to the HRA as it has kept interest rates low in an uncertain environment. Going forward the General Fund will need this money to finance its own capital programme, as it is cheaper for it to finance new capital build from its internal resources than by borrowing from external sources such as the PWLB. Therefore, it is proposed to call back this lending in 2019/20.

1.22. The table in 1.17 the general fund borrowing requirement section only includes borrowing for schemes that have been in the Medium Term Financial Strategy.

Housing Revenue Account Borrowing Requirement

2.1. The Council's Housing Revenue Account borrowing requirement, as identified at 31 October 2018, is as follows: -

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Base borrowing: -				
External	177.5	235.6	247.6	268.6
LBH	58.1	-	-	-
Total base borrowing	235.6	235.6	247.6	268.6
New borrowing	-	12.0	21.0	-
Replacement borrowing	5.0	0.4	13.9	14.0
Total new borrowing requirement	**5.0**	**12.4**	**34.9**	**14.0**

2.2. New borrowing to finance capital expenditure is determined by the HRA Business Plan. The above table only includes borrowing for schemes that have already been approved. In October 2018, the Prime Minister announced a policy change of abolition of the HRA debt cap and the Chancellor announced in the Budget that the applicable date was 29 October 2018. Therefore, further schemes are likely to be approved provided they are affordable within the HRA Business Plan. The above table shows that we are currently lending £58.1m of General Fund balances to the HRA, for which the HRA is paying the General Fund interest at the 2-year PWLB rate. However, as interest rates rise, at some point it may be more effective to lock in long term external borrowing. It may also be cheaper to borrow from the market than the PWLB. Advice will be taken from the treasury advisor on the timing, maturity and source of any new borrowings, and the Treasury Management Strategy and HRA Business Plan will be amended as appropriate.

Housing Revenue Account Borrowing Strategy

2.3. The new HRA borrowing need will have to be met by the PWLB or the market. Advice will be taken from the treasury advisor on the timing, maturity and source of any new borrowings, and the Treasury Management Strategy and HRA Business Plan will be amended as appropriate.

Policy on Borrowing in Advance of Need

2.4. The current borrowing requirement for 2019/20 for the HRA is expected to require external borrowing. Consideration may be given to borrow in advance within the three-year planning period of the approved Capital Financing Requirement estimates for 2020/21 and 2021/22, if interest rates are advantageous to secure long-term value for money.

2.5. The Council will not borrow in advance of need simply to profit from the investment of the extra sums borrowed.

Debt Repayment and Rescheduling

2.6. The Council borrowed £72m in LOBOs (Lender's Option Borrower's Option) between 2006 and 2010, as they were cheaper than borrowing from the PWLB at that time. Under these loan agreements the lenders had the option to change the terms of the loan at set intervals, but if the lender exercised their option, the Council had the option to repay the loan without penalty. All the Council's loans were at fixed rates of interest. In 2016 the lender of a £7.5m loan waived their option rights, thus converting the loan to a plain fixed loan. In October 2018 the opportunity arose to prematurely repay a

£25m LOBO to a bank (running at 4.17%) and replace it with fixed interest borrowing from the PWLB at 2.75%. So, therefore the Council now has £37.5m outstanding in LOBO loans. The Council will continue to investigate the possibility of prematurely repaying these loans if the opportunity arises.

Annual Investment Strategy

2.7. Annex A details the approach for identifying counterparties deemed sufficiently secure to place our investments. The monies the Council has available for investing are primarily cash flow derived and are only available temporarily pending expenditure. The Council does not generally have funds available for long-term investments. The exception to this are the funds for the PFI below. The majority of funds will primarily be invested in periods of less than one year and for no longer than three years. Our investment priorities are security and liquidity. The Council will look to achieve the optimum yield based on its risk parameters. The policy on counterparties is regularly reviewed.

2.8. Funds will primarily be invested according to the Secretary of State's definition of specified investments, these being sterling deposits made for periods of less than one year, offering high security and high liquidity. Specified investments include deposits with the UK government, other local authorities, money market funds, and institutions with high credit ratings. A lending list is compiled to include counter parties satisfying the criteria set by the authority. The Annual Investment Strategy is attached at Annex A to this report.

2.9. The Council is allowed to invest a fixed amount in low risk non-specified investments to take advantage of more attractive rates of interest. The Investment Strategy proposes that a maximum of £50m could be held in aggregate for a maximum period of up to three years. These investments will only be with public bodies, to take advantage of more attractive rates of interest. The investment Strategy also proposes that a maximum of £20m could be invested in enhanced AAA money market funds.

Highways Maintenance PFI (Private Finance Initiative)

2.10. The Council entered into a 25-year contract with Vinci Ringway to deliver highways related services from January 2013. This contract is part funded by a grant from the Department for Transport and part from the Council's own budget. A detailed cash flow model for these costs has been developed covering the full 25 years of the contract. This model provides for setting aside of earmarked funds at the beginning of the contract to help fund future commitments. In 2016 PFI earmarked funds reached £10.8m. The cash flow model indicates that the level of earmarked PFI funds held by the Council should continue to be £10.8m or more for the next 10 to 15 years. Given the level of the PFI earmarked reserve by the end of 2016/17, together with the long-term commitment to hold these and the current low interest rates, approval was given by Cabinet on 20 September 2016 to invest these funds in a longer-term investment vehicle, and £10.8m was invested in this fund on 20 October 2016.

