APPENDIX 4

1 Treasury Management Strategy Statement

Background

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.
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.
3. The contribution the treasury management function makes to the authority 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 the General Fund Balance.
4. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
5. The Chartered Institute of Public Finance Accountants (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."

Reporting Requirements – Capital Strategy

6. The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2021-22, all local authorities to prepare an additional report - 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
   - the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the Full Council understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. Full Council approved its current Capital Strategy in November 2020.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

Reporting Requirements – Treasury Management

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

   I. **A Treasury Strategy including prudential and treasury indicators** - this report. The first, and most important, report 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).

   II. **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.

   III. **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.

8. The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by Resources Scrutiny Committee.

2 Treasury Management Strategy for 2021/22

2.1 The Treasury Management Strategy for 2021/22 covers two main areas:

<u>Capital Issues</u>
- capital plans and the prudential indicators
- 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.

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

2.3 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.

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

2.5 The Council uses Link Group treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remain with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

2.6 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.

2.7 The scope of investments within the Council's Treasury operations includes the placing of residual cash from the Council's functions in various products such as fixed term deposits, call accounts and money markets with a variety of financial institutions.

The Capital prudential indicators 2021/22 – 2025/26

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

Capital expenditure

2.9 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	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Non-HRA	117	147	193	114	90	60	35
Non – HRA[*1]	-	-	17	22	17	11	8
HRA	49	50	69	77	76	58	60
Total	**166**	**197**	**279**	**213**	**183**	**129**	**103**

Financed by:							
Capital receipts	31	44	50	51	54	38	29
Capital grants	53	80	92	43	45	20	15
HRA Self financing	26	22	30	31	32	33	33
Revenue	21	2	11	4	6	11	9
Net financing need for year	**35**	**49**	**96**	**84**	**46**	**27**	**17**

*1 Schemes pending subject to business case development

Note, the table above excludes arrangements such as PFI and leasing that have their own financing/borrowing facilities.

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

2.10 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.

2.11 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 asset's life.

2.12 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 £141m of such schemes within the CFR.

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

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
CFR – non housing	484	530	615	675	683	695	695
CFR – PFI/Lease schemes	141	132	123	115	106	97	88
CFR – housing	245	245	250	265	288	288	288
Total CFR	**870**	**907**	**988**	**1,055**	**1,077**	**1,080**	**1,071**
Movement in CFR	**23**	**37**	**81**	**67**	**22**	**3**	**(9)**

Net financing need for year	35	49	96	84	46	27	17

Less MRP & other financing	(12)	(12)	(15)	(17)	(24)	(24)	(26)
Movement in CFR	**23**	**37**	**81**	**67**	**22**	**3**	**(9)**

Minimum revenue provision (MRP) policy statement

2.14 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 (VRP).

2.15 The Ministry of Housing, Communities and Local Government (MHCLG) has 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 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 authority's 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 has reduced its MRP provision in 2017/18 through to 2020/21 and will reduce its MRP further, over an adequate timeframe (a further 2 years) to recover this overprovision whilst 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 2021/22 £6m of this overprovided 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 Chief Finance Officer.

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

2.16 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation.

2.17 Repayments included in annual PFI or finance leases are applied as MRP.
Affordability prudential indicator

2.18 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 indicator:

2.19 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.

	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
General Fund	6.74	7.00	7.87	8.51	9.65	9.56	9.39
HRA	8.16	8.99	9.14	9.07	9.07	8.65	8.32

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

Borrowing

2.20 The capital expenditure plans set out in Section 3 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

2.21 The Council's treasury portfolio position at 31 March 2020, with forward projections, is 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**.**

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
External Debt 1 April	431	461	461	571	656	706	741
Expected change in debt	30	-	110	85	50	35	20

Other long-term liabilities	135	141	132	123	115	106	97
Expected change in other long-term liabilities	6	(9)	(9)	(8)	(9)	(9)	(9)
Debt Administered on behalf of the Unitary authorities	(41)	(40)	(39)	(37)	(36)	(34)	(33)
Actual gross debt 31 March	**561**	**553**	**655**	**734**	**776**	**804**	**816**
Capital Financing Requirement	**870**	**907**	**988**	**1,055**	**1,077**	**1,080**	**1,071**
Under borrowing	**(309)**	**(354)**	**(333)**	**(321)**	**(301)**	**(276)**	**(255)**

Gross Debt and the Capital Financing Requirement

2.22 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 2021/22 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 or speculative purposes.

2.23 The Chief Finance Officer 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

The operational boundary

2.24 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 and ability to fund under-borrowing by other cash resources.

