GMCA GREATER MANCHESTER COMBINED AUTHORITY

GMCA Audit Committee

Date: 21 January 2020

Subject: GMCA Treasury Management Strategy Statement, Borrowing Limits and Annual Investment Strategy 2020/21

Report of: GMCA, Treasurer
Head of Audit and Risk Management, GMCA

PURPOSE OF REPORT

To set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2020/21 to 2022/23 for the GMCA.

The Strategy sets out the Borrowing Limits and Prudential Indicators for the GMCA.

The Strategy reflects the planned 2020/21 capital programmes for GMCA transport, economic development, Fire, Police and Waste.

RECOMMENDATIONS:

The Audit Committee are asked to recommend that GMCA approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy to apply from the 1 April 2020, in particular:

- The Treasury Indicators listed in Appendix A.
- The Minimum Revenue Provision (MRP) Strategy outlined in Appendix A.
- The Treasury Management Policy Statement at Appendix B.
- The Treasury Management Scheme of Delegation at Appendix C.
- The Borrowing Strategy outlined in Section 7.
- The Annual Investment Strategy detailed in Sections 8.
- Delegation to the Treasurer to step outside of the investment limits to safeguard the GMCA's position, as outlined in paragraph 8.14

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BACKGROUND PAPERS:

None.

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	No	
TfGMC	Overview & Scrutiny Committee	

Treasury Management Strategy for 2020/21

The treasury officers' views on interest rates, supplemented with leading market forecasts provided by the GMCA's treasury advisor, Link Asset Services, Treasury Solutions, are what the suggested strategy in respect of the following aspects is based upon.

The strategy covers:

1. INTRODUCTION

Background

1.1 The GMCA is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the GMCA's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management service is the funding of the GMCA's capital plans, including those relating to the Mayor's Police and Crime Commissioner (PCC) and Fire functions. These capital plans provide a guide to the borrowing need of the GMCA, essentially the longer-term cash flow planning, to ensure that the GMCA can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet the risk or cost objectives.

1.3 The contribution the treasury management function makes to the GMCA is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to General Fund Balances.

1.4 Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's borrowing, 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."

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

1.6 The GMCA also acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Reporting Requirements

1.7 The Local Government Act 2003 (the Act) and supporting regulations require the GMCA to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of

Practice to set Prudential and Treasury Indicators for the next three years to ensure that the GMCA's capital investment plans are affordable, prudent and sustainable.

1.8 The Act therefore requires the GMCA to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as Section 8 of this report); the Strategy sets out the GMCA's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.9 The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability

1.10 The aim of the capital strategy is to ensure that all members of the GMCA fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. This will be presented to the April 2020 meeting of the Audit Committee.

Treasury Management reporting

1.11 The GMCA is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

1.12 **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

1.13 **A mid-year treasury management report** – This is primarily a progress report and will update Members of the Audit Committee on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.14 **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

1.15 The above reports are required to be adequately scrutinised before being recommended to the GMCA. This role is undertaken by the Audit Committee. The Corporate Issues and Reform Overview and Scrutiny Committee may also request to receive such reports for consideration at their meetings.

Training

1.16 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed.

Treasury management consultants

1.17 The GMCA uses Link Asset Services as its external treasury management advisors.

1.18 The GMCA recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

1.19 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The GMCA will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 CONSTITUTIONAL ARRANGEMENTS

2.1 Currently the GMCA's Treasury Management functions are operated under a service level agreement by Manchester City Council Treasury Management which reports directly to the GMCA Treasurer. It is intended that this arrangement continues during 2020/21 whilst consideration is given to developing an in- house function within the GMCA.

2.2 The treasury portfolio position for the GMCA will be managed at a Group level, including Transport for Greater Manchester (TfGM), which means that the combined cash flows of all the consolidated organisations will be taken into account when investing temporary surplus funds or making arrangements to meet borrowing needs.

2.3 As part of the 2016 Autumn Statement, Government announced that it would give mayoral combined authorities powers to borrow for their new functions, which would allow investment in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury (HMT).

2.4 Subsequent work with HMT and Ministry of Housing, Communities and Local Government (MHCLG) has led to such an agreement which will limit the GMCA's long-term external debt between 2019/20 and 2020/21 as follows:

As at 31 March	**2019/20**	**2020/21**
	£m	£m
Long term external debt	2,517	2,541

2.5 The above agreed limits have been derived from the current agreed long term investment plans of the GMCA including Fire, Police and Waste.

2.6 The debt cap operates on long term external debt and does not limit capital spending funded from internal cash flow or short term external debt (less than 1 year). The agreement will be reviewed at least every 5 years but will also be reviewed in light of any initiative, local or national, which has a material impact on GMCA borrowing totals. At the current time, there is no indication as to when, and how, this 5 yearly review will be carried out.

2.7 The projection of external debt figures outlined in this report fall well within the year end ceilings incorporated into the debt deal.

3 TREASURY LIMITS AND PRUDENTIAL INDICATORS

3.1 It is a statutory duty under Section 3 of the Act and supporting regulations that GMCA determines and keeps under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit'. In England the Authorised Limit represents the legislative limit specified in the Act.

3.2 The GMCA must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon the future levies and precepts is acceptable.

3.3 When considering the Authorised Limit, the capital plans for inclusion in corporate financing include both external borrowing and other long term liabilities, such as PFI and leasing arrangements.

3.4 The Authorised Limit is one of the Prudential and Treasury indicators recommended by the Code, which the GMCA operates for monitoring its treasury operations.