The Minimum Revenue Provision (MRP) Strategy

2.11. It is a statutory duty to set aside from revenue, for the general fund only, a Minimum Revenue Provision (MRP) to repay the principal of debt. The Council is required to approve a specific statement on this, which is Annex B of this report. The purpose of the Statement is to ensure that provision is prudent, allowing debt to be repaid over a period commensurate with that over which the capital expenditure will provide benefits. Decisions on how and whether to repay housing debt will be dependent on the HRA Business Plan. Currently, maturing housing debt is being refinanced.

Policy on the Use of External Service Providers

2.12. The Council uses Link Asset Services as its external treasury management adviser. The Council recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon its external service provider.

2.13. The Council also recognises that there is value in employing external providers of treasury management services in order to have access to specialist skills and resources. A tendering process was carried out in 2017 and Link Asset Services were appointed for a period of three years with an option to extend for a further year.

2.14. Council officers meet with Link regularly and provide them with a monthly list of outstanding investments. Link also has details of the Council's debt portfolio, so they are able to monitor against current interest rates and give timely advice.

Training

2.15. In line with best practice, the Council operates a programme of treasury management training. There is a strong commitment that all staff dealing with treasury management receive comprehensive training on an ongoing basis. It is also a requirement of the CIPFA Code that members receive appropriate training. A programme of training is being planned in 2019/20 for new Chief Officers and members. A training log is maintained.

Risk

2.16. The key risks associated with treasury management issues are: -

Interest rate risk: the Council's long-term borrowing is all fixed rate debt and so will not be directly affected by increases in interest rates. In the short term the Council will benefit from rises in interest rates during 2018/19 and early 2019/20 as its short-term investments are affected by increases in interest rates. However, there is also a projected borrowing requirement in 2019/20 and beyond for the capital programme and reducing balances and reserves. Because the General Fund is currently using reserves and balances to reduce its external borrowing and also lending to the HRA, the General Fund does have an exposure to interest rate risk in future years. It is proposed to mitigate this risk by the HRA undertaking external borrowing for its new borrowing. The General Fund may also need to take out some external borrowing to finance its capital programme. Short-term borrowing is currently cheaper than longer-term borrowing, but as interest rates are at a historically low level we will look to lock in long term borrowing for an appropriate period at low levels before interest rates rise; Counter party risks: the Investment Strategy details how we identify counter-parties for investing with. We use only the highest credit rated institutions and set limits for exposure to each organisation;

Liquidity risk: this is the risk that cash will not be available when required. This risk is reduced by the preparation of cash forecasts and investing bearing in mind future cash requirements. The majority of our investments are less than one year and, currently, apart from PFI monies, all less than two years. To maximise investment income the Investment Strategy at Annex A proposes that a maximum of £50m could be held in aggregate for a maximum period of up to three years. These investments will only be with public bodies, to take advantage of more attractive rates of interest.

Maturity risk: our long-term borrowing is phased over the next 60 years, so in any one year we will not be faced with a significant amount of debt needing to be refinanced.

Treasury Limits and Prudential Indicators

2.17. It is a statutory duty under Section 3 of the Local Government Act 2003 for the Council to 'determine and keep under review' how much it can afford to borrow. This is called the “Affordable Borrowing Limit” and is the authorised limit for external debt referred to in the CIPFA Prudential Code. It is the maximum amount of loan debt that may be outstanding at any point in time and includes both borrowing for capital purposes and an allowance for any temporary borrowing. The CIPFA Prudential Treasury Management Code requires the Council to ensure that total capital investment remains within sustainable limits. These indicators are in Annex C of this report.

Financial Details

2.18. External borrowing using PWLB and market loans are projected as below.

External borrowing (i.e. PWLB and market loans)

	March 2018 Actual £m	**March 2019 Estimate £m**	**March 2020 Estimate £m**
General Fund	16.0	15.6	15.5
HRA	177.5	172.5	230.2
Total	**193.5**	**188.1**	**245.7**

2.19. The General Fund has lent £58.1m money to the Housing Revenue Account to refinance its maturing debt. The HRA is paying the General Fund at 2-year PWLB rates. The General Fund will need this money back to finance its own capital programme and hence this will be externalised in 2019/20 and replaced with external borrowing.

2.20. The table below shows the revenue cost of treasury management.

Revenue Implications for the General Fund

	Original 2018/19 £m	Revised 2018/19 £m	Estimate 2019/20 £m
General Fund (GF)			
MRP – principal repayment	9,341	8,460	9,620
Interest payable on borrowing	764	773	693
Interest receivable on investments:			
External	(286)	(919)	(873)
Internal from HRA	(461)	(926)	(463)
Premium re debt rescheduling	86	99	99
Total GF	9,444	7,487	9,076

2.21. The revised 2018/19 budget is significantly below the original due to slippage in the capital programme. The budget has decreased by £368k in 2019/20 because more capital expenditure has been financed from capital grants and capital receipts than originally estimated, and so less is being funded from borrowing.

