

APPENDIX A



**South  
Cambridgeshire  
District Council**



# TREASURY MANAGEMENT STRATEGY

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## **1. INTRODUCTION**

- 1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a Treasury Management Strategy before the start of each financial year.
- 1.2 This Strategy fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA code and the **Department for Levelling Up, Housing and Communities (DLUHC) Guidance, formerly the** Ministry of Housing, Communities and Local Government (MHCLG) **Guidance**.
- 1.3 The Treasury Management Strategy sets the framework for the Council's treasury management activity and includes:
- Treasury Management Policy Statement;
  - Minimum Revenue Provision Policy Statement;
  - Treasury Management Indicators for ~~2022/2023~~ **2023/2024**.
- 1.4 The Council has borrowed and invested substantial sums of money and, therefore, has potential exposures to financial risks, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is, therefore, central to the Council's Treasury Management Strategy.
- 1.5 The Strategy requires the Council to receive and approve, as a minimum, the following treasury management reports each year, namely:
- The annual review of the Treasury Management Strategy incorporating prudential and treasury indicators;
  - A mid-year treasury management report to update members on the progress of the capital position, the performance against approved prudential indicators as necessary and to advise if any policies require revision;
  - An annual report of the treasury management activities, including the outturn position that compares actual performance to the estimates in the Strategy.
- 1.6 Investments held for service purposes or for commercial reasons are considered in a different report called the Investment Strategy which was considered by Cabinet on 6 December 2021 ~~for onward approval by Council on 22 February 2022~~.

## **2. POLICY OBJECTIVES**

- 2.1 To set a balanced General Fund Revenue Budget in accordance with Section 33 of the Local Government Act 1992.
- 2.2 Having regard to affordability considerations manage the Council's long-term debt. Variable rate and fixed rate borrowing and debt rescheduling will be considered as appropriate and as variations in interest rates occur.
- 2.3 To invest Council capital and revenue balances until they are used/spent in order that the Council gains investment income to help finance its annual revenue expenditure.

- 2.4 To keep within the Council's approved Treasury Management Policy and Practices.
- 2.5 The Council's primary objective in relation to its investments is to ensure that long term capital is not put at risk but that within acceptable risk parameters the portfolio is managed to ensure that interest is maximised. Liquidity is managed through the use of money market funds with additional access to the liquid PWLB and Local Authority borrowing market.

### **3. TREASURY MANAGEMENT POLICY STATEMENT**

- 3.1 The Council's Treasury Management Policy Statement is as follows:

*This statement relates to 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.*

*The Council has arrangements in place to meet the statutory requirements relating to the Prudential Code for Capital Finance in Local Authorities.*

*The Council requires that the successful identification, monitoring and control of risk will 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.*

*The 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 best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.*

*The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.*

*The Council's primary objective in relation to its investments is to ensure that long term capital is not put at risk but that within acceptable risk parameters the portfolio is managed to ensure that interest is maximised. Liquidity is managed through the use of money market funds with additional access to the liquid PWLB and Local Authority borrowing market.*

*The Council will have regard to Environmental, Social & Governance (ESG) considerations when monitoring performance and making investment decisions. As part of this the Council, as a responsible investor, will work with all Counterparties and Treasury Advisors to promote active ESG policies.*

### **4. GOVERNANCE ARRANGEMENTS**

- 4.1 The Audit and Corporate Governance Committee is responsible for monitoring treasury management activity and the Committee receives reports from the Section 151 Officer on treasury management policies and performance. The scrutiny and approval of the mid-term and annual treasury management reports is delegated to the Audit and Corporate Governance Committee.

- 4.2 Treasury management reports are required to be adequately scrutinised before being recommended to Council. The Treasury Management Strategy is scrutinised by the Overview and Scrutiny Committee alongside the Council's budget papers each financial year.
- 4.3 Members of these Committees are responsible for ensuring that they have the necessary skills and training to properly discharge their responsibilities in relation to the Council's treasury management function.