	2020/21 Approved £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt	536	571	656	706	741	761
Other long-term liabilities	128	132	123	115	106	97
Total	**664**	**703**	**779**	**821**	**847**	**858**

The authorised limit for external debt

2.25 A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal 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.

2.26 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2.27 The Council is asked to approve the following authorised limit:

	2020/21 Approved £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Total	**970**	**1,010**	**1,080**	**1,100**	**1,100**	**1,090**

Prospects for interest rates

2.28 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 2021	0.10	0.80	1.10	1.50	1.30
Mar 2022	0.10	0.90	1.20	1.60	1.40
Mar 2023	0.10	0.90	1.20	1.70	1.50
Mar 2024	0.10	1.00	1.30	1.80	1.60

2.29 The coronavirus outbreak has done significant economic damage to the UK and economies around the world. The Bank of England took emergency action in March to cut the bank rate to at first 0.25%, and then to 0.10%.It left the bank rate unchanged at its subsequent meetings, with some forecasters suggesting that a cut into negative territory could happen. However the Governor of the Bank of England has made it clear that currently more quantitative easing is the favoured tool if further action becomes necessary.

2.30 As shown in the forecast table above, no increase in bank rate is expected as economic recovery is expected to be only gradual.

Gilt yields / PWLB rates

2.31 There was much speculation during the second half of 2019 that bond markets were in a "bubble" which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The

consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this “coin” is that bond prices are elevated as investors would be expected to move out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

2.32 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis affected the western economies during March 2020. We have since seen yields fall sharply to unprecedented lows as investors began selling shares in anticipation of impending recessions in western economies, and moved into safe haven assets i.e. government bonds.

2.33 Major western central banks took action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

2.34 As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-politics, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment (as shown on 9 November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

2.35 As previously reported, in October 2019 HM Treasury (PWLB) unilaterally increased the PWLB rates by 1% due to an isolated number of local authorities borrowing substantial sums from the PWLB to buy investment property with the primary aim of generating yield.

2.36 The government consulted with local authorities between March and July 2020 to “develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration”.

2.37 The outcome of this consultation was provided as part of the autumn statement (25 November 2020), with the additional 1% margin being removed but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which plans to purchase assets “primarily” for yield in its capital programme.

2.38 The borrowing rate for debt from the PWLB is now a gilt plus 80 basis points.

2.39 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

2.40 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England. Gilt yields up to 6 years were negative during most of the first half of 2020/21.

2.41 The overall longer trend is for gilt yields and PWLB rates to rise “marginally” during the medium term.

2.42 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. This needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

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

Borrowing strategy

2.44 Based on current cash flow forecasts, it is estimated that the Council will have a net borrowing requirement of £300m 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 1.50% and short-term to medium term loans below a target rate of 1.00%.

2.45 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 an issue that needs to be considered.

2.46 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Chief Finance Officer 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 borrowing rates* then borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* perhaps arising from an acceleration 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.

2.47 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 “marginally” over the medium term. The Chief Finance Officer, 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 in 2020/21. This approach will continue until balances are reduced to adequate liquidity requirements unless it is felt that there is a significant risk of a sharp rise in interest rates.

- The Council's borrowing strategy will consider 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, be it marginally, 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 (PWLB)

  - Short to medium funding from local authorities and financial institutions at rates lower than the PWLB.

2.48 The authority is planning net borrowing of £300m over the period as set out in table 4.2, to finance the expected prudential borrowing requirement of £319m as set out in table 3.2 as set out in the Capital programme. The reduced borrowing of £19mp partly reflects the cash set aside for the repayment of debt, also known as Minimum Revenue Provision (MRP). The most efficient arrangement is for MRP to be used to reduce the new long term debt expected to be required. This ensures that MRP is utilised and does not accumulate as cash on the balance sheet, and reduces the expected level of debt. Alternatively MRP could be used to repay existing debt, but this would be at considerable cost in the current interest rate environment.

2.49 The level of borrowing will ensure the authority will maintain adequate liquidy levels as set out in the strategy.

2.50 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.

2.51 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.

2.52 The Chief Finance Officer 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

2.53 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.

2.54 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

2.55 As the yield curve is relatively flat there are limited opportunities to generate savings by switching from long term debt to short term debt. In addition, rescheduling of our PWLB loans is unlikely to occur due to how the repayment penalties and discounts are calculated. Any 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).

2.56 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
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

2.57 Consideration will also be given to identifying 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.

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

3 ANNUAL INVESTMENT STRATEGY

Investment policy

3.1 MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

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

3.3 In accordance with the above guidance from MHCLG 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.

3.4 Ratings will not be the sole determinant of the quality of an institution and 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 as 'credit default swaps' and overlay that information on top of the credit ratings.

3.5 Other information sources including the financial press, share price and other such information pertaining to the banking sector will be consulted in order to establish the most robust scrutiny processes on the suitability of potential investment counterparties.

3.6 Investment instruments identified for use in the financial year are listed in Annex 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

3.7 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.

3.8 The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria (below) 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.

3.9 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.