Revenue Implications for the Housing Revenue Account

	Original 2018/19 £m	Revised 2018/19 £m	Estimate 2019/20 £m
Housing Revenue Account (HRA)			
MRP – principal repayment	0	0	0
Interest payable on borrowing:			
External	8,942	8,243	8,070
Internal to GF	461	926	463
Interest receivable on	(278)	(162)	(16)
investments	0	139	139
Premium re debt rescheduling			
Total HRA	9,125	9,146	8,656

2.22. Under statute the HRA does not have to make a provision for minimum revenue provision and it is currently not doing so. The budget has decreased in 2019/20 by £469k due to restructuring part of the debt (see policy on borrowing in advance of need section), and the maturity of two loans running at 10%. These were the highest interest loans in the borrowing portfolio, and repayment of these loans will reduce the average interest rate payable.

Lampton 360

2.23. The Council has set up two entities to deliver through Lampton 360:

(i) Lampton Investments 360 Ltd

- An company created to purchase properties from the open market plus a proportion of those built by the development partnership

(ii) Lampton Development 360 Llp

- A development partnership between London Borough of Hounslow and Lampton 360 Ltd to build mixed tenure homes for sale in the open market, long term rentals through sales to Lampton Investment 360 Ltd and affordable housing through sales to Housing Associations.

Lampton Investments 360 Ltd

2.24. Initial plans forecast that the investment company debt would peak at £127m in 2023/24 with all debt scheduled to be repaid over forty years. The investment company is focused on the acquisition and letting of residential properties.

2.25. The estimated capital and interest costs are set out in the table below:-

Year	Capital cost £000	Cumulative capital cost £000	Interest cost to Lampton @ 3.25% £000	Interest cost to General Fund @ 2.93% £000	Surplus to General Fund £000
2018/19	8,480	8,480	157	142	15
2019/20	15,879	24,359	534	481	53
2020/21	12,099	36,458	988	891	97
2021/22	16,311	52,769	1,450	1,307	143
2022/23	34,545	87,314	2,276	2,052	224
2023/24	40,138	127,452	3,490	3,147	343
Total	**127,452**		**8,895**	**8,020**	**875**

Borrowing Strategy for Lampton Investments 360

The Council will borrow the £127m and on-lend it to the company, with Lampton Investments repaying the Council over 40 years. The final column shows the budgeted surpluses that the General Fund will receive over the five years to 2023/24. The surpluses are generated by the Council borrowing at a slightly lower rate than it is charging to the company.

Lampton Development 360 Llp

2.26. The total debt for this entity is forecast to peak in 2021. Lampton Development 360 Llp will deliver the non HRA Housing Programme, building new homes requiring £138m of funding between 2018/19 and 2024/25. The borrowing and financing costs will be repaid as the properties are sold from the capital receipts. The estimated costs and receipts, and the phased return to the General Fund are set out in the table below:-

Year	Cost £000	Total income £000	Net Cumulative £000	Interest cost to Lampton @ 6.00% £000	Interest cost to General Fund @ 1.91% £000	Surplus to General Fund £000
2018/19	5,325	2,720	-2,605	132	42	90
2019/20	24,215	15,300	-11,520	424	135	289
2020/21	25,775	38,245	+950	317	101	216
2021/22	32,080	41,325	+10,195	-	-	-
2022/23	26,025	31,765	+15,935	-	-	-
2023/24	17,120	38,300	+37,115	-	-	-
2024/25	7,645	20,285	+49,755	-	-	-
Total	**138,185**	**187,940**	**+49,755**	**873**	**278**	**595**

Borrowing Strategy for Lampton Development 360

2.27. The Council will borrow the funds and on-lend to the partnership. However, Lampton Development will repay the borrowing from capital receipts with all debt scheduled to be repaid in three years. The surplus on the borrowing is shown in the final column and covers the three years up to 2020/21. After that year all borrowing will have been repaid, on current cashflow projections, and income will exceed the costs across the development programme. The Council has a 99% interest in the development company and will entitled to 99% of the partnerships profits with 1% going to Lampton 360 Ltd.

Annex A

ANNUAL INVESTMENT STRATEGY

1. The Annual Investment Strategy details our approach to identifying counterparties deemed sufficiently secure to place our investments with. In setting our Strategy the council has regard to the 2018 Government Guidance on Local Government Investments and the 2017 CIPFA Treasury Management in Public Services Code of Practice and 2018 Public Sector Guidance Notes. This Council will only invest in institutions with high security and / or backing from the Government.

2. The monies available for investing are primarily cash flow derived and are only available temporarily pending expenditure. The Council does not generally have funds available for long-term investments. The exception to this are the funds for the Private Finance Initiative (PFI). Hence our investment priorities are:-

   a) the security of capital and
   b) the liquidity of our investments.

3. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council does not engage in such activity.

4. **Investment Instruments**
Investment instruments identified are categorised as either ‘Specified’ or ‘Non-Specified’ Investments.

4.1 **‘Specified’ Investments**
‘Specified’ investments are identified by Government Guidance. All such investments will be sterling denominated, with maturities up to a maximum of one year, meeting the minimum ‘high’ rating criteria where applicable. These include deposits with the Government’s Debt Management Office, deposits with UK public bodies (e.g. Local, Police or Fire Authority), and deposits with banks and building societies with ‘high’ credit ratings. The criteria for ‘high’ credit ratings are in Table 1. The Council defines a body of high credit quality as having high short-term ratings with all three credit rating agencies (Fitch, Moodys, and Standard & Poors) plus a long-term rating of a minimum of A-. Within the ‘specified’ investment category there are a number of issues which require separate consideration:-

4.1.1. **Partially nationalised banks in the UK**
The government has sold its share in the part nationalised bank, Lloyds. However, it has only sold a small part of its holding in RBS, and the government stake still stands at 62%. It is expected to take some years for the sale of RBS to be completed. Lloyds is now to be treated the same as any other UK bank and lending policy is based on its credit ratings.

The policy of treating RBS as a special case for investment limits is being kept under review, and we will continue to monitor progress.

4.1.2. **UK banks – ring fencing**
The largest UK banks, (those with more than £25bn of retail deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to

opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail deposits from investment banking, in order to improve the resilience of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings will be considered for investment purposes.

On current ratings we will lend to Ring-Fenced Banks and Non Ring-Fenced Banks with appropriate credit ratings, but NatWest Markets (NRFB) does not meet our credit criteria.

4.1.3. **Sovereign rating**

In determining lending policy, the sovereign rating of the country needs to be considered as well as the individual credit ratings of the banks. Only 10 countries currently have a AAA credit rating with all three rating agencies. They are Australia, Canada, Denmark, Luxembourg, Germany, Netherlands, Norway, Singapore, Sweden and Switzerland. The UK has a rating of AA. Consideration has been given to investing with other AA+ rated countries' banks. This would bring in Finland and the USA. However, the benefit in yield in considering these countries is marginal compared to the additional risk.

Therefore, this Council will only invest in the UK and in AAA rated countries.

4.1.4 **Building Societies**

Most UK building societies do not need to raise funds on the wholesale money markets and therefore do not need to apply for a credit rating from the rating agencies. However, a few of the larger societies do have credit ratings. Without this independent assurance we are unable to evaluate the credit quality of these organisations.

Therefore, we will only invest in building societies with an appropriate credit rating meeting our criteria.

4.1.5 **UK Public Bodies**

Local, Police or Fire Authorities will generally be treated as rated equivalent to the UK Government. This is on the basis that we would not generally take an alternative view on the credit quality of another Public Body to that taken by HM Treasury acting through the PWLB. However, officers may ask of such bodies' statutory chief finance officers whether their borrowing falls within the affordable limit as defined by the Local Government Act 2003 and may restrict investments with individual counterparties where there may be a risk.

4.1.6 **Other categories of 'specified' investments**
These include Certificates of Deposit issued by banks and building societies either supported by UK Government or with 'high' credit ratings, Treasury Bills, AAA rated covered bonds and AAA rated Money Market Funds.

We will continue to invest in these vehicles.

4.2 '**Non-specified' investments**
'Non-specified' investments carry a higher risk than specified investments, but potentially have a higher yield. Within the 'non-specified' investment category there are a number of issues which require separate consideration:-

4.2.1 **Investments over one year**
The Council will only invest in deposits with maturities in excess of one year where there is a minimal risk to capital, and where the rate of return justifies their use. These will usually be restricted to a maximum of two years, but the Director of Finance & Corporate Services has the delegated authority to increase this to three years if there is a sound economic argument for doing so.

It is proposed that a maximum of £50m could be held in aggregate for a maximum period of up to three years. These investments will only be with public bodies, to take advantage of more attractive rates of interest.

4.2.2 **Enhanced AAA Money Market Funds**
Only AAA rated Money Market Funds are classified as 'specified' investments. These funds must follow strict rules on the average maturity of investments within the funds in order to maintain a low volatility net asset value. There are some enhanced cash funds that by having a longer average maturity of investments within the funds can achieve an enhanced return. These funds may have a more volatile net asset value. Although not classifying as 'specified' investments, some of these funds still have high credit ratings.

Therefore, a maximum limit of £20m in aggregate will be set for investing in these funds.

4.2.3 **Residential Mortgage Backed Securities**
These are bonds whose cash flows come from residential debt such as mortgages and home equity loans. A pool of mortgage loans is created by banks or other financial institutions and is used to provide security for the bond.

Whilst these funds may generate an enhanced yield, they are not considered appropriate for a portfolio that is primarily cash flow derived.
The level of risk is considered too high for a short-term portfolio and without the independent assurance of credit ratings we are unable to evaluate the credit quality of these.