3.5 Listed below is the full set of indicators the Code recommends and are used by the GMCA. The Prudential Indicators are:

- Capital Expenditure
- Capital Financing Requirement (CFR)
- Authorised Limit – external debt
- Operational Boundary
- Actual external debt
- Gross Debt and the CFR
- Ratio of Financing Costs
- Maturity structure of fixed rate borrowing during the year
- Upper limit for total principal sums invested for over 364 days
- Upper limit for fixed interest rate deposits
- Upper limit for variable interest rate deposits

4 CURRENT PORTFOLIO POSITION

4.1 The GMCA's forecast treasury portfolio position as at 31 March 2020 is:

		Principal		Ave rate
		£m	£m	%
Fixed rate funding	PWLB	583.4		4.52
	Market	65.0		4.05
	EIB	581.9		3.64
			1,230.3	
Variable rate funding	HILF – HMT[1]	181.2		0.00
	Market	40.0		4.43
	Temporary borrowing	120.0		0.9
			341.2	
Gross debt			**1,571.5**	
Money Market Funds			-	
Temporary Investments			15	0.70
DMO			-	
Net debt			**1,556.5**	

5 PRUDENTIAL AND TREASURY INDICATORS FOR 2020/21 TO 2022/23

5.1 Combined Prudential and Treasury Indicators (and individual as set out in Appendix A to this report) are relevant for the purpose of setting an integrated treasury management strategy.

a) Capital Expenditure

This provides a summary of the GMCA's capital expenditure. It reflects matters previously agreed and those proposed for the forthcoming financial periods. The extent to which such expenditure is to be financed will influence how the GMCA's Capital Financing Requirement Indicator will change.

In reporting this Indicator to Members, the GMCA may choose to include a supplementary table detailing the resources to be applied to finance the capital spend and so highlight any net financing need over the reporting period.

	Estimate 2019/20 £m	**Estimate 2020/21 £m**	**Estimate 2021/22 £m**	**Estimate 2022/23 £m**
Capital Expenditure	466.029	436.093	394.591	222.647
Financed by:				
Capital receipts	(45.210)	(95.979)	(45.282)	(5.000)
Revenue Contribution	(15.452)	(7.129)	(2.590)	(2.590)
Grants and other contributions	(160.160)	(217.488)	(136.606)	(90.990)
Total financing	(220.822)	(320.596)	(184.478)	(98.580)
Net financing need for the year	**245.207**	**115.497**	**210.113**	**124.067**

[1] The HILF represents the Housing Investment Loans Fund, which was novated from Manchester City Council on 13 March 2019

b) Capital Financing Requirement

The CFR shows the difference between the GMCA's capital expenditure and the revenue or capital resources set aside to finance that spend. The CFR will increase where capital expenditure takes place and will reduce as the GMCA makes Minimum Revenue Provision (MRP), Voluntary Revenue Provision (VRP) or otherwise sets aside revenue or capital resources to finance expenditure.

	Estimate 2019/20 £m	**Estimate 2020/21 £m**	**Estimate 2021/22 £m**	**Estimate 2022/23 £m**
Opening CFR	**2,138.307**	**2,311.661**	**2,341.052**	**2,462.482**
Net financing need for the year	245.207	115.497	210.113	124.067
MRP and VRP	(71.853)	(86.106)	(88.683)	(92.004)
Movement in CFR	173.354	29.391	121.430	32.063

c) Authorised Limit

This represents a control on the maximum level of external debt the GMCA can incur. The Authorised Limit is a statutory limit determined under Section 3(1) of the Local Government Act 2003. The GMCA has no legal power to borrow in excess of the limits set. Revision of this Indicator would need to be approved by the GMCA in advance of any external debt taken on in excess of the limit then in force.

The Authorised Limit reflects a level of external debt that, whilst not desired, could be afforded by the GMCA in the short-term, but which is not sustainable in the longer-term.

	Estimate 2019/20 £m	**Estimate 2020/21 £m**	**Estimate 2021/22 £m**	**Estimate 2022/23 £m**
Borrowing	2,352.138	2,542.827	2,575.157	2,708.731
Other long term liabilities	55.365	52.425	48.860	44.835
Total Authorised Limit	**2,407.503**	**2,595.252**	**2,624.017**	**2,753.566**

d) Operational Boundary

The GMCA will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator is referred to as the Operational Boundary.

Both the Authorised Limit and the Operational Boundary need to be consistent with the authority's plans for capital expenditure and financing; and with its treasury management policy statement and practices. The Operational Boundary should be based on the GMCA's estimate of most likely, i.e. prudent, but not worst case scenario. Risk analysis and risk management strategies should be taken into account.

The Operational Boundary should equate to the maximum level of external debt projected by this estimate. Thus, the Operational Boundary links directly to the GMCA's plans for capital expenditure; its estimates of capital financing requirement; and its estimate of cash flow requirements for the year for all purposes. The Operational Boundary is a key management tool for in-year monitoring.

It will probably not be significant if the Operational Boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would be significant and should lead to further investigation and action as appropriate.

	Estimate 2019/20 £m	**Estimate 2020/21 £m**	**Estimate 2021/22 £m**	**Estimate 2022/23 £m**
Borrowing	2,245.222	2,427.244	2,458.105	2,585.607
Other long term liabilities	52.849	50.042	46.639	42.797
Total Operational Boundary	**2,298.071**	**2,477.286**	**2,504.744**	**2,628.403**

e) Actual External Debt as at 31 March 2020

After the year end, the closing balance for actual gross borrowing plus (separately), other long-term liabilities is obtained directly from the GMCA's Balance Sheet. This prudential indicator is referred to as Actual External Debt.

The prudential indicator for Actual External Debt considers a single point in time and hence is only directly comparable to the Authorised Limit and Operational Boundary at that point in time.

	31 March 2020 £m
Borrowing	1,571.497
Other long term liabilities	47.659
Total External Debt	**1,619.156**

f) Gross Debt and the CFR

The GMCA should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. The GMCA should ensure that gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the three subsequent financial years.

If the level of gross borrowing is below the GMCA's capital borrowing need – the CFR – it demonstrates compliance with this Indicator.