## **5. ROLE OF S151 OFFICER**

- 5.1 The Head of Finance, as the designated Section 151 Officer, has delegated responsibility to implement and monitor the Treasury Management Policy Statement and Treasury Management Strategy approved by the Council.
- 5.2 All monies in the hands of the Council are controlled by the Head of Finance.
- 5.3 Decisions on borrowing, investment or financing are taken by the Head of Finance.
- 5.4 The Head of Finance is responsible for reporting to the Council on treasury management issues as set out in Section 1.5 above.
- 5.5 To ensure that members and officers with treasury management responsibilities have access to training relevant to their needs and responsibilities.
- 5.6 The Council has appointed a Treasury Management Advisor, Link Asset Services, to enable independent specialist advice to be obtained on all aspects of the treasury management function. This includes forecasts of the potential influence of interest rates on treasury management issues for the Council. A detailed economic and interest rate forecast provided by Link Asset Services is attached at [Annex A](#).

## **6. CAPITAL FINANCING REQUIREMENT**

- 6.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the use of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, use of earmarked reserves etc.), which has no resultant impact on the Council's borrowing need, or;
  - If insufficient financing is available for the investment, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.
- 6.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The proposed capital expenditure and how it will be financed is shown at [Annex B](#).

- 6.3 As at 5 January ~~2022~~ **2023**, the Council held ~~£250~~ **£255** million of borrowing and ~~£125~~ **£171** million of investments. The Council is **not** committed to further short-term borrowing of ~~£15 million~~ by year end. This portfolio is set out in detail at [Annex B](#) with forecast changes in these sums are shown in the balance analysis in [Annex C](#).
- 6.4 CIPFA's prudential code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CRF over the next three years. [Annex C](#) shows that the Authority expects to comply with the recommendation during ~~2022/2023~~ **2023/2024**.

## **7. LIABILITY BENCHMARK**

- 7.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing at [Annex D](#). This assumes the same forecasts as [Annex C](#), but that cash and investment balances are kept to a minimum level of £10 million at each year end to maintain sufficient liquidity but minimise credit risk.

## **8. BORROWING STRATEGY**

- 8.1 The Council is permitted to borrow under the Prudential Framework, introduced with effect from 1 April 2004.
- 8.2 The Authority is forecast to hold £205.123 million of long-term loans with no scheduled repayments during the year. This represents the only debt currently held by the Council, relating to 41 loans from the PWLB for self-financing the Housing Revenue Account (HRA) taken out in 2012 and totalling £205.123 million.
- 8.3 Based on the Capital Programme approved by Cabinet on ~~6 December 2021~~ **12 December 2022** it is anticipated that there will be some external borrowing for capital financing purposes during ~~2022/2023~~ **2023/2024**. There may also from time to time be an operational cash flow need that requires short-term borrowing to be taken. The Authority could borrow in addition to this to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £10 million.
- 8.4 The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. 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.
- 8.5 In the event that external borrowing is undertaken the Council will be eligible to access funds at the PWLB Certainty Rate (that provides a 0.20% discount on loans).
- 8.6 **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.
- 8.7 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The Council's treasury adviser will assist the Authority with this 'cost of carry' and breakeven analysis. This may determine whether the Authority borrows additional sums at long-term fixed rates in ~~2022/2023~~ **2023/2024** with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during ~~2022/2023~~ **2023/2024**, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Authority may borrow short-term loans to cover unexpected cash flow shortages.

**8.8 Sources:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body.
- Any institution approved for investments (see below).
- Any other bank or building society authorised to operate in the UK.
- Any other UK public sector body.
- UK public and private sector pension funds.
- Municipal Bond Agency.
- Capital Market Bond Investors.
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing.
- Hire purchase.
- Sale and leaseback.

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

**8.9 Municipal Bond Agency:** UK Municipal Bonds Agency was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons:

- Borrowing authorities may be required to provide bond investors to guarantee the risk that other local authority borrowers default on their loans.
- There will be a lead time of several months between committing to borrow and knowing the interest rate payable.
- Up to 5% of the loan proceeds will be withheld from the Authority and used to bolster the Agency's capital strength.

Any decision to borrow from the Agency will, therefore, be the subject of a separate report to Full Council.



- 8.10 **Short-term and Variable Rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are, therefore, subject to the interest rate exposure limits in the treasury management indicators below.
- 8.11 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.
- 8.12 **PWLB:** Due regard will be given to the prevailing rules in relation to local authority borrowing from the PWLB and, in particular, the impact of borrowing for the acquisition of commercial assets on the Council's wider borrowing requirements. Due regard will be given to the guidance published by HM Treasury on 25 November 2020 entitled, "Public Works Loan Board: future lending terms – Response to the consultation". The new borrowing rules restrict the ability of local authorities to borrow from PWLB for pure investment in commercial property.