5. **Creditworthiness policy**

5.1 The Council uses the creditworthiness service provided by Link Asset Services. This service has been progressively enhanced over recent years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys, and Standard & Poors - forming the core element. By using a scoring system undue reliance is not given to any one agency's ratings. The service does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies
- Credit default swap spreads to give early warning of likely changes in credit rating
- Sovereign ratings to select counterparties from only the most creditworthy countries.

5.2 This modelling approach combines credit ratings, credit watches, credit outlooks and credit default swap spreads in a weighted scoring system for which the end product is a series of bands that indicate the relative creditworthiness of counterparties. These bands are used by the Council to determine the duration time periods for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much-improved level of security for its investments. It is also a service that the Council would not be able to replicate using in house resources.

5.3 All credit ratings are monitored weekly. The Council is alerted immediately to changes to ratings of all three agencies through its use of the Link creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria its further use as a new investment is withdrawn immediately.

5.4 Sole reliance is not placed on the use of this external service. The Council also uses market data and market information, and information on government support for banks.

5.5 The Council has determined that it will only use approved counterparties from the UK, and from other countries which have a sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

6. External Fund Managers

6.1 The Council's policy has been not to appoint external investment fund managers apart from for managing specific earmarked sums of money. The reason has been that the monies the Council has for investing are primarily cash-flow derived and are only available temporarily pending expenditure. However, the Strategic Director of Finance & Corporate Services is authorised to review and appoint at the appropriate time external cash fund managers when of benefit to the Council.

7. Investment Strategy - UK Institutions

7.1 Interest Rate Outlook**:** The Monetary Policy Committee (MPC) increased bank base rate from 0.50% to 0.75% on 2 August 2018. This is the highest it has been since 2009 in the aftermath of the financial crash. The fall in the value of the pound following the referendum vote to leave the EU has led to an increase in inflation. Political uncertainty and Brexit will continue to weigh on the economy. Therefore, interest rates are only expected to rise slowly, and the bank rate is forecast to remain at 0.75% until mid-2019. It is projected to rise to 1.00% by September 2019, 1.25% by September 2020 and 1.50% by December 2020.

7.2 The Council's in-house managed funds are mainly cash flow derived. Investments will accordingly be made with reference to the cash flow requirements and the outlook for short –term interest rates (i.e. rates for investments up to 3 years).

7.3 The Council will make deposits to identified banks and building societies which meet the high creditworthiness criteria in Table 1 below.

Table 1: Creditworthiness Criteria

Type	Minimum Rating			Definition
	Fitch	Moodys	S&P	
Short term - Maturities of less than 1 year	F1	P-1	A-2	High credit quality. Indicates strong capability for timely payment of financial commitments.
Long term **-** Maturities up to 5 years	A-	A3	A-	High credit quality. Low credit risk; capacity for payment of financial commitments is considered strong but may be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

7.4 In addition the Council will also make deposits to UK nationalised banks and banks receiving support from the UK Government, where the long-term rating is lower than A-. National Westminster Bank falls into this category.

7.5 The Council will also make deposits to the Government's Debt Management Office, UK public bodies and AAA rated Money Market Funds, and AAA enhanced Money Market Funds.

7.6 To minimise risk a limit of £50m is set for investments over one year but less than three years. No investments are allowed for periods exceeding three years apart from earmarked PFI funds.

8. Investment Strategy - non UK Institutions

8.1 To give extra flexibility the authority has on its lending list a small number of foreign banks with very high credit ratings (as in Table 1 above), whose home countries have a AAA rating. They are banks based in Australia, Canada, Germany, Netherlands, Singapore, Sweden and Switzerland. They will only remain on the lending list as long as their home countries retain their AAA status and the banks retain their individual high ratings.

9. Approved List of Counter-Parties

9.1 The current lending list as at 31 October 2018 is attached at paragraph 9.5 below. The list is monitored by officers on a weekly basis. Daily emails are sent by Link, enabling immediate action to be taken if a downgrading warning is issued. Changes to counterparty list and other relevant market activity are included in the regular monitoring reports to Cabinet.

9.2 The Strategic Director of Finance & Corporate Services is delegated to monitor credit ratings and other market information and make additions, deletions and amendments to the Approved Lending List in the light of changing circumstances.

9.3 To minimise risk absolute limits are set for institutional categories.

- No limit is set for the Debt Management Office as this is backed by the UK Government.
- A limit of £50m per institution has been set for banks that are partially owned by the UK government i.e. National Westminster Bank.
- Local authorities are underwritten by the local taxpayers, hence their risk of default is negligible. A limit of £30m is set for each local authority. Investments are made on a case-by-case basis.
- A limit of £30m per institution has also been set for other appropriately rated banks.
- A limit of £20m has been set for individual AAA money market funds.