	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m
CFR	2,311.661	2,341.052	2,462.482	2,494.545
Gross borrowing	1,619.156	1,598.168	1,695.102	1,739.912
Under/(Over) borrowing	**692.505**	**742.884**	**767.381**	**754.633**

Gross External Debt

	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m	Estimate 2022/23 £m
Loans at start of year	1,551.543	1,571.497	1,553.750	1.654.343
Lease/PFI liabilities at start of year	50.332	47.659	44.418	40.759
Total gross borrowing at start of year	**1,601.875**	**1,619.156**	**1,598.168**	**1,695.102**
New borrowing undertaken	183.200	235.497	210.113	124.067
Loan repayments	(163.246)	(253.244)	(109.521)	(75.175)
Lease and PFI repayments	(2.673)	(3.241)	(3.659)	(4.082)
Loans at end of year	1,571.497	1,553.750	1,654.343	1,703.235
Lease/PFI liabilities at end of year	47.659	44.418	40.759	36.677
Total gross borrowing at end of year	**1,619.156**	**1,598.168**	**1,695.102**	**1,739.912**

f) Ratio of Financing Costs to Net Revenue Stream

This Indicator shows the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (levies, precepts and non-specific grant income). The higher the ratio, the higher the proportion of resources tied up just to service net capital costs, and which represents a potential affordability risk.

	Estimate 2019/20 %	Estimate 2020/21 %	Estimate 2021/22 %	Estimate 2022/23 %
Ratio of Financing Costs to Net Revenue Stream	12.2	13.6	13.9	13.8

g) Maturity Structure of borrowing

The GMCA is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the GMCA's exposure to large sums falling due for refinancing.

	Actual	Lower Limit	Upper Limit
	%	%	%
Under 12 months	11	0	50
12 months and within 24 months	2	0	50
24 months and within 5 years	7	0	50
5 years and within 10 years	23	0	50
10 years and above	58	0	100

5.2 The GMCA does not invest sums for longer than one year.

5.3 The GMCA has adopted the CIPFA Code of Practice on Treasury Management and this strategy has been prepared under the revised Code of December 2017.

6 PROSPECTS FOR INTEREST RATES

6.1 The GMCA has appointed Link Asset Services as its treasury advisor and part of their service is to assist the GMCA to formulate a view on interest rates. Appendix F draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following gives the Link's central view:

Link Asset Services Bank Rate forecast for financial year ends (March)

2020	0.75%
2021	1.00%
2022	1.00%

Whilst these are the current forecasts, due to uncertainties for the market the latest commentary is that rates are unlikely to rise to these in the foreseeable future.

6.2 Investment and borrowing rates

Investment returns are likely to remain low during 2020/21 but to be on a gently rising trend over the next few years.

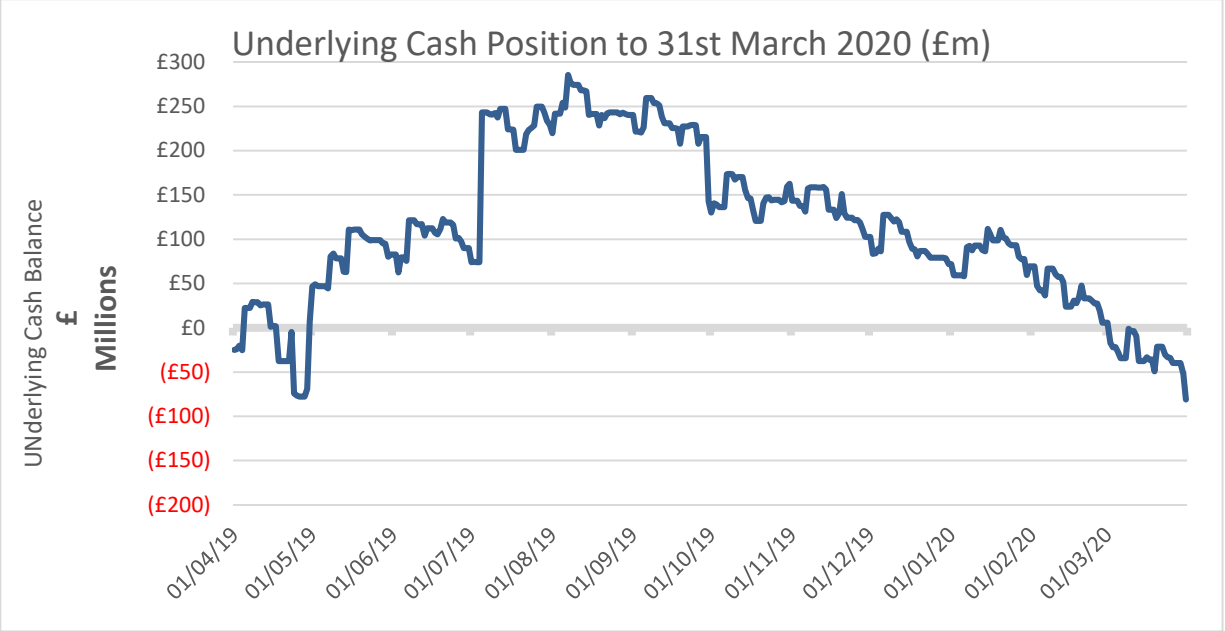
Borrowing interest rates remain at historic lows, but the increase in the Public Works Loan Board (PWLB) margin means that they have risen relatively sharply during 2019/20. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the GMCA may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

There will remain a cost of carry (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

7 BORROWING STRATEGY

7.1 The GMCA currently has an under borrowed position, which means that the CFR, the underlying need to borrow, has not been fully funded by loan debt as cash supporting the GMCA's balances and reserves has been used as a temporary measure. The borrowing strategy of the GMCA is also heavily influenced by the cashflow. The GMCA, along with other Fire and OPCC authorities, receives pension grants from UK Central Government in July. Cash balances then reduce during the remainder of the year where four months of

borrowing is required. The trend in cashflow shown below is expected to be replicated in 2020/21.



