

**Treasury Management Strategy Statement
Minimum Revenue Provision Policy Statement
& Annual Investment Strategy 2019/20**



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1.0 Introduction

1.1 Background

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 risk appetite, providing adequate liquidity initially before considering investment return.

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.

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.

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."

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

This authority has not engaged in any commercial investments under the Localism Act. Whilst we retain some historical income generating investment properties these were originally acquired for economic regeneration and in many cases funded from external funding.

Full details of the policies and objectives of the Council's treasury management activities can be seen in Schedule 1.

1.2 Reporting Requirements

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. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Scrutiny (Audit and Value for Money Council Services) Committee.

Prudential and Treasury Indicators and Treasury Strategy (This report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision 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).

A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

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.

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, 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 fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. This report is contained within Appendix C to the Medium Term Financial Strategy.

1.3 Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

Capital Issues

- * the capital expenditure plans and the prudential indicators;
- * the Minimum Revenue Provision (MRP) policy.

Treasury Management Issues

- * the current treasury position;
- * treasury indicators which will 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 use of external service providers.

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

2.0 Risk Management

The Council recognises that any investment has an element of risk and it is therefore imperative that such risks are controlled. Good risk management with regard to treasury management is essential. The authority therefore aims to both minimise where possible the probability of a detrimental event occurring; and at the same time reduce the impact of said event. This section highlights the primary risks where the Council has to make informed judgements as to their potential impact.

2.1 Interest Rate Risk

- 2.1.1 Interest rate risk, in the context of a Treasury Management Strategy, is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.
- 2.1.2 Section 4.3 sets out detailed advice from the Council's treasury management advisor (Link) on the predicted level of interest rates and the factors that influence them.
- 2.1.3 Choices need to be made about the institutions with whom the Council invests its cash surpluses. In doing so, the Council's priorities are the security of capital and the liquidity of its investments.
- 2.1.4 An assessment that has to be made is the length of time over which investments are made. Where investments are made for longer than one year, factors that need to be considered include:
 - rates in 1+ years time could increase above the rate for the investment;
 - Strategically, in line with areas such as the Capital Programme, the authority has to assess whether it can afford for money to be tied up long term.

2.2 Inflation Risk

2.2.1 Inflation risk is the risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Council's finances against which sufficient provision has not been made. The effect of this is twofold:

- generally as inflation falls so do interest rates; and
- as inflation rises it can impact upon the council's revenue and capital budgets thus reducing cash balances available to invest.

2.3 Market and Credit Risks

2.3.1 Market risk is defined as the risk that, through adverse market fluctuations in the value of the principal sums the Council invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

2.3.2 The Council therefore needs to maintain an approved lending (counterparty) list that specifies institutions with which the Council will invest and the maximum maturity period of investments held with these institutions. The Investment Strategy also specifies the limit that can be invested with individual counterparties and counterparty categories (section 4.8).

2.3.3 The institutions contained on the list need to meet the credit worthiness policy set out at section 4.8.2, which follows the model provided by our Treasury Advisors (Link Asset Services). By undertaking this approach the risk of failure of a third party to meet its investment obligations and the detrimental effect that would ensue on the Council's capital or revenue resources (known as credit and counterparty risk) will be limited.

2.4 Liquidity (Cash flow) Risk

2.4.1 Liquidity risk is defined as the risk that cash will not be available when it is needed and that ineffective management of liquidity creates additional unbudgeted costs.

2.4.2 This risk is minimised by spreading the maturities of investments throughout the year, but cash flow can be affected by delays in the capital programme and/or capital receipts not being received as forecast.

The Treasury Management Strategy seeks to take into account these risks when specifying activity for the financial year. However, although the actions contained within the Strategy will limit the risks, some risk will still remain. These will be monitored closely by the finance team.

3. The Capital Prudential Indicators 2019/20 – 2021/22

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

3.1 Capital Expenditure. 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. Estimates have been made in terms of the timing of various expenditure projects.