9.4. In addition following on from the approval of this strategy:-

- a limit of £20m in aggregate will be set for enhanced AAA money market funds;
- it is proposed that a maximum of £50m could be held in aggregate for a maximum period of up to three years. These investments will only be with public bodies, to take advantage of more attractive rates of interest.

9.5 Approved list of Counter-Parties

a. No limit: - Debt Management Office

b. £50m limit
   - National Westminster Bank (Ring-Fenced Bank)

c. £30m limit
   - All local authorities

d. £30m limit

- Banks and Building Societies
  - Barclays Bank
  - Close Brothers
  - Coventry Building Society
  - Goldman Sachs International
  - HSBC Bank
  - Lloyds / Bank of Scotland (Ring-Fenced Bank)
  - Nationwide Building Society
  - Santander UK
  - Standard Chartered Bank

- Foreign Banks
  - Australia: Australia and New Zealand Banking Group
    Commonwealth Bank of Australia
    National Australia Bank
    Westpac Banking Corporation
  - Canada: Bank of Montreal
    Bank of Nova Scotia
    Canadian Imperial Bank of Commerce
    Royal Bank of Canada
    Toronto Dominion Bank
  - Germany DZ Bank
    Landesbank Berlin
    Landesbank Hessen-Thueringen
    Landwirtschaftliche Rentenbank

		NRW Bank
-	Netherlands	Bank Nederlanse Germeenten
		Cooperative Rabobank
		ING Bank
		Nederlandse Waterschapsbank
-	Singapore	DBS Bank
		Overseas Chinese Banking Corporation
		United Overseas Bank
-	Sweden	Skandinaviska Enskilda Banken
		Swedbank
		Svenska Handelsbanken
-	Switzerland	UBS AG

e. £20m limit

- Money Market Funds AAA
    - Invesco AIM STIC Global Sterling
    - Fidelity Institutional
    - HSBC Sterling Liquidity
    - Insight
    - Aberdeen (Standard Life)
    - Goldman Sachs
    - BNP Paribas
    - Federated Prime Rate
    - Legal and General

f. £20m limit in aggregate

- Enhanced Money Market Funds
    - To be selected by the Strategic Director of Finance & Corporate Services

g. PFI monies only

- Legal and General Short Dated Sterling Corporate Bond Index Fund

Annex B

STATEMENT ON MINIMUM REVENUE PROVISION 2019/20

1. What is a Minimum Revenue Provision (MRP)?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred. Such expenditure is spread over several years in order to try to match the years over which the assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP), which was previously determined under Regulation, and is now determined under Guidance. The MRP is used to repay debt.

2. Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

> "A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The Housing Revenue Account (HRA) is not subject to a statutory requirement to make a minimum revenue provision payment, and is not currently doing so. The HRA will start repaying debt when its Business Plan starts generating sufficient surpluses. This is being carefully monitored and will probably be within the next ten years.

3. Government Guidance

Along with the above duty, the Government issued revised guidance in 2018 which requires that a Statement on the council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The main change from previous guidance is the allowance that any charges made over the statutory MRP, voluntary revenue provision or overpayments can, if needed, be reclaimed in later years if deemed necessary or prudent. Having reviewed previous years payments, we currently have no plans to reclaim previous payments.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance means it is the responsibility of each council to decide upon the most appropriate methods of making a provision, after having had regard to the guidance. The four options are:-

Option 1: Regulatory Method

For both historical borrowing and supported borrowing before 1 April 2008, principal repayments are set at 4% of the adjusted General Fund capital financing requirement (CFR). The CFR measures a council's underlying need to borrow for capital purposes. Hounslow is eligible to use a technical accounting adjustment which relates to previous changes in the capital accounting system, and reduces our required debt repayment. Government has agreed such changes as acceptable adjustments. The impact of these reductions is relatively small, for 2019/20 they result in a reduction in debt repayments of £0.039m.

Option 2: Capital Financing Requirement Method

This is a variation on option 1, but excludes the legitimate accounting adjustments allowed for in Option 1.

Option 3: Asset Life Method.

This method may be applied to new capital expenditure from 1 April 2008.
Under this option, it is intended that MRP should be spread over the estimated useful life of the relevant asset. There are two useful advantages of this option:

1. Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
2. No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use.

There are two methods of calculating charges under option 3:

1. Equal instalment method – equal annual instalments,
2. Annuity method – annual payments gradually increase during the life of the asset.

We will use the annuity method as this equalises the total payment of principal and interest over the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions). This is a more complex approach than option 3.

4. Private Finance Initiative

The Highways transfer of services to Vinci Ringway using a 25 years Private Finance Initiative (PFI) contract started on 1st January 2013. Vinci are undertaking £98m of capital investment on Hounslow's infrastructure in the first five years of the contract. Under IFRS (International Financial Reporting Standards) we have to report the capital expenditure as showing as an increase in the capital financing requirement financed by borrowing on the Council's balance sheet, although the Council will not undertake the physical borrowing itself. The financing will be done by Vinci and recharged to the Council via the annual revenue service charge. The element of the service charge which relates to the repayment of capital counts as part of our minimum revenue provision, and hence is incorporated into the statement below.