Borrowing Options

7.2 The GMCA's borrowing strategy will firstly utilise internal borrowing as forgoing investment income at historically low rates provides the cheapest option. However as the overall forecast is for long term borrowing rates to increase over the next few years, consideration must also be given to weighing the short term advantage of internal borrowing against potential long term costs. Rates are expected to be higher in future years for longer term loans, and therefore if longer term debt is required it may be prudent to take it earlier.

7.3 After this, new borrowing will be considered in the forms noted below. At the time of the borrowing requirement the options will be evaluated alongside their availability and an assessment made regarding which option will provide value for money. The options described below are not presented in a hierarchical order. At the point of seeking to arrange borrowing all options will be reviewed.

i Public Works Loan Board (PWLB)

PWLB borrowing is available for between 1 and 50 year maturities on various bases. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt, and allow the GMCA to align maturities to MRP.

In October 2019 the Treasury increased all PWLB rates by 100 basis points, citing concerns regarding the increased levels of debt local authorities were requesting in the current low-rate market environment. This means that although PWLB remains a highly accessible form of debt finance, it may not provide value for money and other market options may be preferable.

ii European Investment Bank (EIB)

Rates can be forward fixed for borrowing from the EIB and this will continue to be considered as a primary borrowing source if the arrangement represents better value for money.

The EIB's rates for borrowing are generally favourable compared to PWLB, allowing for existing planned borrowing to be taken as cheaper funding from the EIB. The EIB appraises its funding plans against individual schemes, particularly around growth and employment and energy efficiency, and any monies borrowed are part of the GMCA's overall pooled borrowing. The GMCA has already accessed £599m of borrowing from the EIB. The loan agreement regarding further lending for the Trafford Park Scheme is complete, giving the GMCA access to a further £125m.

Given likely cash flow requirements the opportunity to delay drawdown of some of the funds is likely to be cost effective.

iii Third Party Loans

These are loans from third parties that are offered at lower than market rates, for example, Salix Finance Ltd is offering loans to the public sector at 0% to be used specifically to improve their energy efficiency and reduce carbon emissions.

iv Housing Investment Funding

The Housing Investment Fund was previously operated on behalf of Greater Manchester by Manchester City Council, but the novation to the GMCA was completed on 13 March 2019. The total amount of the fund has novated across the GMCA but in the short term individual loans continue to be held by Manchester City Council supported by an interest free loan from GMCA equal to the actual amounts advanced.

The funding from UK Central Government is held as an interest free loan, until such time as an investment is made. At this point, the approved element of the loan becomes risk-based, with any losses met by UK Central Government (up to £60m overall) or by the GMCA. The interest rate on the loan from UK Central Government, once an investment is made, is at the EU Reference rate, and is funded from the interest received from the investments made as part of the Housing Investment Fund. Part of the Housing Investment Fund funding relating to capital receipts from the HCA will also be transferred to the GMCA at a later date. This funding is also held as an interest free loan, and similarly has a risk based return to UK Central Government.

At the time of writing the report, it is not clear how MHCLG are anticipating the Fund to operate from 1 April 2020. In particular, whether they will be providing any further cash advances to meet future loan requirements including future legal commitments that amount to £233m and approved loans, which amount to £277m. Detailed conversations are continuing to take place in order to determine the way in which the Fund will operate post 1 April 2020.

v Market / Local Authority Loans

There are occasionally offers available from the general market. These would be utilised when they deliver better value. These types of borrowing will need to be evaluated alongside their availability, particularly whilst there is a very limited availability of traditional market loans.

Sensitivity of the forecast

7.4 In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. GMCA officers, in conjunction with the treasury advisors, will

continually monitor both the prevailing interest rates and the market forecast, adopting the following responses to a change of sentiment:

If it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed.

If it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that current forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, the portfolio position will be re-appraised. It is likely fixed rate funding will be drawn whilst interest rates were still relatively cheap.

External v. Internal borrowing

7.5 The next financial year is again expected to be one of very low Bank Rate. This provides a continuation of the window of opportunity for organisations to fundamentally review their strategy of undertaking new external borrowing.

7.6 Over the next three years, investment rates are expected to be significantly below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by limiting new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt. This is referred to as internal borrowing and maximises short term savings.

7.7 However, short term savings from avoiding new long term external borrowing in 2020/21 will also be weighed against the potential for incurring additional long term extra costs by delaying new external borrowing until later years when longer term rates are forecast to be significantly higher. Consideration will also be given to forward fixing rates via the EIB facility whilst rates are favourable.

7.8 Against this background, caution will continue to be adopted within 2020/21 treasury operations. The Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

7.9 **Policy on borrowing in advance of need**

The GMCA will not borrow more than or in advance of its needs purely in order 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 GMCA can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Forward Fixing

7.10 The GMCA will give consideration to forward fixing debt, whereby the GMCA agrees to borrow at a point in the future at a rate based on current implied market interest rate

forecasts. There is a risk that the interest rates proposed would be higher than current rates, but forward fixing can be beneficial as the arrangement avoids the need to borrow in advance of need and suffer cost of carry. Any decision to forward fix will be reviewed for value for money, and will be reported to members as part of the standard treasury management reporting.

7.11 Forward fixing was a feature of the earlier EIB draw downs and may be available from various market sources.

Debt rescheduling

7.12 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the GMCA at the earliest meeting following its action.

Lender Option Borrower Option (LOBO) loans

8.13 Within the portfolio there are 2 LOBO loans with Barclays which were taken out in 2005 and 2006 for a period of 60 years. Along with a number of local authorities, the GMCA has engaged specialist legal support to pursue a claim against Barclays in relation to elements of their loans.