£'000	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Expenditure	1,832	955	2,895	948	948

The table below summarises how the above capital expenditure plans are being financed by capital or revenue resources.

Capital Financing £'000	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Financed by:					
Capital receipts	59	220	345	-	-
Capital grants	916	580	1,550	948	948
Revenue / Reserves	857	155	-	-	-
Borrowing	-	-	1,000	-	-
Total	1,832	955	2,895	948	948

3.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply 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 in the table above which has not immediately been paid for from revenue or capital resource will increase the CFR. The forecast CFR is set out in the table below.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used for.

The CFR includes any other long term liabilities (e.g., finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. As at 31st March 18, the Council currently has £1.4m of such schemes within the CFR.

£'000	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Capital Financing Requirement	16,896	15,849	12,963	13,150	12,363
(Reduction)/ Increase in CFR	(1,699)	(1,047)	(2,886)	187	(787)
Movement in CFR represented by:					
New Borrowing/ Lease Renewal	-	-	1,000	2,600*	-
MRP	(928)	(917)	(761)	(783)	(782)
Voluntary Repayment	(771)	(130)	(3,125)	(1,630)	(5)
Movement in CFR	(1,699)	(1,047)	(2,886)	187	(787)

There is a forecast reduction in the capital financing requirement. This follows proposals within the existing and proposed Medium Term Financial Strategy to utilise windfall resources and capital receipts to support the reduction in the underlying debt requirement and generate ongoing savings to the revenue budget. The MTFS sets aside £3.8m of receipts for this purpose and £0.6m of windfall New Homes Bonus funding for this purpose.

The new borrowing identified above relates to £1m in 2019/20 associated with Leisure development as part of the move to a new provider. The waste vehicles leases are due to be renewed in 2020/21 and this is also reflected the above table*.

3.3 MRP Policy Statement

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 also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG Regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1); These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

Repayments included in finance leases are applied as MRP.

The Council proposes as part of its Medium Term Financial Strategy Plans to continue to utilize windfall monies from New Homes Bonus, Business Rates and Capital Receipts in order to reduce the underlying need to borrowing (through Voluntary Repayment) and generate revenue budget savings.

3.4 Affordability Prudential Indicators

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:

3.5 Actual and estimates of the 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.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Ratio	14.07%	12.61%	10.23%	9.96%	9.27%

The estimates of financing costs include current commitments and the proposals in the medium term financial strategy. The table above indicates the percentage ratios are reducing which reflects increasing investment returns and a reduction in the underlying debt costs, as highlighted above.

4. Treasury Management Strategy

The capital expenditure plans set out in Section 3 provide details of the capital activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this capital 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.

4.1 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2018, are summarised below. The tables below also show the actual and forecast external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. The forecast Capital financing requirement is planned to reduce as a result of statutory and voluntary repayments, consistent with the MTFS. As a direct result of this, our under borrowed position or temporary internal borrowing will also reduce.

Investments	31 st March 2018		31 st December 2018	
	£'000	%	£'000	%
Banks	12,133	53%	14,089	40%
Certificate of Deposit	5,500	24%	8,000	23%
Money Market Funds	5,400	23%	4,825	13%
UK Treasury Bills	-	-	8,509	24%
Total	23,033	100%	35,426	100%

£'000	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total expected borrowing at 31 March (Gross Debt)	12,779	12,210	11,661	13,312*	12,736
£'000	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
CFR – the borrowing need	16,896	15,849	12,963	13,150*	12,363
(Under) / over borrowing	(4,117)	(3,639)	(1,302)	162	373

**assumes that the waste vehicles will be replaced as part of the replacement cycle*

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total or gross borrowing, 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 2019/20 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.