As a condition of accessing the PWLB, Local Authorities must submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. As part of this, the Head of Finance will need to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on their professional interpretation of guidance issued. When applying for a new loan, the Local Authority must confirm that the plans they have submitted remain current and provide assurance that they do not intend to buy investment assets primarily for yield.

If the Council intends to buy commercial assets primarily for yield (even by using reserves) then they will be prevented from taking any PWLB borrowing and will need to consider alternative sources of funding. It is not, therefore, permitted to reprofile the capital programme so that borrowing is only used on allowed projects, with internal borrowing used for commercial activities.

## **9. MINIMUM REVENUE PROVISION**

- 9.1 Minimum Revenue Provision (MRP) is the revenue charge that the Council is required to make for the repayment of debt, as measured by the underlying need to borrow, rather than actual debt. The underlying debt is needed to finance capital expenditure which has not been fully financed by revenue or capital resources. As capital expenditure is generally expenditure on assets which have a life expectancy of over one year it is prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure.
- 9.2 The Local Authorities (Capital Finance and Accounting) regulations require local authorities to calculate for the financial year an amount of MRP which is considered to be 'prudent'.
- 9.3 There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.
- 9.4 The Housing Revenue Account share of the CFR is not subject to an MRP charge.
- 9.5 There is no requirement to make an MRP charge on an asset until the financial year after that asset becomes operational.

- 9.6 The Government has issued revised guidance (in January 2018) on the calculation of MRP. The Council is required to have regard to the guidance based on the underlying principle that the provision should be linked to the life of the assets for which the borrowing is required. However, the guidance is clear that differing approaches can be considered if the resulting provision is prudent.
- 9.7 In general, the Council will make an MRP based on the equal instalment method, amortising expenditure equally over the estimated useful life of the asset for which the borrowing is required. However, no provision will be made in respect of expenditure on specific projects where the Chief Financial Officer determines that receipts will be generated by the project to repay the debt.
- 9.8 Where a loan is made to a wholly owned subsidiary of the council, the loan is deemed to be secured on the assets of the company. Evidence of the ability to repay the loan will be based on the company's business plan and asset valuation, and no MRP will be made. The Council will review the loan and business plan annually, where there is evidence that suggests the full amount of the loan will not be repaid it will be necessary to reassess the charge to recover the impaired amounts from revenue.
- 9.9 Exceptionally, where capital expenditure is part of a loan agreement to other than a wholly owned subsidiary, the Council may register a fixed and floating charge over the counterparty assets to secure the Council's interest in the investment, or alternately an equity share interest in an asset with value.
- 9.10 The Council continues to pursue a programme of investment in commercial property using powers under S12 of the Local Government Act 2003. This is deemed capital expenditure and will be financed from cash balances and/or external borrowing as appropriate at the time. MRP will ordinarily be provided for using the useful life determinant with regard to maximum lives permitted in the revised **DLUHC MHCLG** MRP guidance of 50 years for freehold land and 40 years for all other assets. MRP will be made on the purchase of these properties in the year following the year of purchase and will be set having regard to its annual valuation. The application of MRP will be adjusted to reflect the annual valuation of these properties and will be determined on a property by property basis.
- 9.11 The Council's MRP Policy is summarised at [Annex E](#).

## **10. INVESTMENT STRATEGY**

- 10.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the investment balance has ranged between ~~£134.8~~ **£171** million and ~~£103.8~~ **£135** million. ~~These levels will reduce in the forthcoming year as these figures included Government Covid Grants prior to redistribution.~~
- 10.2 **Objectives:** The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The portfolio will target as a whole to achieve a return above the Bank of England Consumer Price Inflation (CPI) target in order to maintain the spending power of the sum invested. Where balances are expected to be invested for more than one year, the Council will aim to achieve a reasonable return **recognising that in the medium term it is unlikely to be able to return a rate** that is equal or higher than the prevailing rate of inflation, ~~in order to maintain the spending power of the sum invested.~~



The Council will have regard to Environmental, Social & Governance (ESG) factors in decision making, particularly when considering long term strategy funds as these issues can have a material impact on the value of financial assets and on the long-term performance of investments and, therefore, should be considered to better manage risk and generate sustainable, long-term returns. Well managed companies with strong governance are more likely to be successful long-term investments.