8 ANNUAL INVESTMENT STRATEGY

8.1 Investment policy – management of risk

The GMCA's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The GMCA's investment priorities will be security first, portfolio liquidity second and then yield (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The GMCA has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the GMCA will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. The GMCA has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists under the categories of 'specified' and 'non-specified' investments.

   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

8.2 As a result of the change in accounting standards for 2019/20 under **IFRS 9,** the GMCA will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

8.3 However, the GMCA will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Specified and Non-Specified Investments

8.4 Investment instruments identified for use in the financial year are listed below, and are all specified investments. Any proposals to use other non-specified investments will be reported to Members for approval.

	Minimum 'High' Credit Criteria	Use
Term deposits – banks and building societies[2]	See para 9.9	In-house / MCC
Term deposits – other local authorities	High security. Only one or two local authorities credit-rated	In-house / MCC
Debt Management Agency Deposit Facility	UK Government backed	In-house / MCC
Certificates of Deposit issued by banks and building societies covered by UK Government guarantees	UK Government explicit guarantee	In-house / MCC
Money Market Funds (MMFs)	AAA_M	In-house / MCC
Treasury bills	UK Government backed	In-house / MCC
Covered Bonds	AAA	In-house / MCC

8.5 Specified investments are sterling denominated, with maturities up to a maximum of one year and meet the minimum 'high' rating criteria where applicable. Further details about some of the specified investments below can be found in later paragraphs within Section 8.

Creditworthiness policy

8.6 The GMCA applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modeling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody's and Standard & Poor's. Link supplement the credit ratings of counterparties with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to provide early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

8.7 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour-coded bands, which indicate the relative creditworthiness of counterparties. This classification is called durational banding.

8.8 The GMCA has regard to Link's approach to assessing creditworthiness when selecting counterparties. It will not apply the approach of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Link

[2] Banks and Building Societies - The GMCA will keep the investment balance below or at the maximum limit based on the institutions credit rating. If this limit is breached, for example due to significant late receipts, the Treasurer will be notified as soon as possible after the breach, along with the reasons for it. Please note this relates to specific investments and not balances held within the GMCA's bank accounts, including the general bank account. The balance will be kept to the maximum investment limit of the institution, with any breaches reported to the Treasurer.

creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

8.9 In summary therefore the GMCA will approach assessment of creditworthiness by using the Link counterparty list as a starting point, and then applying as an overlay its own counterparty limits and durations. All credit ratings will be monitored on a daily basis and re-assessed weekly. The GMCA is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

8.10 If a downgrade results in the counterparty/investment scheme no longer meeting the GMCA's minimum criteria, its further use as a new investment will be withdrawn immediately.

8.11 In addition to the use of Credit Ratings, the GMCA will be advised of information in CDS against the iTraxx benchmark[3] and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the GMCA's lending list.

8.12 Sole reliance will not be placed on the use of this external service. In addition GMCA will also use market data and market information, information on government support for banks and the credit ratings of that government support. The GMCA will assess investments only against the criteria listed above, and will not seek to evaluate an organisation's ethical policies when making assessments.

Investment Limits

8.13 In applying the creditworthiness policy described above, the GMCA holds the security of investments as the key consideration when making investment decisions. The GMCA will therefore only seek to make treasury investments with counterparties of high credit quality.

The financial investment limits of banks and building societies are linked to their short and long-term ratings (Fitch or equivalent) as follows:

Banks & Building Societies/MMFs

Long Term	Amount
Fitch AA+ and above / AAAM	£25m
Fitch AA/AA-	£15m
Fitch A+/A	£15m
Fitch A-	£10m
Fitch BBB+	£10m

GMCA will only utilise institutions that have a short term rating of F2 or higher, (Fitch or equivalent).

[3] The Markit iTraxx Senior Financials Index is a composite of the 25 most liquid financial entities in Europe. The index is calculated through an averaging process by the Markit Group and is used as the benchmark level of CDS spreads on Capita Asset Services' Credit List.

Government (includes Debt Management Office)	£200m
Manchester City Council	£50m[4]
Other Local Authorities	£20m

In seeking to diversify from solely bank deposits and investments with Local Authorities, the GMCA will utilise other investment types which are described in more detail below. However it is important that the investment portfolio is mixed to help mitigate credit risk and therefore the following limits will apply to each asset type:

Total Deposit	**£m**
Local Authorities (exc. HILF)	250
UK Government (inc. Debt Management Office and Treasury Bills)	200
Banks, Building Societies and Money Market Funds	125
Certificates of Deposit	25
Covered Bonds	25

8.14 It may be prudent, depending on circumstances, to temporarily increase the limits shown above if it becomes increasingly difficult for officers to place funds. If this is the case officers will seek approval from the Treasurer for such an increase and approval may be granted at the Treasurer's discretion. Any increase in the limits will be reported to Members of the Audit Committee as part of the normal treasury management reporting process.

Money Market Funds

8.15 The removal of the implied levels of sovereign support that were built into ratings throughout the financial crisis has impacted on bank and building society ratings across the world. Rating downgrades can limit the number of counterparties available to the GMCA. To provide flexibility for the investment of surplus funds the GMCA will use Money Market Funds when appropriate as an alternative specified investment.

8.16 Money Market Funds are investment instruments that invest in a variety of institutions, therefore diversifying the investment risk. The funds are managed by a fund manager and they have objectives to preserve capital, provide daily liquidity and a competitive yield. The majority of money market funds invest both inside and outside the UK. Money Market Funds also provide flexibility as investments and withdrawals can be made on a daily basis.

8.17 Money Market funds are rated through a separate process to bank deposits. This looks at the average maturity of the underlying investments in the fund as well as the credit quality of those investments. It is proposed that the GMCA will only use Money Market Funds where the institutions hold the highest AAA credit rating.

