Treasury Management Strategy 2020/21 to 2022/23

Including:
Minimum Revenue Provision (MRP) Policy 2019/20 & 2020/21

1. Introduction

1.1. Background

1.1.1. The Council is required to operate a balanced budget, which means that cash raised through the year will meet its cash expenditure. The Treasury Management Strategy (TMS) has four fundamental roles:

- Manage external investments - security, liquidity and yield
- Ensure debt is prudent and economic
- Produce and monitor the Prudential Indicators
- To ensure that decisions comply with regulations.

1.1.2. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

1.1.3. 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, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.1.4. 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.

1.1.5. 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.

1.1.6. CIPFA defines treasury management as:

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

1.2. Reporting Requirements

1.2.1. **Capital Strategy**

1.2.2. The CIPFA revised 2017 Prudential and Treasury Management Codes requires 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;

1.2.3. 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.

1.2.4. This Capital Strategy is reported separately from the Treasury Management Strategy Statement and 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. The Capital Strategy will show:

- the corporate governance arrangements for these types of activities;
- any service objectives relating to the investments;
- the expected income, costs and resulting contribution;
- for non-loan type investments, the cost against the current market value;
- the risks associated with each activity.

1.2.5. Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.2.6. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

1.2.7. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

1.3. **Treasury Management Reporting**

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

1.3.2. **Prudential and Treasury Indicators and Treasury Strategy** - The first, and most important report is forward looking and covers:

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

1.3.3. **A Mid-Year Treasury Management Report –** This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.3.4. **An Annual Treasury Report –** This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3.5. **Scrutiny**

1.3.6. The above reports are required to be adequately scrutinised and this role is undertaken by the Audit Committee, Cabinet and full Council.

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1.4. Treasury Management Strategy for 2020/21

1.4.1. The strategy for 2020/21 covers:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the MRP policy.

Treasury management issues

- the current 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
- the policy on use of external service providers.

1.4.2. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code 2017, the MHCLG MRP Guidance, the CIPFA Treasury Management Code 2017, and the MHCLG Investment Guidance.

1.5. IFRS16 - Leases

1.5.1. A new International Financial Reporting Standard (IFRS) on leases is due to be adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) with effect from 1st April 2020. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use as asset (the underlying asset) for a period of time in exchange for a consideration.

1.5.2. Under the standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated in the way the finance leases currently are. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short dated leases (under a year, or with less than a year remaining at transition) and low value leases (low value to be determined by the Council using its approach to determining de minimus items).

1.5.3. This means that all leases that do not meet the exceptions will be treated as capital expenditure from 2020/21 and form part of the Capital Financing Requirement. An estimate of the impact of the transition to the new standard has been built into the relevant indicators. The full impact will not be known until the 2020 Code has been issued and the detailed assessment completed. If this has a material impact on the Prudential Indicators then a revised Treasury Management Strategy will be produced.

1.6. Training

1.6.1. The CIPFA Code requires the responsible officer to ensure that Council members with responsibility for treasury management receive adequate training in treasury management. This requirement is reviewed annual as part of the annual Performance Development Review (PDR) and monthly supervisions. This requirement also applies to Council members responsible for scrutiny.

1.7. Treasury Management Advisors

1.7.1. The Council uses Link Asset Services as its external treasury management advisors who have a contract until September 2021.

1.7.2. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon external advisors.

1.7.3. The Council also recognises that there is value in employing external providers of treasury management services in order to access 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, documented and subjected to regular review.

1.7.4. The scope of investments within the Council's operations may in the near future include both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers. The Council uses NPS Group in relation to this activity, and other specialist advisers will be engaged depending upon requirements.

1.8. Treasury Management Policy Statement

1.8.1. The Treasury Management Policy Statement sets out the policies and objectives of Treasury Management Activities which is revised annually. It reflects December 2017 guidance.

1.8.2. 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 organisation, and any financial instruments entered into to manage these risks.

1.8.3. 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.

1.8.4. Investments using the above definition cover all financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework.

1.8.5. The Council's high level policies for borrowing and investments are set out below.

- to invest available cash balances with a number of high quality investment counterparties over a spread of maturity dates in accordance with the Council's lending list;
- to reduce the revenue cost of the Council's debt in the medium term by obtaining financing at the cheapest rate possible;
- to seek to reschedule or repay debt at the optimum time**.**

1.9. The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer must do the following:

- recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submit regular treasury management policy reports;
- submit budgets and budget variations;
- receive and reviewing management information reports;
- review the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority. This is done by regular training presentations to the Audit Committee;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above. This is done by regular attendance at course and conferences and joint working with Link Asset Services;
- creation of Treasury Management Practices (TMPs) which specifically deal with how non treasury investments will be carried out and managed, to include the following -
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken to the various committees;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

2. Capital Prudential Indicators 2020/21 to 2022/23

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

2.2. **Indicator 1** – Capital Expenditure – this Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following two financial years including how it will be funded either from grants, contributions, or capital receipts with the remaining being the 'net financing requirement'