As shown in the table above, gross debt is anticipated to be higher than the Capital Financing Requirement from 2020/21 onwards. This is because the Council has adopted the strategy of reducing the underlying need to borrow through voluntary repayments in order to generate ongoing savings to the revenue budget and protect services. This has been necessary due to the unprecedented funding reductions imposed by Central Government and could not have possibly been anticipated when the current portfolio of debt was undertaken. The next large tranche of debt is due to mature in 2025/26, however should there be a suitable business case to repay earlier this will be considered.

Taking into account the above, the Chief Finance Officer reports that the Council complied with this prudential indicator and that the Council has not borrowed for revenue purposes.

4.2. Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary. This is the limit beyond which external borrowing is not normally expected to exceed. These limits have been reduced to reflect current plans and the recent approvals to make voluntary debt repayments.

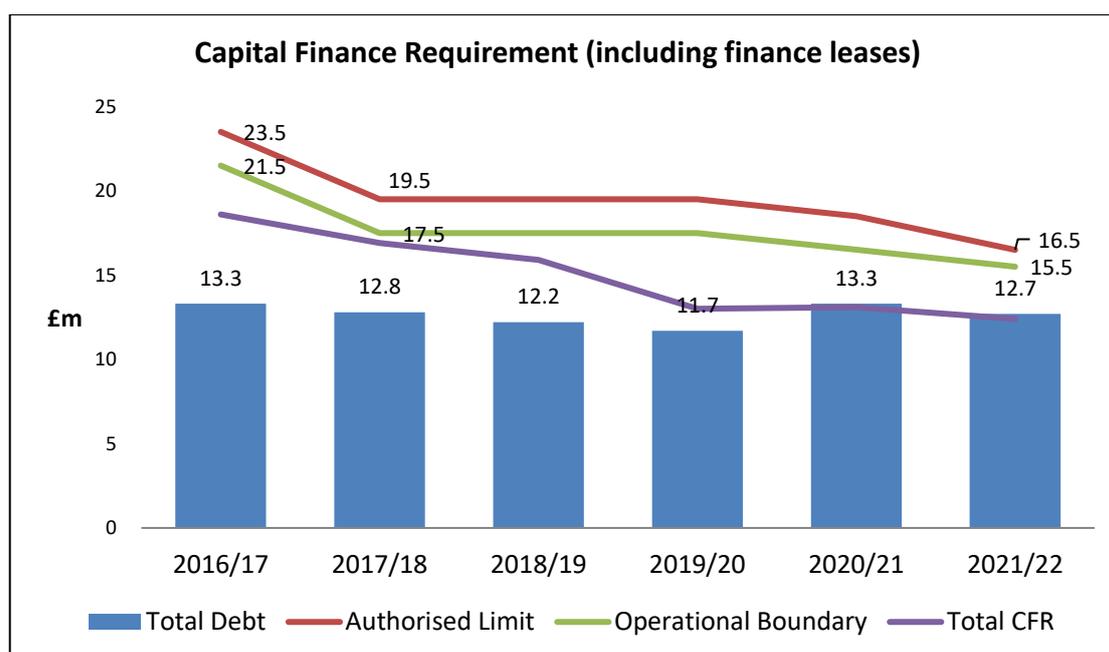
Operational boundary £'000	2018/19	2019/20	2020/21	2021/22
Borrowing	15,500	15,500	13,500	12,500
Other long term liabilities	2,000	2,000	3,000	3,000
Total	17,500	17,500	16,500	15,500

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. Any increase in debt levels above those already approved will be subject to a business case that clearly demonstrates that the proposal is prudent and sustainable in the long term.

1. 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. The Council is asked to approve the following authorised limit:

Authorised limit £'000	2018/19	2019/20	2020/21	2021/22
Borrowing	16,500	16,500	15,500	13,500
Other long term liabilities	3,000	3,000	3,000	3,000
Total	19,500	19,500	18,500	16,500

The graph below compares external borrowing forecasts with both the capital financing requirement and borrowing limits.



