APPENDIX 4

Treasury Management Strategy Statement

1 BACKGROUND

1.1 The Council 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 Council'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 Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The Chartered Institute of Public Finance Accountants (CIPFA) defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 The Council is also required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (2011) which requires the following:

(i) A Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management arrangements (Annex 1).

(ii) Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

(iii) Approval by Full Council of an annual Treasury Management Statement.

(iv) A Mid-year Treasury Management Report – this will update the Council with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury activity is meeting the strategy or whether any policies require revision.

(v) An Annual Treasury Report – this provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

(vi) That the Council nominates one of its committees to keep under review treasury management arrangements and to scrutinise reports befor being recommended to the Council. This role is undertaken by the both the Audit Committee and Overview and Scrutiny Management Board.

1.5 The Treasury Management Strategy for 2017/18 covers two main areas:

<u>Capital Issues</u>

- The capital plans and the prudential indicators;
- The minimum revenue provision (MRP) policy.

<u>Treasury Management Issues</u>

- current and projected treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on the use of external service providers.

1.6 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 responsibe for scrutiny. A training event for members was undertaken in November 2016 and further training will be arranged as required.

1.7 The training needs of treasury management officers are periodically reviewed.

1.8 The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.9 The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council 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.

1.10 The West of England Combined Authority (MCA) will be established in the first part of 2017, with elections for the West of England Mayor to take place in May 2017. The MCA will have its own borrowing powers, and it is expected that transfers of responsibilities will ultimately lead to changes in Bristol City Council's cash flows. However at this stage it is not considered that any changes to the Council's Treasury Management Strategy are necessary and no changes are being recommended arising from the establishment of the MCA. The position will be reviewed as part of the mid-year report.

2 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

2.2 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table also summarises how the capital expenditure plans are being financed. Any shortfall of resources results in a borrowing need. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Non-HRA	157	154	173	140	155
HRA	43	56	41	47	44
Total	**200**	**210**	**214**	**187**	**199**
Financed by:					
Capital receipts	(18)	(17)	(3)	(25)	(58)
Capital grants	(76)	(69)	(39)	(18)	(13)
HRA Self Financing	(37)	(32)	(25)	(26)	(26)
Revenue	(30)	(16)	(17)	(12)	(9)
Net financing need for year	**39**	**76**	**130**	**106**	**93**

The Council's borrowing need (the Capital Financing Requirement)

2.3 The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.4 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

2.5 The CFR includes any long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the

Council is not required to separetely borrow for these schemes. The Council currently has £146m of such schemes within the CFR.

2.6 The Council is asked to approve the CFR projections below:

	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
CFR – non housing	337	405	527	622	704
CFR – PFI/Lease schemes	152	146	140	134	128
CFR – housing	245	245	245	245	245
Total CFR	**734**	**796**	**912**	**1,001**	**1,077**
Movement in CFR	**19**	**62**	**116**	**89**	**76**
Net financing need for year	39	76	130	106	93
Less MRP & other financing	(20)	(14)	(14)	(17)	(17)
Movement in CFR	**19**	**62**	**116**	**89**	**76**

Minimum revenue provision (MRP) policy statement

2.7 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge, the minimum revenue provision (MRP), although it is allowed to undertake additional voluntary provision.

2.8 The Department of Communities and Local Government (CLG) have issued Regulations which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 and capital expenditure incurred on or after that date which forms part of its Supported Capital Expenditure - The MRP policy will be based on the pre 2007/08 borrowing and post supported borrowing at 2% fixed so that the whole debt is repaid after 50 years.

Note a recent change in policy approved by Full Council on 13th December 2016 amended the rate that is used to calculate MRP from 4% reducing balance to 2% straight line as this is better aligned to the average lives of the *authorities assets and results with the debt being fully repaid. This means that the authority has overprovided during the period 1st April 2008 through to 31st March 2016. The Council will reduce it's MRP further, over an adequate timeframe (5 years) to recover this overprovision while also ensuring a prudent annual provision is maintained. This additional reduction in MRP will be set aside to reserves to ensure the Council maintains reasonable provision as mitigation for financial risks outlined in the main body of the report. It is estimated that for 2017/18 £6m of this overprovided for MRP will be made available to supplement general reserves.*

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be the Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

Any loan or investment to an organisation defined as capital expenditure will not attract MRP. The original capital expenditure will be met from the capital receipt on the maturity of the loan/investment.

Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, as determined by the Service Director Finance.

These options provide for a reduction in the borrowing need over approximately the asset's life.

2.9 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

2.10 Repayments included in annual PFI or finance leases are applied as MRP.

2.11 The Council participates in the Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a five year cash advance from the local authority to match the five year life of the indemnity. The cash advance placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position is reviewed on an annual basis.

Affordability prudential indicators

2.12 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:The Prudential Code requires that the Council set a series of indicators on a three year time frame. The Prudential Indicators are there to demonstrate that the Council can afford the proposed capital programme and that such expenditure is sustainable and prudent.

2.13 **Ratio of financing costs to net revenue stream**. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2015/16 Actual %	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**
General Fund	8.63	7.94	8.80	9.52	10.43
HRA	8.68	8.73	9.03	9.09	8.96

The estimates of financing costs include current commitments and the proposals in this budget report.

2.14 **Estimates of the Incremental impact of capital investment decisions on council tax Housing Rent levels**. This indicator identifies the debt revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates over a three year period.

This estimate below sets out the additional debt financing costs associated with the proposed new capital schemes set out in this budget report.

	2015/16 Actual £	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**
Council tax – Band D	£0.00	£0.03	£4.05	£13.82	£14.31

The indicator does not take account of the ongoing revenue savings facilitated from these schemes that will predominately meet these additional costs along with further savings generated from within the authority.

There are no expected increases in Housing Rent levels following the Capital Investment decisions within this report over the medium term over and above those set out in the HRA business plan.

3 BORROWING

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

Current and projected portfolio position

3.2 The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement), highlighting any over or under borrowing.

	2015/16 Actual £m	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
External Debt 1 April	417	417	435	565	705
Expected change in debt	-	18	130	140	90
Other long-term liabilities	161	152	146	140	134
Expected change in other long-term liabilities	(9)	(6)	(6)	(6)	(6)
Debt Administered on behalf of the Unitary authorities	(48)	(46)	(44)	(43)	(41)
Actual gross debt 31 March	**521**	**535**	**661**	**796**	**882**
Capital Financing Requirement	**734**	**796**	**912**	**1,001**	**1,077**
Under borrowing	**213**	**261**	**251**	**205**	**195**

Gross Debt and the Capital Financing Requirement

3.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its 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 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

3.4 The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: limits to borrowing activity

3.5 **The operational boundary**. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Debt	435	565	705	795
Other long-term liabilities	152	146	140	134
Total	**587**	**711**	**845**	**929**

3.6 **The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total	**830**	**930**	**1,030**	**1,100**

3.7 **HRA CFR limit**. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
HRA debt limit	257	257	257	257
HRA CFR	245	245	245	245
HRA Headroom	**12**	**12**	**12**	**12**

Prospects for interest rates

3.8 The Council has appointed a treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their view.

Period	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 Year	25 year	50 year
Mar 2017	0.25	1.60	2.30	2.90	2.70
Mar 2018	0.25	1.70	2.30	3.00	2.80
Mar 2019	0.25	1.80	2.50	3.20	3.00
Mar 2020	0.75	2.00	2.70	3.40	3.20

3.9 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications (further detail in Annex 2):

- Counterparty risks appear to have eased but market sentiment remains changing and economic forecasts uncertain.

- Investment returns are likely to remain relatively low during 2017/18 and beyond;

- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically low levels after the referendum and then even further after the Monetary Policy Committee meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced.

  Gilt yields have since risen sharply due to a rise in concerns around a ‘hard Brexit’, the fall in the value of sterling, and an increase in inflation expectations.