Minimum Revenue Provision Policy Statement 2019/20

In making its provision for Minimum Revenue Provision this authority is adhering to the Guidance issued by the Department of Communities and Local Government in 2018. The major proportion of the MRP for 2019/20 now relates to the repayment of new borrowing since 1 April 2008, as the amount relating to historic debt liability reduces. The MRP relating to historic debt liability will continue to be charged at the rate of 4%, in accordance with option 1. New borrowing will be recharged over the identified asset lives, in accordance with Option 3 using the annuity method. Hence our approach is to repay General Fund debt based on:-

i) 4% of the relevant General Fund Capital Financing Requirement for Government supported borrowing and historical borrowing before 1 April 2008, as detailed under Option1; and
ii) to repay debt based on individually identified asset lives for borrowing since 1 April 2008, as detailed in Option 3 using the annuity method. Asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

The amounts below are included in the 2019/20 revenue budget.

Minimum Revenue Provision (MRP) for 2019/20

	Budget 2019/20 £m
4% of Capital Financing Requirement for pre-2008 borrowing	2.9
Repayment of borrowing post-2008	6.7
PFI charge to Vinci	3.3
TOTAL	**12.9**

Annex C

The Prudential and Treasury Indicators

INTRODUCTION
The objectives of the 2017 Revised CIPFA Prudential Code for Capital Finance in Local Authorities are to ensure that local authorities' investment plans are affordable, prudent and sustainable. In addition, treasury management decisions must reflect good professional practice and support prudence, affordability and sustainability. The Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and option appraisals.

To demonstrate that the objectives are being fulfilled councils are required to set specific Prudential and Treasury Indicators. These indicators draw together the Council's balance sheet, its revenue budget proposals, capital expenditure plans and the Treasury Management Strategy.

The Prudential Indicators are either capital indicators or treasury indicators. It should be noted that where indicators for three years are required, these are rolling scenarios, not fixed for three years. The indicators are not designed to be inter-authority comparative performance indicators. Each council sets its own limits dependent on its own circumstances.

AFFORDABILITY INDICATORS

1. Capital expenditure
Actual and projected capital expenditure

	2017/18 actual £m	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m	2021/22 estimate £m
General Fund	104.2	91.9	35.2	6.4	4.0
Housing Revenue Account (HRA)	33.2	99.1	75.1	65.7	40.0
Total	**137.4**	**191.0**	**110.3**	**72.1**	**44.0**

This capital expenditure is financed from a combination of capital receipts, capital grants, capital reserves, revenue and borrowing. The rest of the prudential indicators relate to the element of capital expenditure to be met from borrowing.

2. Ratio of net financing costs to net revenue stream
Actual ratio of net financing costs for previous year, and estimated ratio in future years.

	2017/18 actual %	2018/19 estimate %	2019/20 estimate %	2020/21 estimate %	2021/22 estimate %
General Fund	1.0	1.1	1.3	1.4	1.3
HRA	10.6	10.5	10.8	10.8	10.3

Financing costs primarily cover net interest and principal repayment costs. For the General Fund the rising trend is the projected cost of the borrowing programme over the next three years. As discussed in the Treasury Management Strategy the 2018/19 borrowing requirement, of £40.6m, is expected to be met by using internal resources and reducing investments. The borrowing requirement for 2019/20 of £10.7m, and for 2020/21, of £1.0m, may start to require some external borrowing. Advice will be taken from the treasury advisor on the timing of any new borrowings. The above table shows the net effect of loss of investment income and additional principal & interest borrowing costs.

For the HRA no decision has yet been taken on the repayment of principal and hence the HRA figures are purely interest costs. The above table includes the effect of new borrowing of £12m in 2019/20 and £21m in 2020/21.

3. Capital Financing Requirement

	2017/18 actual £m	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m	2021/22 estimate £m
General Fund	185.4	217.5	218.6	209.7	199.8
Lampton Investments	2.4	11.8	27.7	39.8	56.2
Lampton Development	-	29.6	30.0	30.0	30.0
HRA	233.0	233.0	245.0	266.0	266.0
PFI	82.6	79.5	76.2	72.8	69.4
Total	**503.4**	**571.4**	**597.5**	**618.3**	**621.4**

This indicator measures the Council's underlying need to borrow for capital (not revenue) purposes. It currently rises for the General Fund from 2017/18 to 2019/20 reflecting new borrowing over the next three years. The Capital Financing Requirement (CFR) goes down in 2020/21 and 2021/22 because, at this stage, the principal repayment amounts in those years are more than the estimated borrowing.

The loans to Lampton Investments and Lampton Development will also qualify as capital expenditure and be charged against the CFR. The Lampton Development CFR will reduce as and when properties are sold and the sales receipts applied to repay the CFR.

For the HRA it rises in 2019/20 and 2020/21 reflecting new borrowing in those years.