4.3 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

Link Asset Services Interest Rate View													
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The flow of generally positive economic statistics after the quarter ended 30 June 2018 meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Further details in relation to prospects for interest rates are set out in schedule 3.

4.4 Borrowing Strategy

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 still an issue to be considered.

Given that the MTFs adopts the approach of utilising one-off resources to reduce the underlying borrowing requirement and generate savings to the revenue budget, it is unlikely that any new external borrowing (with the exception of finance leases) will be undertaken during 2019/20.

4.5 Borrowing in Advance of Need

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.

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. However it is not anticipated that any such need will arise in 2019/20.

The forward projections show that the capital financing requirement will be higher than external debt in 2020/21. This is due to the Council adopting a strategy to utilise capital receipts and windfall revenue to reduce the underlying debt requirement and release savings to the revenue budget. The next tranche of debt will mature in 2025, at which point this will not need to be replaced and further savings can be realised.

4.6 Debt Rescheduling

Opportunities for debt re-scheduling are limited in the current climate, principally due to the cost of repayment – premiums.

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.

Opportunities for rescheduling will be monitored closely and in the event that this offers value for money, suitable action will be taken and any rescheduling will be reported to at the earliest meeting following its action.

4.7.1 Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLb). This Authority will consider making use of this new source of borrowing as and when appropriate.

4.8. Annual Investment Strategy

4.8.1 Investment Policy

The Council's investment policy has regard to the MHCLG'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.

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the 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. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in schedule 4 under the categories of 'specified' and 'non-specified' investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments at £5m.
6. **Lending limits:**
Investments, whether specified or non-specified, will conform to the following limits that are set out in the Council's Treasury Management Practices Schedules document:

	Limit
Maximum Amount deposited with an individual counterparty	£3.5m
Maximum Amount deposited with a part nationalised counterparty	£5.0m
Maximum Amount held with each counterparty group	£6.0m
Maximum Amount held with a part nationalised counterparty group	£7.5m
Maximum proportion of portfolio deposited with Building Societies	£3.5m
Maximum Amount deposited using forward dealing	£3.5m
Maximum Amount held in an individual (LNAV) MMF	£4.0m/£6m#

*These limits set the maximum amount authorised by the Council, the Chief Finance Officer will use discretion during the year to impose lower limits as a when appropriate.

This limit will be increased to £6m for UK domiciled Money Market Funds in the event that the UK leaves the EU without a deal.

7. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.8.5).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.8.4).
9. This authority has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
10. All investments will be denominated in **sterling**.
11. As a result of the change in accounting standards for 2018/19 under **IFRS 9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

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

Changes in risk management policy from last year.

There is a proposed change to the Money Market Fund limits in the event of that the UK leaves the EU within out a deal. This enables additional funds to be held in UK domiciled funds in the event that the current regulatory issues are not resolved.

4.8.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years
- Light pink 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

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

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalent) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a regular basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx

benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

The Council currently has a contract for its banking arrangements with Royal Bank of Scotland (RBS). In the event that regulatory changes takes place that result in our banking service transferring to another provider it is proposed that in order to maintain operational activities, that subject to review by the Chief Finance Officer, in the event that the new provider falls outside the scope of the counterparty list criteria, that the new provider be incorporated on the lending list but with a reduced overnight limit of £0.5m.

4.8.4 Country limits

Due care will be taken to consider the country 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. The list of countries that qualify using this credit criteria as at the date of this report are shown in Schedule 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy. The exception to this relates to funds held within AAA rated Money Market Funds and also the United Kingdom.

4.8.5 Investment Strategy

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).

Investment returns expectations. Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022.

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in bank rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

In light of these risks, budgeted returns on investments are as follows:

2019/20	0.90%
2020/21	1.00%
2021/22	1.25%

Investment treasury indicator and limit - total principal funds invested for greater than one year. 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 and current economic conditions.