The Council will endeavour to be an active owner and steward of its investments, both internally and externally managed, by engaging with Fund Managers in relation to their ESG policies.

- 10.3 **Strategy:** To achieve the objective above the Council has set a target based on CPI inflation (November CPI was 10.7%). The aim is to exceed the Bank of England's target of 2% while maintaining security and liquidity. Inflation is expected to peak at 6% in April 2022 and then subside peaked at 11.1% in October 2022 and is now expected to reduce. A cautious approach is, however, being maintained given the uncertainty.

To achieve this target the Council will continue to lend to Ermine Street Housing, and spread other investments across approved counterparties as set out in [Annex G](#). The Council will use Money Market Funds and Ultra Short Dated Bond Funds with limits of £10 million per entity to manage liquidity in low volatility price risk funds. The remaining funds will be assessed against the evolving cash flow outlook and invested in the approved counterparties.

- 10.4 **Business Model:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and, therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 10.5 **Approved Counterparties:** The Authority may invest its surplus funds with any of the counterparty types in [Annex E](#), subject to the cash limits (per counterparty) and the time limits shown. A more detailed breakdown of this can be seen in [Annex G](#).
- 10.6 **Credit Rating:** Investment limits are set decisions and made by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
- 10.7 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.
- 10.8 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- 10.9 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 10.10 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit or to the value of £1 million per company as part of a diversified pool in order to spread the risk widely.
- 10.11 **Registered Social Landlords (RSL's):** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and RSL's, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, the likelihood of receiving government support if needed exists.
- 10.12 **Pooled Funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short Term Money Market Funds that offer same-day liquidity and that offer very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 10.13 **Bond, equity and property funds:** Offers enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.
- 10.14 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
- 10.15 **Operational Bank Accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will, therefore, be kept below £1 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.
- 10.16 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisor, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced.

This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

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

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

- 10.18 **Investment Limits:** The revenue reserves available to cover investment losses are forecast to be ~~£16 million on 31 March 2022~~ **£16.1 million on 31 March 2023**. In order that available reserves will not be put at risk for unsecured investments in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million per entity on unsecured investments.

A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as outlined in [Annex H](#). Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

- 10.19 **Liquidity Management:** The Authority uses purpose-built cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts underestimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium term financial plan and cash flow forecast.

## 11. PRUDENTIAL INDICATORS

- 11.1 The Local Government Act 2003 requires the Authority to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.
- 11.2 To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year and these are identified in the separate Capital Strategy.
- 11.3 The following indicators are identified in the Capital Strategy:
- (1) **Estimates of Capital Expenditure:** This indicator provides the level of gross capital expenditure that is estimated to be incurred. The estimated expenditure includes schemes where funding has already been approved.
  - (2) **Estimates of Capital Financing Requirement (CFR):** This indicator provides a limit for which net external borrowing will not be exceeded, except on a short-term basis.
  - (3) **Gross Debt and the CFR:** Statutory guidance is that debt should remain below the CFR, except in the short term.
  - (4) **Authorised Limit and the Operational Boundary for External Debt:** This determines the maximum total amount the Council will be able to borrow. The Operational Boundary indicator represents the prudent level of borrowing and will be reviewed annually.
  - (5) **Proportion of Financing Costs to Net Revenue Stream:** This indicator provides the ratio of financing costs to the Council's estimated net revenue expenditure (i.e. the expenditure financed by the revenue support grant, business rate redistribution, council tax and collection fund surplus share).

## 12. TREASURY MANAGEMENT INDICATORS

12.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

**A. Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The Authority minimises its risk to interest rate changes by undertaking all borrowing in fixed rate products such as PWLB or short-term Local Authority loans.

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

Refinancing Rate Risk Indicator	Upper Limit	Lower Limit
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and within 20 years	40%	0%
20 years and within 30 years	60%	0%
30 years and above	100%	20%

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

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

Price Risk Indicator	2023/2024	2024/2025	2025/2026
Limit on principal invested before year end	£10 million	£10 million	£10 million

**D: Security:** The Authority generally but not exclusively follows the guidance provided by its Advisers on the selection of Counterparties and duration of investments. The Advisers provide a Weighted Average Credit Risk score at the end of each month for the investment portfolio as part of its benchmarking service.