The transfer of Highways services to Vinci Ringway using a 25 years Private Finance Initiative contract started on 1st January 2013. Vinci are undertaking £98m of capital investment on Hounslow's infrastructure in the first five years of the contract. Under IFRS (International Financial reporting Standards) we have to report the capital expenditure as showing as an increase in the capital financing requirement financed by borrowing on Hounslow's balance sheet, although Hounslow will not undertake the physical borrowing itself. The financing will be done by Vinci and recharged to Hounslow via the annual revenue service charge.

CIPFA's Prudential Code states

'In order to ensure that over the medium term borrowing will only be for a capital purpose, the local authority should ensure that gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement'

The Strategic Director of Finance & Corporate Services notes that the Authority has had no difficulty in meeting this requirement for 2017/18. Nor are any difficulties envisaged for future years.

4. Authorised Limit for external debt

	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m	2021/22 estimate £m
Borrowing	282.0	300.2	320.2	323.8
Other Long term Liabilities	2.3	2.3	2.3	2.3
Total	**284.3**	**302.5**	**322.5**	**326.1**

As referred to in para 2 above the 2018/19 borrowing requirement is expected to be met by using internal resources and reducing investments. However, provision has been made in the above limit for this expenditure to be met from external borrowing if required due to changing circumstances. The limits for 2019/20 and 2020/21 assume that the requirements are be met by external borrowing. The limits for 2019/20 and 2020/21 also show the effect of the estimated Lampton Development sales receipts.

This is the maximum possible limit on borrowing for both capital and temporary revenue purposes, and includes an allowance for unusual or uncertain events. The "other long-term liabilities" allowance will enable the Council to use leasing finance if this is financially advantageous. The Authorised Limit should not be set so high that it would never in any possible circumstances be breached. It should be set to establish the outer boundary of the Council's borrowing based on a realistic assessment of risks. If it is breached a review should be undertaken to assess and understand why. For example, a breach could be an early warning sign of revenue overspending.

5. Operational Limit for external debt

	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m	2021/22 estimate £m
Borrowing	260.4	279.8	300.1	303.7
Other Long- term liabilities	2.3	2.3	2.3	2.3
Total	**262.7**	**282.1**	**302.4**	**306.0**

As in para 4 above, this allows for the 2018/19 borrowing requirement to be met by external borrowing if necessary, and for 2019/20 and 2020/21 assumes that the requirements are be met by external borrowing, and also shows the effect of the estimated Lampton Development sales receipts in 2019/20 and 2020/21.

This is the most likely maximum level of borrowing for most of the year, without the additional headroom included within the Authorised Limit for unusual cash movements. It may occasionally be exceeded due to unforeseen events. However, a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate.

6. Actual External Debt

The Council's actual external debt at 31 March 2018 was **£193.5m**. This was within the limits set for the year. This covers the Housing Revenue Account (HRA) and General Fund.

7. **Monitoring of external debt**

The Strategic Director of Finance & Corporate Services monitors the Authorised Limit and Operational Boundary on a daily basis to check that unsustainable breaches are not occurring. If any pattern of breach does occur immediate corrective action will be implemented to protect the Council's financial position.

INDICATORS OF PRUDENCE

These treasury management indicators recognise the existing structure of the Council's borrowing and investment portfolios. They are set to avoid exposing public funds to unnecessary or unquantified risk, and to reflect safety and liquidity.

8. **Upper limit on fixed interest rate exposures and variable rate exposures**

Indicators have to be set which limit the extent to which the Council is exposed to interest rate changes. Separate limits are set for the principal sums for fixed interest rate and variable rate borrowings. These limits are net of investments.

	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m	2021/22 estimate £m
Fixed interest rate exposures	265	285	305	310
Variable interest rate exposures	55	60	60	60

The variable limit has been set at 20% of the operational limit. However, all current debt is at fixed rates of interest, therefore, the fixed limit has been set at the operational limit.

9. **Maturity structure**

It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings. These limit the extent to which we will be exposed to significantly higher interest rates in any period in which we have to refinance maturing debt.

The table below shows the limits of projected borrowing that is fixed-rate, maturing in each period, as a percentage of total projected fixed-rate borrowing.

	Upper limit %	Lower limit %
Under 12 months	30	0
1-2 years	30	0
2-5 years	50	0
5-10 years	50	5
10 years and over	75	10

10. **Limit on Investments for periods over one year**

Whilst the Council's funds available for investment are mainly short term, there are some reserves and balances that will not be spent in the short term. Hence it is proposed to set a prudent limit of £100m for investments over one year up to a maximum of three years.

11. **Adoption of CIPFA Code of Practice**

The Council has adopted the 2017 Revised CIPFA Code of Practice for Treasury Management in Public Services

12. Monitoring Performance against Prudential Indicators

The Strategic Director of Finance & Corporate Services is required to establish procedures for monitoring performance against these indicators, and for establishing a reporting process that highlights any significant deviations. The indicators are monitored on either a daily, weekly, monthly or annual basis, as considered appropriate for each specific indicator. If the authorised limit for external debt is breached a report to Council will be required.

Performance against these indicators is included in the regular treasury management monitoring reports to Cabinet.