8.18 As with all investments there is some risk with Money Market Funds, in terms of the capital value of the investment. From 2019 European Commission Financial regulations require that all Money Market Funds adopt or move to a Low Volatility Net Asset Value (LVNAV)

[4] In addition the interest free loan to Manchester City Council in relation to the Housing Investment Loans Fund will continue to be held by them as an agent of the GMCA

basis. This basis provides a guarantee that every £1 invested in a Money Market Funds will be returned with a range of +/- 20 basis points, whilst the timing of the return is at the discretion of the Fund. (i.e. for every £100 invested the return will be guaranteed +/- 20 pence.

Treasury Bills

8.19 These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is relatively low, although there is potential risk to value arising from an adverse movement in interest rates unless they are held to maturity.

8.20 Weekly tenders are held for Treasury Bills so the GMCA could invest funds on a regular basis, based on projected cash flow information. This would provide a spread of maturity dates and reduce the volume of investments maturing at the same time.

8.21 There is a large secondary market for Treasury Bills so it is possible to trade them in earlier than the maturity date if required; and also purchase them in the secondary market. It is anticipated however that in the majority of cases the GMCA will hold to maturity to avoid any potential capital loss from selling before maturity. The GMCA will only sell the Treasury Bills early if it can demonstrate value for money in doing so.

Certificates of Deposit

8.22 Certificates of Deposit are short dated marketable securities issued by financial institutions, and as such counterparty risk is low. The instruments have flexible maturity dates, so it is possible to trade them in early if necessary, however there is a potential risk to capital if they are traded ahead of maturity and there is an adverse movement in interest rates. Certificates of Deposit are subject to bail-in risk as they are given the same priority as fixed deposits if a bank was to default. The GMCA would only deal with Certificates of Deposit that are issued by banks which meet the credit criteria.

Covered Bonds

8.23 Covered Bonds are debt instruments secured by assets such as mortgage loans. They are issued by banks and other non-financial institutions. The loans remain on the issuing institutions Balance Sheet and investors have a preferential claim in the event of the issuing institution defaulting. All issuing institutions are required to hold sufficient assets to cover the claims of all covered bondholders. The GMCA would only deal with bonds that are issued by banks which meet the credit criteria, or AAA rated institutions, (e.g. insurance companies).

Liquidity

8.24 Giving due consideration to the GMCA 's level of balances over the next year, the need for liquidity, its spending commitments and provisioning for contingencies, it is considered very unlikely that the GMCA will have cash balances to invest other than on a temporary basis. For this reason, no cash will be held in term deposit maturities in excess of 1 year.

Investment Strategy

8.25 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12

months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

8.26 **Investment returns expectations**

Bank Rate is forecast to increase steadily but slowly over the next few years to reach 1.25% by 2023. Bank Rate forecasts, provided by the GMCA's treasury advisors, for financial year ends (March) are:

2020/21	0.75%
2021/22	1.00%
2022/23	1.25%

8.27 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

End of Year Investment Report

8.28 At the end of the financial year, the GMCA will receive a report on its investment activity as part of its Annual Treasury Report.

Policy on the use of External Service Providers

8.29 The GMCA uses Link Asset Services as external treasury management advisors and has access to another provider who is an approved supplier should a second opinion or additional work be required. The GMCA recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

8.30 The GMCA recognises there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. It will ensure the terms of the Advisor's appointment and the methods by which their value is assessed and properly documented, and subject to regular review.

9 MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID) II PROFESSIONAL CLIENT STATUS

9.1 MIFID II is UK law and originates from European Commission legislation for regulation of European Union (EU) financial markets. The legislation requires firms offering products and services in Financial Markets and also external advisors to classify their clients as either Retail or Professional.

9.2 There are key differences between the Retail and Professional classifications, with the Professional classification assuming the client has a higher level of internal treasury expertise and experience. Financial firms may be unwilling to provide access to certain financial instruments to organisations with Retail status as such organisations have to be afforded more protections. Professional status will afford fewer protections, though eligibility for compensation from the Financial Services Compensation Scheme is not affected.

9.3 The default MIFID II classification is Retail and this applies to Local Authorities. There is a discretionary option where a client can elect to adopt Professional status and this will be granted if the client can demonstrate it meets the criteria required and can pass a qualitative test.

9.4 To continue to use the instruments available to it, the GMCA applied for and was granted MIFID II Professional status by each firm. MIFID II classification does not apply to cash deposits the GMCA places with the Bank of England or in its Call accounts held with banks. Failure to secure Professional status would have severely restricted the GMCA's ability to place funds with a diverse range of counterparties and was also likely to have significantly dampened the investment return possible. Any future new relationships with financial firms will also be approached on the basis of the GMCA evidencing its Professional status.

9.5 MIFID II also requires Professional status organisations to hold a Legal Entity Identifier, (LEI) if they wish to participate in financial instruments that are traded on an Exchange, e.g. these include Certificates of Deposit, Corporate Bonds, Treasury Bills, Gilts, etc. Trading in these instruments is included in this Treasury Management Strategy therefore the GMCA applied for and was granted a LEI in December 2017.

9.6 The risks associated with Professional Status are mainly that the protections given to Retail status clients are not available, moreover there is greater emphasis on internal decision making with limited reliance on advice and guidance provided by the financial firms. These risks are acknowledged, however it is believed that the existing risk framework for treasury management, including the Prudential Code and Treasury Management Code, will enable

the GMCA to manage these risks. Without Professional Status the GMCA will be unable to continue trading in financial markets using past arrangements.

10 INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

10.1 Growing Places Fund (GPF)

The Growing Places Fund (GPF) originally secured by the GMCA in 2012/13 totalled £34.5m of capital grant funding which is being used to provide up front capital investment in schemes.