The lower the score calculated indicates a lower credit risk has been taken by the Council for its internal investments. The Council aims to perform at a level less than or equal to the target:

Link Credit Risk Indicator	Target
Portfolios weighted average risk number	< 5.0

**E: Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity Risk Indicator	Target
Total cash available within 3 months	£7 million

**F: Yield:** The Authority, in order to maintain the spending power of the money it invests, has adopted a voluntary yield target for the portfolio of the Bank of England Consumer Price Inflation (CPI) target. In light of the current level of CPI (5.4% ~~10.7%~~ in the 12-month period to November 2021 ~~2022~~ and ~~expected to peak at 6%~~) it is unrealistic to achieve yields in line with actual CPI inflation while maintaining security and liquidity. The target has, therefore, been ~~retained at~~ **increased to** the Bank's target level of +2%. This will, however, need to be kept under regular review given the current uncertainties over future inflation trends.

Inflation Risk Indicator	Target
Minimum Yield on Portfolio	2% <del>4%</del>



### 13. OTHER ITEMS

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

The Authority does not use Financial Derivatives and does not expect to use these in ~~2022/2023~~ **2023/2024**. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transaction, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

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



In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

- 13.3 **Markets in Financial Instruments Directive:** The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

## 14. OTHER OPTIONS CONSIDERED

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer having consulted the Lead Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on Income and Expenditure	Impact on Risk Management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

## 15. GLOSSARY OF TERMS

A glossary of terms and abbreviations used in Treasury Management is available at [Annex I](#).

## Treasury Management Adviser: Economic & Interest Rate Forecast as at January 2023

### Interest Rate Forecast

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
<b>BANK RATE</b>	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

PWLB forecasts are based on PWLB certainty rates.

### Economic Background

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
<b>Bank Rate</b>	3.5%	2.0%	4.25%-4.50%
<b>GDP</b>	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
<b>Inflation</b>	10.7%y/y (Nov)	10.1%y/y (Nov)	7.1%y/y (Nov)
<b>Unemployment Rate</b>	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

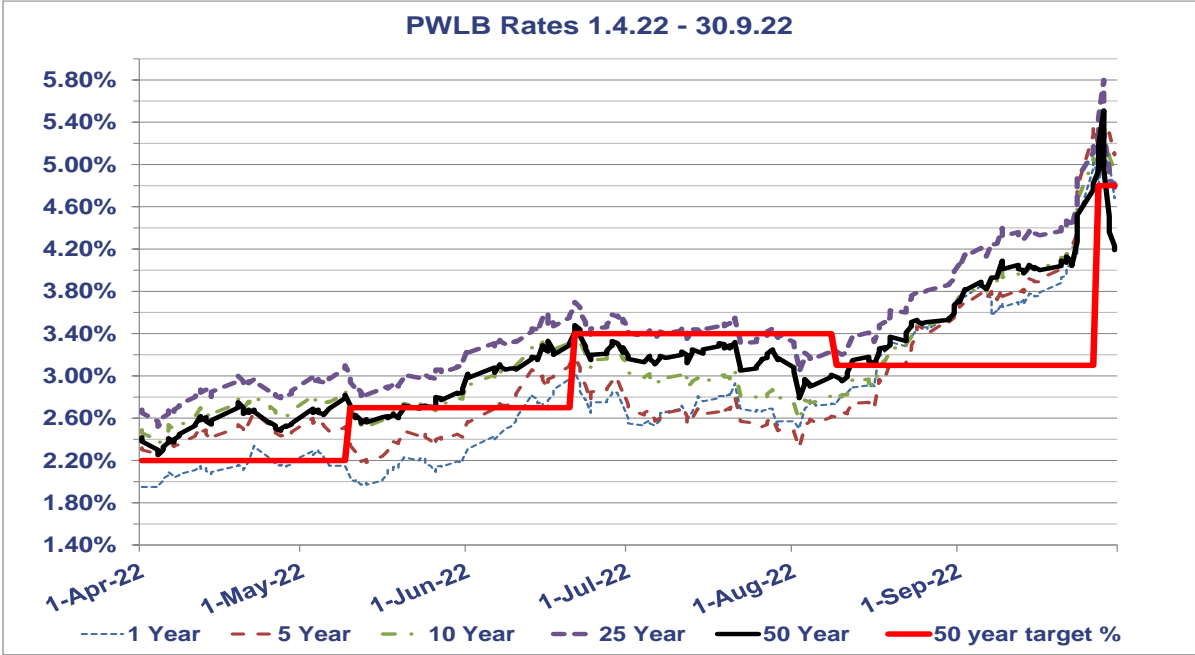
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