  The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this will be contunually reviewed to avoid incurring higher borrowing costs in later times when the Council will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy

3.10 Based on current cash flow forecasts, it is estimated that the Council will have a net borrowing requirement of £360m over the MTFS period. The most significant consideration from a treasury management perspective is the timing and duration of that borrowing. Should the financial environment change and borrowing is deemed advantageous the Council will seek to borrow long-term loans below a target rate of 3.00% and short-term medium term loans below a target rate of 2.50%.

3.11 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

3.12 Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Service Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *If it was 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, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

3.13 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

- Long-term and short term fixed interest rates are expected to rise modestly over the medium term. The Service Director-Finance, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

- The option of postponing borrowing and running down investment balances strategy has been applied throughout 2015/16 and primarily in 2016/17 apart from planning to borrow £20m from the PWLB at preferential rate that expires on the 31st March 2017 for the Bristol Temple Meads East Regeneration (Arena) scheme. This approach will continue to be applied in future years until balances are reduced to adequate liquidity requirements unless it was felt that there was a significant risk of a sharp rise in interest rates.

- The Councils borrowing strategy will give consideration to new borrowing in the following ways:

  - The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years;

  - PWLB loans for up to 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing, which will spread debt maturities away from a concentration in longer dated debt;

  - PWLB loans in excess of 10 years where rates are considered to be low and offer the Council the opportunity to lock into low value long-term finance;

  - Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio;

  - Long term borrowing from the Municipal Bond Agency if available and appropriate and rates are lower than those offered by the Public Works Loan Board (PWLB).

3.14 The authority is planning net borrowing of £130m in 2017/18, £140m in 2018/19 and £90m in 2019/20, to finance the expected Prudential Borrowing requirement of £130m in 2017/18, £106m in 2018/19 and £93m in 2017/18 as set out in the Capital programme. The additional borrowing of £31m finances the expected net reduction in cash resources to maintain adequate liquidy levels as set out in the strategy. This will also partly reverse the current internal borrowing position, reducing the interest risk exposed to the authority, minimising the increase in net debt financing costs and reducing counterparty risk.

3.15 The Council will seek to undertake temporary borrowing (less than one year) loans to cover day-to-day cashflow requirements as and when required. Such a decision will be based on the availability of and access to cash in deposit accounts and money market funds to cover the cashflow requirement, whilst also considering the most efficient method for the authority.

3.16 Temporary borrowing will also be considered when the draw down deadline for a deposit account for same day transfer has passed, thus resulting in borrowing cash from the money markets.

3.17 The Service Director Finance will be kept informed of the temporary loans outstanding on a monthly basis and reviewed at the regular Treasury Management Group meeting.

Policy on borrowing in advance of need

3.18 The Council 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 Council can ensure the security of such funds.

3.19 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.

Debt rescheduling

3.20 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).

3.21 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;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

3.22 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.

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

Municipal Bond Agency

3.24 It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is hoped that the borrowing rates will be lower than those offered by the Public Works Loan

Board (PWLB). The Council intends to make use of this new source of borrowing as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

Introduction: changes to credit rating methodology

4.1 The Council's investment policy has regard to the CLG's Guidance on Local Government.

Investment policy

4.2 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

4.3 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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

4.5 Other information sources including 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.

4.6 Investment instruments identified for use in the financial year are listed in appendix 3 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

Creditworthiness policy

4.7 The primary principle governing the Council's investment criteria is the security of its investments, whilst liquidity and the yield on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.8 The Service Director - Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

4.9 The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are considered before making investment decisions.

4.10 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- **Banks 1** - good credit quality **–** the Council will only use banks which:
  i. are UK banks; and/or
  ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA

  and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

  i. Short term – F1 (or equivalent)
  ii. Long term – A- (or equivalent)

- **Banks 2** – Part nationalised UK banks – Royal Bank of Scotland. This bank can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

- **Banks 3** – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

- **Bank subsidiary and treasury operation** - the Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- **Building societies** - the Council will use all societies which meet the ratings for banks outlined above.