3.10 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 ring-fenced operations. This bank can be included if it continues to be part nationalised or it meets 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 operations** - 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 (CNAV** Constant Net Asset Value**)** – AAA rated (sterling)

- **Money Market Funds (LVAV** Low Volatility Asset Value**)** – AAA rated (sterling)

- **Money Market Funds (VNAV** Variable Net Asset Value**)** – AAA rated (sterling)

- **Ultra-Short dated Bond Funds with a volatility rating of S1+**

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

- **Local authorities, parish councils etc**

- **Supranational institutions**

- **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

3.11 Due care will be taken to consider the country, group and sector exposure of the Council's investmentsThe Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA. 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.

3.12 **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.

3.13 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	5 Years
DMADF	UK Sovereign	unlimited	1 Year

	rating		
Local authorities	-	£40m	5years
Money market funds (MMF) (Including CNAV, LVNAV & VNAV)	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 Annex 3 for approval.

3.14 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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the fluctuations of the cash flows, 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.

3.15 **Investment return expectations.** Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it is assumed that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

The budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long term forecast is for periods over 10 years in the future):

- 2020/21 0.10%
- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%
- Long term later years 2.00%

The overall balance of risks to economic growth in the UK is probably to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected somewhat, if any, with regards the deal the UK agrees as part of Brexit.

There is little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments

and those in other major economies, or a return of investor confidence in equities, could impact gilt yields (and so PWLB rates) in the UK.

Negative investment rates

3.16 While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to “trimming fee” levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty and the need to maintain liquidity in these unprecedented times, has meant there is a “glut” of money circulating around at the very short end of the market. This has seen a number of market operators, now including the Debt Management Account Deposit Facility (government agency), offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the increased levels of cash seeking a short-term home at a time when many local authorities are having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the government.

Treasury management limits on activity

3.17 There are three debt related treasury activity limits. The purpose of these is 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.

	2021/22	**2022/23**	**2023/24 & Beyond**
	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 2021/22			
		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

3.18 Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment.

Maximum principal sums invested > 365 days			
£m	**2021/22**	**2022/23**	**2023/24 & Beyond**
Principal sums invested > 364 days	£100m	£100m	£100m

3.19 For its cash flow generated balances, the Council will seek to utilise 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.

Ethical Investment Policy

3.20 The Ethical Investment Policy was approved by Cabinet on the 15 December 2011 (updated 2015). 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.

3.21 The Ethical Investment Policy and Strategy is due for revision during 2021/22, which will be expended to incorporate Equitable Policy for Investment in addressing racial and other economic inequalities in the city.

Investment Risk Benchmarking

3.22 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.

3.23 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 0.05% (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	**0.05%**	**0.15%**	**0.27%**	**0.40%**	**0.55%**

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

The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

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 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.

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

Economic Background / Interest Rate Forecast

Link Group Interest Rate View 9.11.20														(The Capital Economics forecasts were done 11.11.20)
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate														
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate														
Link	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate														
Link	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

The interest rate forecasts were produced prior to a trade deal between the UK and the EU but they are based on an assumption that a reasonable agreement would be reached on trade negotiations between the UK and the EU.

Relative to the slump in GDP endured during the COVID crisis, any hit from a no deal would be small. But the pandemic does mean there is less scope for policy to respond. Even so, the Chancellor could loosen fiscal policy further and target it at those sectors hit hardest. The Bank of England could also “prop up” demand, most likely through more gilt and corporate bond purchases rather than negative interest rates.

Brexit may reduce the economy’s potential growth rate in the long run. However, much of that “drag” is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

In summary there is not likely to be any change in Bank Rate for many years due to whatever outcome there is from the trade negotiations and while there will probably be some movement in gilt yields / PWLB rates after the deadline date, these are expected to be minimal.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is slightly towards the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines become available and widely administered to the population.

- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields (and so PWLB rates) in the UK.

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

- UK - further national lockdowns or severe regional restrictions during 2021

- UK government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy

- UK - Bank of England acts 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

- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic

- EU minority governments. Germany, Spain, Portugal, Netherlands, Ireland, Belgium, Austria, Sweden and Finland all 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.

- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- UK - a significant rise in inflationary pressures. These could be caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population which leads to a resumption of normal life and a return to full economic activity across all sectors of the economy

- 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 rapid series of increases in Bank Rate to stifle inflation.

Annex 3

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

The CLG issued Investment Guidance in 2018, 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 Chief Finance Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), 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 number 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.

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, housing association, 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.

These criteria are 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	5 Year
DMADF	AAA	unlimited	5 Years
Local authorities	-	£40m	5 Years
Money market funds (Including CNAV, LVNAV & VNAV)	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 are 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 Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail) 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	AAA long term ratings £50m

	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** 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. **Loan capital** in a body corporate. There is a higher risk of loss with these types of instruments.	£10m
g.	**Share 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. **Loan capital** to Council owned companies	£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. This Authority will seek guidance on the status of any fund it may consider using. The authority has invested £10m in a Property Fund (Cabinet 03/11/15 & 19/09/17) to support Homelessness in Bristol.	£50m
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, 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. These are classified as service investments, rather than treasury management investments, and are therefore outside 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 Link Group 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 Chief Finance Officer, and if required new counterparties which meet the criteria will be added to the list.