During the Autumn markets were volatile in response to proposals for tax cutting and increased spending which led to a spike in market interest rate expectations. The subsequent Autumn Statement was relatively well received and interest rate expectations retreated closer to where they were in later summer.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of \$1.035, on the Monday following the Truss government’s “fiscal event”, to \$1.22. Notwithstanding the £’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28 September 2022, as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.35%	5.80%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
<b>Average</b>	2.81%	2.92%	3.13%	3.44%	3.17%
<b>Spread</b>	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

### **CENTRAL BANK CONCERNS – DECEMBER 2022**

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

## Capital Programme & Financing: 12 December 2022

£'000	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
<b>Capital expenditure:</b>					
General Fund	21,793	10,541	27,779	29,541	23,741
HRA	17,485	26,403	32,592	33,391	32,290
Third Party Loans - ESH	10,627	5,500	-	-	-
Third Party Loans - Other	-	-	-	-	-
<b>Total Capital Expenditure</b>	<b>49,905</b>	<b>42,444</b>	<b>60,371</b>	<b>62,932</b>	<b>56,031</b>
<b>Resourced By:</b>					
Capital Receipts	(6,852)	(12,728)	(21,413)	(20,890)	(11,744)
Other Contributions	(14,833)	(24,216)	(34,978)	(32,042)	(28,787)
<b>Total Available Resource for Capital Financing</b>	<b>(21,685)</b>	<b>(36,944)</b>	<b>(56,391)</b>	<b>(52,932)</b>	<b>(40,531)</b>
<b>Unfinanced Capital Expenditure</b>	<b>28,220</b>	<b>5,500</b>	<b>3,980</b>	<b>10,000</b>	<b>15,500</b>

## Actual Portfolio: 12 January 2022

	Actual Portfolio £m
<b>External borrowing:</b>	
Public Works Loan Board	205.1
Local Authorities	50
LOBO loans from banks	Nil
<b>Total external borrowing</b>	<b>255.1</b>
<b>Other long-term liabilities:</b>	
Finance Leases	Nil
<b>Total other long-term liabilities</b>	<b>Nil</b>
<b>Total gross external debt</b>	<b>255.1</b>
<b>Treasury investments:</b>	
Banks & building societies (unsecured)	47.0
Ermine Street Housing	96.1
Government (incl. local authorities)	13.0
Money Market Funds	12.8
Registered Social Landlords	Nil
Cambridge Leisure and Ice Centre	2.4
<b>Total treasury investments</b>	<b>171.3</b>
<b>Net debt</b>	<b>83.8</b>

Note: all values are on a principal/nominal basis

## Medium Term Forecasts: 12 December 2022

	31.3.2022 Actual £m	31.3.2023 Estimate £m	31.3.2024 Forecast £m	31.3.2025 Forecast £m	31.3.2026 Forecast £m
Loans CFR	358.7	363.1	366.0	374.7	383.4
Less: Other debt liabilities					
<b>Loans CFR</b>	358.7	363.1	366.0	374.7	383.4
Less: External Borrowing	255.1	245.1	295.1	305.1	315.1
<b>Internal (over) borrowing</b>	103.6	118.0	70.9	69.6	68.3
Usable Reserves	82.9	82.5	76.2	70.0	67.0
Working Capital	70.0	68.0	65.0	62.0	60.0
<b>Minimum Liquidity</b>	7.0	7.0	7.0	7.0	7.0



## Liability Benchmark

	31.3.2022 Actual £m	31.3.2023 Estimate £m	31.3.2024 Forecast £m	31.3.2025 Forecast £m	31.3.2026 Forecast £m
Loans CFR	358.7	363.1	366.0	374.7	383.4
Less: Usable reserves	82.9	82.5	76.2	70.0	67.0
Less: Working Capital	70.0	68.0	65.0	62.0	60.0
Plus: Minimum Liquidity	7	7	7	7	7
<b>Liability Benchmark</b>	212.8	219.6	231.8	249.7	263.4