- **Money market funds** – AAA rated (sterling)

- **Enhanced money market funds** (EMMFs) – AAA rated (sterling)

- **UK Government** (including gilts and the DMADF)

- **Local authorities, parish councils etc**

- **Supranational institutions**

- **Local Authority Mortgage Scheme**. Under this scheme the Council is required to place funds of £2m, with Lloyds Bank Plc (£1m) and Leeds Building Society (£1m) for a period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the specified/non specified categories.

- **Council owned subsidiaries**. The Council invests in wholly owned Council subsidiaries. Depending on the nature of the investment this will either be classified as a Service investment or a Treasury investment. Service investments fall outside the scope of the specified/ non specified categories and currently investments of this type are classified as service investments.

A limit of £100m will be applied to the use of non-specified investments

Country and sector considerations

4.11 Due care will be taken to consider the country, group and sector exposure of the Council's investments. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). In addition:

- no more than 25% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.12 **Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision. This additional market information (for example Credit Default Swaps (CDS), negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments.

4.13 Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 - higher quality	*AAA*	£50m	5 Years
Banks 1 - medium quality	*AA-*	£20m	3 Years
Banks 1 - lower quality	*A-*	£10m	1 Year
Banks 2 – part-nationalised	N/A	£10m	1 Year
Limit 3 category – Council's banker (not meeting Banks 1/2)	-	£100k	Liquid
Other institutions limit*	-	£50m	1 Year
DMADF	UK Sovereign rating	unlimited	1 Year
Local authorities	-	£40m	5years
Money market funds (MMF) (Including Enhanced MMF)	AAA	£40m	liquid

**The Other Institution Limit will be for Gilt and Supranational investments*

The proposed criteria for specified and non-specified investments are shown in Appendix 3 for approval.

4.14 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).

4.15 For its cash flow generated balances, the Council will seek to utilize its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.16 **Investment return expectations**. Bank Rate is forecast to remain unchanged at 0.25% until quarter 2 of 2019 and not to rise above 0.75% by quarter 1 of 2020. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.75%

Budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

2017/18 0.25%
2018/19 0.25%
2019/20 0.50%

The overall balance of risks to these forecasts is currently to the downside in view of the uncertainty over the final terms of Brexit. If growth is below expectation and inflationary pressures are minimal, the start of increases in Bank Rate could be deferred. However, should growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace

Treasury management limits on activity

4.17 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. The indicators are:

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

	2017/18	**2018/19**	**2019/20**
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity structure of fixed interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	30%
12 months to 2 years		0%	40%
2 years to 5 years		0%	40%
5 years to 10 years		0%	50%
10 years and above		25%	100%

Investment treasury indicator and limit

4.18 Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Maximum principal sums invested > 364 days			
£m	**2017/18**	**2018/19**	**2019/20**
Principal sums invested > 364 days	£100m	£100m	£100m

Ethical Investment Policy

4.19 The Ethical Investment Policy was approved by Cabinet on the 15th December 2011. The City Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the City Council.

Investment Risk Benchmarking

4.20 These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

4.21 Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.00% (AAA rated) to 0.06% (A rated) historic risk of default when compared to the whole portfolio.

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £500k.
- Liquid short term deposits of at least £40m available within a rolling three month period.
- Weighted average life benchmark is expected to be a minimum of a day with a maximum of 1 year.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate.

And in addition that the security benchmark for each individual year is:

	1 year	**2 years**	**3 years**	**4 years**	**5 years**
Maximum	**0.07%**	**0.19%**	**0.36%**	**0.55%**	**0.78%**

This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

Annexes

Annex 1 - Treasury Management Policy Statement

Annex 2 – Economic Background

Annex 3 – TMP1 Credit and Counterparty risk management

Annex 1

Treasury Management Policy Statement

1. The Council defines its treasury management activities as follows:

   The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

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

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

4. The Council's high level policies for borrowing and investments are:

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

   - The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

Annex 2

APPENDIX: Economic Background

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

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

The Monetary Policy Committee, (MPC), meeting of 4th August was dominated by countering this expected sharp slowdown and resulted in a set of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant shift downwards, though it is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could affect the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on these forecasts.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017. This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro. This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

It is clear that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was weaker with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. House prices have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Federal reserve started its first increase in rates at its December 2015 meeting.