The GPF has three overriding objectives:

- to generate economic activity in the short term by addressing immediate constraints:
- to allow Local Enterprise Partnerships (LEPs) to prioritise infrastructure needs, empowering them to deliver their economic priorities; and
- to establish sustainable recycled funds so that funding can be reinvested.

The full £34.5m has now been committed and the GMCA is fully in the recycling phase as described below in section 10.3.

There is likely to be opportunities to passport similar property investments using GMCA's own funds (prudential borrowing) to allow freeing up of GM wide Evergreen Funds for further investments.

10.2 Regional Growth Fund (RGF)

The GMCA secured funds of £65m through two rounds of bidding for UK Central Government funding in 2012/13 and 2013/14.

The Regional Growth Fund (RGF) has supported eligible projects and programmes raising private sector investment to create economic growth and lasting employment, with over 6,000 jobs being either created or safeguarded.

As with the GPF the aim is to create a perpetual fund by using repaid loans to fund future commitments. The original funds were fully utilised by 2015/16.

10.3 Recycled Funds

Between 2018/19 and 2021/22 it is currently forecast that £55m will be recycled back out to businesses using capital receipts from both GPF and RGF. Given that both investment funds were funded through government grant there are no implications for the revenue budget should any loans default.

10.4 Housing Investment Fund (HIF)

The Greater Manchester Housing Investment Fund has been designed to accelerate and unlock housing schemes. It will help build the new homes to support the growth ambitions across Greater Manchester.

10.5 **Loans Utilising Prudential Borrowing**

The Greater Manchester Housing Investment Fund has been designed to accelerate and unlock housing schemes. It will help build the new homes to support the growth ambitions across Greater Manchester.

11.6 **Greater Manchester Loan Fund**

The Greater Manchester Loan Fund (GMLF) was established in June 2013 in response to market constraints which significantly reduced the availability of debt finance.

The GMLF was set up to provide debt finance of between £0.1m and £0.5m to small and medium enterprises in the Greater Manchester region, with the objective of generating business growth, creating and safeguarding jobs. A maximum of £10m has been approved for use by the Fund.

11.7 **Protos Finance Limited**

In order to create capacity, GMCA is being asked to consider the purchase of a £12.1m loan committed by Evergreen to Protos Finance Limited. Protos Finance Limited is a subsidiary of Peel established to deliver the development of an industrial site in Cheshire for a variety of uses including waste to energy, biomass and environmental technology facilities. This will free up resources in the Evergreen Fund and allow it to further invest in Greater Manchester.

11 SCHEME OF DELEGATION

11.1 Appendix C describes the responsibilities of member groups and officers in relation to treasury management.

12 ROLE OF THE SECTION 73 OFFICER

12.1 Appendix D notes the definition of the role of the Treasurer in relation to treasury management.

13 MINIMUM REVENUE PROVISION (MRP) STRATEGY

13.1 Appendix A contains the GMCA's policy for spreading capital expenditure charges to revenue through the annual MRP charge.

Appendix A

Minimum Revenue Policy Strategy

Capital expenditure is incurred on assets that will be of long term benefit to the GMCA. Such expenditure may not be wholly charged to revenue in the year that it is incurred but may be spread over several years to match the time that the asset will benefit the GMCA and the services it provides. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP). It should be noted that the MRP liability is not directly related to the actual repayment of principal and interest on long term loans taken.

The GMCA is required by legislation to make a prudent MRP provision each year. The legislation is supported by guidance issued by the Secretary of State which requires the GMCA to approve an MRP Policy Statement before the start of each financial year and sets out 4 options for calculating prudent provision. These options are:

- **Option 1: Regulatory Method**

Under previous MRP regulations, the charge was set at a uniform rate of 4% of an authority's Capital Financing Requirement (CFR) at the start of the financial year. The CFR is derived from the balance sheet. With the introduction of the current MRP regime the Governments policy aim was that the move should not itself increase an authority's MRP liability. To achieve neutrality an amount, Adjustment A, was calculated at the point the change was made and is used to adjust the CFR each year. MRP under this method is calculated at 4% of the CFR less Adjustment A.

This option may only be used for capital expenditure incurred before 1st April 2008 or capital expenditure incurred after that date which is part of Supported Capital Expenditure (SCE). Currently no new SCE's are being issued.

- **Option 2: Capital Financing Requirement (CFR) Method**

This is a variation on option 1 based on 4% of the authority's CFR at the start of the financial year without the benefit of Adjustment A. Removal of the adjustment is likely to increases the MRP charge for most authorities.

This option may only be used for capital expenditure incurred before 1st April 2008 or capital expenditure incurred after that date which is part of Supported Capital Expenditure (SCE). Currently no new SCE's are being issued.

- **Option 3: Asset Life Method**

This can only be applied to capital expenditure incurred on or after 1st April 2008 and is intended to spread MRP over the estimated useful life of assets. It may be assessed in one of two ways:-

a) Equal Instalment Method

A simple formula generates equal annual instalments over the asset's estimated life. The formula allows for voluntary extra provision to be made in any year.

b) Annuity Method

Annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

This can only be applied to capital expenditure incurred on or after 1 April 2008 and is based on the useful life of the asset using the standard accounting rules for depreciation. Any impairment charged to the income and expenditure account should also be included. MRP is made annually until the cumulative provision is equal to the expenditure originally financed by borrowing or credit arrangements, even if the asset is disposed of before that date. This method cannot be applied to Investment properties and Assets Held for Sale (AHFS) as they are not depreciated.

However, the guidance does not rule out use of an alternative method if the GMCA decides this is more appropriate. The GMCA may vary the methodologies it uses to make prudent provision during the year and if it does, should explain in its Statement why the change will better allow it to make prudent provision. The GMCA may choose to overpay MRP in any year. If so, the in year and cumulative amount overpaid should be disclosed in its Statement. It is possible to offset a previous year's overpayment against the current year's prudent provision. This should be disclosed in the statement together with any remaining cumulative overpayment.