## Minimum Revenue Provision Policy

- 1.1 Local Authorities are required to charge to their revenue account each year a Minimum Revenue Provision (MRP) in relation to capital spend that has yet to be financed, i.e. borrowing. The Capital Financing Requirement (CFR) reflects the underlying need to borrow to finance capital expenditure.
- 1.2 The MRP should be prudent and, although it is for each authority to determine the amount, the published guidance by the Government is that “local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits”.
- 1.3 The MRP policy is set out below:
- (1) There is no requirement to charge MRP where the CFR is nil or negative at the end of the preceding financial year.
  - (2) The Housing Revenue Account share of the CFR is not subject to an MRP charge.
  - (3) There is no requirement to make an MRP charge on an asset until the financial year after that asset becomes operational.
  - (4) For capital expenditure expected to be financed by borrowing between 1 April 2020 and 31 March 2025, the MRP will be based on a straight-line basis, using equal annual instalments over the average estimated life of the assets for which borrowing is required. However, no provision will be made in respect of expenditure on specific projects where the Chief Financial Officer determines that receipts will be generated by the project to repay the debt.
  - (5) Investment in commercial property is deemed capital expenditure and will be financed from cash balances and/or external borrowing as appropriate at the time. There is a requirement for these investments to clearly demonstrate security, liquidity and yield and these factors will influence the applicability of MRP. MRP will ordinarily be provided for using the useful life determinant with regard to maximum lives permitted in the revised **DLUHC MHCLG** MRP guidance of 50 years for freehold land and 40 years for all other assets. MRP will be made on the purchase of these properties in the year following the year of purchase and will be set having regard to its annual valuation. The application of MRP will be adjusted to reflect the annual valuation of Investment properties and will be determined on a property by property basis; an increase in the valuation of a property that results in revaluation gains in the Council’s Capital Adjustment Account will result in a corresponding reduction in MRP whilst, conversely, falling valuations may result in voluntary increases in MRP to ensure that the authority is retaining increasing equity in the property.
  - (6) Investments in Council Wholly Owned Companies, in the form of borrowing or equity, will be assessed on an investment by investment basis. The general assumption is that the loan is deemed to be secured on the assets of the company such that the net value of the assets held by the company will be sufficient to repay any borrowings invested. Advances to the company will be met by loan repayments, treated as a deferred capital receipt, so over time there is no impact on the CPR and, therefore, no MRP needs to be charged. The Council will review the loan and business plan annually and, where there is evidence that suggests the full amount of the loan will not be repaid, it will be necessary to

reassess the charge to recover the impaired amounts from revenue. MRP in relation to equity will be provided for over 20 years in line with CIPFA guidance.

- (7) Exceptionally, where capital expenditure is part of a loan agreement to other than a wholly owned subsidiary, the Council may register a fixed and floating charge over the counterparty assets to secure the Council's interest in the investment, or alternately an equity share interest in an asset with value.

## Approved Investment Counterparties and Limits

Counterparty	Minimum Short-Term Rating	Minimum Long-Term Rating	Maximum Duration	Suggested Duration
UK Government	N/A	N/A	Unlimited	N/A
UK Clearing Banks	Moody's P-2 Or equivalent	Moody's A3 Or equivalent	5 years	Provided by Link
Other Banks	Moody's P-2 Or equivalent	Moody's A3 Or equivalent	5 years	Provided by Link
UK Building Societies	Moody's P-2 Or equivalent	Moody's A3 Or equivalent	5 years	Provided by Link
Registered Social Landlords	Moody's P-2 Or equivalent	Moody's A3 Or equivalent	5 years	Provided by Link
Local Authorities	N/A	N/A	5 years	N/A
MMF's and USDBF's	AAA	N/A	MMF's: T+0 USDBF's: T+3	Liquidity Funds

## Approved Investment Counterparties: Detailed List

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits. These counterparties have also been shown under Specified and Non-Specified Investments (in line with **DLUHC MHCLG** Guidance).