At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is probably, the best positioned of the major world economies to make progress towards a combination of strong growth, full employment and rising inflation.

This is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Federal Reserve also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures

The result of the presidential election in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had an instant effect on the bond market and bond yields rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign.

In the first week since the US election, there was a a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero.

At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

Asia. Economic growth in China has been slowing down and this, in turn, has been reducing economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.
Economic growth in Japan is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

CAPITA ASSET SERVICES FORWARD VIEW

Economic and interest rate forecasting remains difficult with so many external influences. The forecasts, (and MPC decisions), will be liable to further amendment depending on economic developments in financial markets over the next year. Geopolitical developments, especially in the EU, could also have a major impact.

Forecasts for average investment earnings beyond the three-year time horizon will be dependent on economic and political developments.

The overall longer trend for gilt yields and PWLB rates are to rise gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established.

The expected rise in the Federal Reserve rate over the next few years may make US bonds less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely put some upward pressure on bond yields in other developed countries but that upward pressure is likely to be reduced by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing high levels of volatility that is correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat deflation and reduce high levels of debt in some countries.
- Lack of action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Outcome of major national polls within Europe
- A resurgence of the Eurozone sovereign debt crisis
- Weak capitalisation of some European banks
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.

- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Federal Reserve funds rate increases and rising inflation expectations in the USA, pulling UK gilt yields upwards.
- The pace and timing of increases in the Federal Reserve funds rate causing a reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major change from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Annex 3

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Service Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement (Appendix 5).

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.

3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society. For this category this covers bodies with a minimum short term rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is set out below:-

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 higher quality	*AAA*	£50m	5 Years
Banks 1 medium quality	*AA-*	£20m	3 Years
Banks 1 lower quality	*A-*	£10m	1 Year
Banks 2 – part nationalised	N/A	£10m	1 Year
Limit 3 category – Council's banker (not meeting Banks 1/2)	-	£100k	Liquid
Other institutions limit*	-	£50m	1 Year
DMADF	AAA	unlimited	5 Years
Local authorities	-	£40m	5 Years
Money market funds (Including Enhanced MMF)	AAA	£40m	liquid

**The Other Institution Limit will be for Gilt and Supranational investments*

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments is limited to an overall exposure of £100m and would include any sterling investments with:

	Non Specified Investment Category	Limit (£ or %)
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).	AAA long term ratings £50m

	(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£50m
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	Minimal
d.	Any **bank or building society** that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£40m
e.	Any **non rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to: • Parent company guarantee • Parent company to be a UK institution.	£10m
f.	**Share capital or Loan Capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. . There is a higher risk of loss with these types of instruments.	£10m
g.	**Share capital or Loan Capital to Council owned companies** – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources.	£50m
h.	**Bond funds** – There is a high risk of loss with this type of instrument.	£10m
i.	**Pooled property funds** – The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The key exception to this is an investment in the CCLA Local Authorities Property Fund.	£50m

	The authority has invested £5m in a Property Fund (Cabinet 3rd November 2015) to support Homelessness in Bristol.	
j.	**Property funds managed by a wholly owned Council subsidiary**– The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources.	£50m

In respect of category f, g and h, these will only be considered after obtaining external advice and subsequent member approval.

Council owned companies
The Council has purchased share capital / provided loans to wholly owned Council subsidiaries amounting £13.2m at the turn of the calendar year.

These are classified as service investment's, rather than treasury management investment's, and are therefore outside the specified / non specified categories.

Local Authority Mortgage Scheme.
Under this scheme the Council is currently required to place funds with Lloyds Bank Plc (£1m) and Leeds Building Society (£1m) for a period of 5 years. The scheme is anticipated to finish in 2018/19 with deposits returning in 2017/18 (£1m) and 2018/19 (£1m). This is classified as being a service investment to support housing, rather than a treasury management investment, and is therefore outside of the specified / non specified categories.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Service Director - Finance, and if required new counterparties which meet the criteria will be added to the list.