Maximum principal sums invested in excess of 1 Year			
	2019/20	2020/21	2021/22
Principal sums invested for longer than 1 year	£m 5.0	£m 5.0	£m 5.0

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

4.8.6 Icelandic Bank Investments – As at 31st December the Council had £0.285m of the original £5m invested in failed Icelandic banking institutions outstanding. The administration process is still underway and updates will be provided to members as and when they become available.

4.9 Investment Risk Benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 6 month LIBID.

4.10 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.11 Policy on the use of external service providers

The Council uses Link 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.

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

Schedule 1

Treasury Management Policy Statement

In accordance with the CIPFA Code of Practice on Treasury Management, East Staffordshire Borough Council defines the policies and objectives of its treasury management activities as follows:-

1. The Council defines its treasury management activities as: *"The management of the 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"*.
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 organization, 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."

Schedule 2 Economic Background

GLOBAL OUTLOOK. **World growth** has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and is likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt (currently about \$50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK. The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where

monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate.

As for the **labour market** figures in October, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, the Brexit deal put forward by the government was defeated on 15 January. However, the central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case the withdrawal date may be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November. However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the speed and level of increases in rates and that it is going to cause a US recession as a result.

There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed's actions, the trade war between the US and China and an expectation that world growth will slow.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

SCHEDULE 3 - Prospects for Interest Rates

The interest rate forecasts provided by Link Asset Services in paragraph 4.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU**. On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in 2020 which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

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

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has now substantially diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This can have therefore only been kicked down the road to a later time. The rating

agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.

- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone governments**. Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy**, in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if both sides were to agree by 29 March a compromise that quickly removed all threats of economic and political disruption and so led to an early boost to UK economic growth.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength

of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

SCHEDULE 4 - Specified and Non-Specified Investments and Limits

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £5m will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	* Minimum credit criteria / colour band	Max. maturity period
DMADF – UK Government	N/A	Up to 1 year
UK Government gilts	AAA	Up to 1 year
UK Government Treasury bills	AAA	Up to 1 year
Bonds issued by multilateral development banks	AAA	Up to 1 year
Money market funds: CNAV, LVNAV & VNAV	AAA	Liquid
Local authorities	N/A	Up to 1 year
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 3 months Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 3 months Not for use

NON-SPECIFIED INVESTMENTS: A maximum of £5m will be held in aggregate in non-specified investment.

From 1 April 2004 all Councils were given the freedom to invest for periods greater than 365 days, based on criteria set out in their Annual Investment Strategy. These investments are defined as “Non-Specified Investments” and the Council is required to set out in this Investment Strategy the following:

- (i) The procedures for determining which categories of such investments may be prudently used:

Investments will only be made with Banks or Building Societies in accordance with the credit worthiness methodology outlined at 4.8.2.

- (ii) The categories of investments identified as prudent to be used during the year:

Investment	Why Use it?	Associated Risks
Sterling Term deposits with maturities greater than 365 days.	(i) Certainty over period invested. (ii) No movement in capital value of deposit despite changes of rate of return in interest rate environment.	(i) Liquid: as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk: potential for greater deterioration in credit quality over longer period.
Callable deposits with maturities greater than 365 days.	Enhanced income - potentially higher return than using a term deposit with similar maturity.	(i) liquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) Period over which investment will actually be held is not known at the outset. (iii) Interest rate risk: borrower will not pay back deposit early if interest rates rise after deposit is made.
Forward deposits for periods greater than 365 days.	Known rate of return over period the monies are invested - aids forward planning.	(i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.
Property Funds (<i>note 1 below</i>)	(i) Diversification of investment portfolio; (ii) Enhanced income	(i) liquidity – property funds are a long term investment due to the entry and exit fees (ii) exposure of capital to loss in values

Note 1: The property fund instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The maximum maturity of investment will be 5 years for all categories, with the exception of property funds. For forward deposits, this is the negotiated deal period plus period of deposit.

Schedule 5: Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA or higher and also have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

This list was compiled on 21-1-19