The GMCA manages a diverse portfolio of assets and has considered the most appropriate option for each. Based on inherited MRP policies, legislation and guidance the GMCA is recommended to approve the following MRP Policy Statement for 2020/21:

The GMCA will assess its MRP charge for 2020/21 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003.

- MRP in relation to capital expenditure incurred before 1 April 2008 will be based upon 4% of the adjusted Capital Financing Requirement (CFR) in accordance with Option 1: the Regulatory method of the guidance.
- For capital expenditure incurred between 1 April 2008 and 31 March 2018 the following will apply (being the policies adopted by the previous organisations):
    - For capital expenditure incurred on the Metrolink and Transport Delivery Programme schemes and Waste Disposal assets, MRP will be calculated using Option 3b: the Asset life (Annuity) method.
    - For capital expenditure incurred on PCC assets MRP will be calculated using Option 3a: the Asset Life (Equal Instalment) method.
    - For capital expenditure incurred on GM Fire assets MRP will be calculated using Option 4: the Depreciation method.
- For capital expenditure incurred on or after 1 April 2018, MRP will be calculated using option 3b: the Asset life (Annuity) method for all classes of asset. The interest rate applied will be a rate deemed appropriate over the useful life of the asset. Where capital expenditure is incurred to allow a future capital receipt to be generated, no MRP will be applied to any borrowing to be repaid out of the receipt.
- In March 2019, the GMCA received the novation of loans to the private sector developers from Manchester City Council, totalling £112m in relation to the Housing Investment Loans Fund. These had been funded from loans received from MHCLG. Future investment loans

will continue to be made, taking the total outstanding to likely maximum of £240m. Government have guaranteed to meet the first £60m of losses of such loans and, as such, no MRP is being applied. In the event that any losses are projected to exceed that level, then the MRP/debt write down position will be reviewed.

- MRP in respect of on balance sheet leases and PFI contracts is regarded as met by the amount that writes down the balance sheet liability.
- MRP will generally commence in the financial year following the one in which the expenditure was incurred. However, for major expenditure on long life assets, the GMCA may postpone the commencement of MRP until the financial year following the one in which the asset becomes operational.

Estimated asset lives will reflect the life assigned to the asset on the asset register unless the GMCA considers a different life is more appropriate. Estimated asset lives will be determined in the year that MRP commences and may not subsequently be revised. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the GMCA. However, the GMCA reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Appendix B

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as:

   'The management of the organisation'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.'

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

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The GMCA will invest its monies prudently, considering security first, liquidity second, and yield last, carefully considering its investment counterparties. It will similarly borrow monies prudently and consistent with the GMCA's service objectives.

Appendix C

Treasury Management Scheme of Delegation

(i) Full Authority

- receiving and reviewing reports on treasury management policies, practices and activities; and
- approval of annual strategy.

(ii) Responsible body – Audit Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations; and
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body with responsibility for scrutiny – Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Appendix D

The treasury management role of the Section 73 officer

The S73 (responsible) Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.

Appendix E

Economic Background as at December 2019– Link Asset Services

United Kingdom (UK). Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the European Union (EU) on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October 2019, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January 2020. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December 2019, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

Gross Domestic Product (GDP) growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November 2019, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among Monetary Policy Committee (MPC) members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December 2019** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on

infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for inflation itself, Consumer Price Inflation (CPI) has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October 2019 and November 2019 to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September 2019 where it fell by 58,000. However, there was an encouraging pick up again in the three months to October 2019 to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October 2019. Wage inflation has been steadily falling from a high point of 3.9% in July 2019 to 3.5% in October 2019 (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

United States of America (USA). President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November 2019, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August 2019, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September 2019 and by another 0.25% in its October 2019 meeting to 1.50 – 1.75%. At its September 2019 meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December 2019. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China. However, in November 2019 / December 2019, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in Euro Zone (EZ) growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of Targeted Longer-Term Refinancing Operations (TLTROs)**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September 2019 it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October 2019 meeting it said these purchases would start in November 2019 at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December 2019 meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German Christian Democratic Union (CDU)/Social Democratic Party (SDP) coalition government and on the current leadership of the CDU. The results of the Spanish general election in November 2019 have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to

eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

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

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SDP party, as a result of the rise in popularity of the anti-immigration Alternative for Germany (AfD) party. The CDU has done badly in recent state elections but the SDP has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- In October 2019, the International Monetary Fund (IMF) issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Appendix F

Prospects for Interest Rates – view of Link Asset Services

Link Asset Services Interest Rate View – Interest Rate Forecast 11/11/19														
	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

Appendix G

Glossary of Terms

Authorised Limit - This Prudential Indicator represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate - The rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Certificate of Deposits - Short dated marketable securities issued by financial institutions, and as such counterparty risk is low.

Counterparty - One of the opposing parties involved in a borrowing or investment transaction.

Covered Bonds - Debt instruments secured by assets such as mortgage loans. These loans remain on the issuer's balance sheet and investors have a preferential claim in the event of the issuing institution defaulting.

Credit Rating - A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount - Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon - High/Low interest rate.

LIBID (London Interbank Bid Rate) - This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

LIBOR (London Interbank Offer Rate) - This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

Liquidity - The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO (Lender Option Borrower Option) - This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

Market - The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - An illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Authority vulnerable to current interest rates in that year.

Monetary Policy Committee - The independent body that determines Bank Rate.

Money Market Funds - Investment instruments that invest in a variety of institutions, therefore diversifying the investment risk.

Operational Boundary - This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium - Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Authority to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more than one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category,
e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Treasury Bills - These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period.
Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan.
A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.