Name	Council's Current Deposit Period	Category	Limit (£)
<b>Specified Investments:</b>			
All UK Local Authorities	N/A	Local Authority	10m
All UK Police Authorities	N/A	Police Authority	10m
All UK Fire Authorities	N/A	Fire Authority	10m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Barclays Bank Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
HSBC Bank Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
Lloyds Bank Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
Santander UK Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
Other UK Retail & Clearing Banks	Using Link Asset Services Credit Criteria	UK Banks	10m
Subsidiaries of UK Banks (provided the subsidiaries are UK- incorporated deposit takers under the Financial Services and Markets Act 2000 and provided loans are for a maximum period of three months)	Using Link Asset Services Credit Criteria	UK Banks	3m

Places for People Homes Ltd	Using Link Asset Services Credit Criteria	Registered Housing Association	5m
Close Brothers Ltd	Using Link Asset Services Credit Criteria	UK Domiciled Bank	5m
Standard Chartered Bank	Using Link Asset Services Credit Criteria	UK Domiciled Bank	10m
Goldman Sachs International Bank	Using Link Asset Services Credit Criteria	UK Domiciled Bank	5m
SMBC Bank International PLC	Using Link Asset Services Credit Criteria	UK Domiciled Bank	5m
Handelsbanken PLC	Using Link Asset Services Credit Criteria	UK Domiciled Bank	5m
Landesbank Hessian-Thuringen Girozentrale (Helena) Frankfurt	Using Link Asset Services Credit Criteria	Germany	5m
Bayerische Landesbank	Using Link Asset Services Credit Criteria	Germany	5m
National Bank of Canada	Using Link Asset Services Credit Criteria	Canada	5m

Name	Council's Current Deposit Period	Category	Limit (£)
<b>Ultra-Short Dated Bond Funds:</b> Aberdeen Standard Life Federated Hermes Other providers where approved by Head of Finance	Liquid Rolling Balance	Financial Instrument	10m (per fund)



Name	Council's Current Deposit Period	Category	Limit (£)
<b>Money Market Funds:</b> HSBC GLF MMF Aberdeen Standard Life Deutsche GLS Aviva Investors Liquidity Funds Federated Hermes Barclays Call Account Other MMF's where approved by Head of Finance	Liquid Rolling Balance	Financial Instrument	10m (per fund)

Name	Council's Current Deposit Period	Society Asset Value (£'m) As at November 22	Limit (£)
<b>Other Specified Investments - UK Building Societies: -</b>			
Nationwide Building Society	Using Link Asset Services Credit Criteria	269,072	Assets greater than £10,000m <b>Limit - £10m</b>
Yorkshire Building Society		66,125	
Coventry Building Society		53,876	Assets between £10,000m and £5,000m <b>Limit - £5m</b>
Skipton Building Society		27,230	
Leeds Building Society		22,574	
Principality Building Society		10,724	Assets between £5,000m and £1,500m <b>Limit - £3m</b>
West Bromwich Building Society		5,997	

Name	Council's Current Deposit Period	Category	Limit (£)
<b>Non-Specified Investments: -</b>			
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	10m per single counterparty
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 10m
South Cambs Ltd - Housing Co.	Up to 5 years	Loan	107m
UK Municipal Bonds Agency	N/A	Share Capital	0.050m
Cambridge Leisure and Ice Centre	25 Years	Loan	2.4m
Cambourne Town Council	TBC	Loan	0.5m

## Limits on Investment Per Sector

	Cash limit
Any single organisation, except the UK Central Government	£10 million each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£10 million per group
Foreign countries	£5 million per country
Registered providers and registered social landlords	£5 million each
Unsecured investments with building societies	£10 million each
Loans to unrated corporates	£5 million in total
Money market funds	£ <del>30</del> 40 million in total
Real estate investment trusts	£5 million in total

## Treasury Management: Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counterparties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
<del>DLUHC</del> <del>MHCLG</del>	<b>Department for Levelling Up, Housing &amp; Communities</b> (formerly the Ministry for Housing, Communities & Local Government, MHCLG)
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases
Government CNAV	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered Rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans

Term	Definition
London Interbank Bid Rate (LIBID)	The average interest rate which major London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Low Volatility Net Asset Value (LVNAV)	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
Non-Ring-Fenced Bank (NRFB)	Government & Bank of England rules will apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non-Ring Fenced Banks for the 1 <sup>st</sup> January 2019 deadline
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Ring Fenced Bank (RFB)	Government & Bank of England rules will apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non-Ring Fenced Banks for the 1 <sup>st</sup> January 2019 deadline
Security	A measure of the creditworthiness of a counter-party
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
Variable Net Asset Value (VNAV)	MMFs values based on daily market fluctuations to 2 decimal places known as mark-to-market prices
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Weighted Average Life (WAL)	Weighted average length of time of unpaid principal
Weighted Average Maturity (WAM)	Weighted average amount of time to maturity
Yield	Interest, or rate of return, on an investment