Capital Expenditure	**2018/19 Actual £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**
Customer & Digital Services	1.5	4.5	3.9	5.0	3.5
People & Communities	28.5	25.1	24.6	38.6	22.3
Place & Economy	29.6	23.0	28.6	21.8	27.8
Resources	34.7	22.4	29.9	6.6	1.7
IFRS16 Transition adjustment	-	-	22.0	-	-
Invest to Save / Commercial Activities	1.6	18.5	40.0	24.0	10.0
Total	**95.9**	**93.5**	**149.0**	**96.0**	**65.3**
Financed by:					
Capital receipts (repayment of capital loans)	8.2	23.0	-	-	15.0
Capital grants contributions	38.9	35.7	24.4	47.0	33.2
Net financing requirement	**48.8**	**34.8**	**124.6**	**49.0**	**17.1**
Total	**95.9**	**93.5**	**149.0**	**96.0**	**65.3**

2.3. The capital receipts (repayment of capital loans) shown in the table above relate to:

- 2018/19 - Local Authority Mortgage Scheme (LAMS) capital loan - £1m and Axiom Housing Association Loan Repayment - £7.2m
- 2019/20 - ECS Peterborough 1LLP – capital loan - £23.0m
- 2022/23 - Hotel – capital loan - £15m

2.4. The Invest to Save / Commercial Activities schemes are included in total capital expenditure and the funding resources to be used. However, these schemes will either generate income or generate savings on revenue budgets elsewhere in the Council's services. Therefore the borrowing costs associated with these projects will have a minimal impact on the Council's MTFS position.

2.5. **Indicator 2 –** Capital Financing Requirement (CFR) – the CFR is the total historical capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.

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

2.7. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet. Whilst this increases 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 separately borrow for these schemes. The following table shows the CFR estimates for the next three financial years for Council approval:

Capital Financing Requirement	**2018/19 Actual £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**
CFR brought forward	540.1	577.4	595.7	701.5	729.5
Borrowing / Repayment	35.7	(0.2)	43.8	4.0	(15.4)
Invest to Save / Commercial Activities	1.6	18.5	40.0	24.0	10.0
IFRS16 Transition adjustment	-	-	22.0	-	-
CFR carried forward	577.4	595.7	701.5	729.5	724.1
Movement in CFR	**37.3**	**18.3**	**105.8**	**28.0**	**(5.4)**
Net financing requirement	48.7	34.8	124.6	49.0	17.1
Less MRP & other financing	(11.4)	(16.5)	(18.8)	(21.0)	(22.5)
Movement in CFR	**37.3**	**18.3**	**105.8**	**28.0**	**(5.4)**

2.8. **Indicator 3 –** Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in financing capital expenditure i.e. the net interest cost and the provision to repay debt.

Ratio of Gross Financing Costs to Net Revenue Budget	**2018/19 Actual**	**2019/20 Est**	**2020/21 Est**	**2021/22 Est**	**2022/23 Est**
Total Ratio	10.7%	11.4%	20.5%	23.2%	24.3%
Ratio with gross MRP charge (capital receipts to redeem debt not factored into financing)	18.4%	20.8%	20.5%	23.2%	24.3%

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3. Minimum Revenue Provision (MRP) Policy Statement

3.1. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, equipment, etc. Such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual MRP.

3.2. MHCLG Regulations require full Council to approve an MRP statement in advance of each year. A variety of options are provided to Councils to calculate this revenue charge and the Council must satisfy itself that the provision is prudent.

3.3. A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Previous accumulated overpayments were fully utilised as at 31 March 2019.

3.4. Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred. The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but statutory guidance does not address how such a reduction should be calculated. When the Council uses its capital receipts to redeem borrowing, the value of the MRP which would otherwise have been set aside for that year will be reduced by the amounts which have instead been repaid from capital receipts. This results in a prudent level of MRP, as there will be no reduction in the overall level of funding set aside to redeem debt.

3.5. During 2019/20 detailed discussions were held with MHCLG with regards to the council's application of capital receipts to redeem debt. Following these discussions there remains a possibility that the government could amend legislation to provide additional clarity with regards to the use of capital receipts to redeem debt. At the time of drafting there has been no additional clarity provided and therefore the council has not amended its approach and continues to use the receipt from asset sales to redeem its debt. Once clarity is provided the Council will review its application of receipts and amend its policy accordingly if it is deemed necessary with relevant reports presented to the member meetings.

3.6. Repayments for the PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.

3.7. The following table summarising the MRP Policy.

Capital Expenditure Incurred	**MRP Policy Update 2019/20 & 2020/21**
Expenditure funded by unsupported borrowing reflected within the debt liability after the 31 March 2010	Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project. If capital receipts have been used to repay borrowing for the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by the amounts which have instead been repaid from capital receipts. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Chief Finance Officer (S151), taking into account forecasts for future expenditure and the generation of further receipts. The same process will apply for S106, POIS and CIL receipts.
Private Finance Initiative (PFI) - Finance Lease	Use the annuity method of calculation over the remaining asset life
Other Finance Leases	The MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off- balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.
Secured Loans to third parties repaid in bullet form.	No MRP will be charged each year as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount the Council will recognise the associated impairment and will charge MRP for the outstanding loan amount over the next MTFS periods.

4. Current Treasury Position

4.1. The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. 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.

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4.2. The overall treasury management portfolio as at 31 March 2019 and for the position as at 13 January 2020 are shown in the following table for both borrowing and investment.

Treasury Portfolio	Actual 31.03.19 £'000	Actual 31.03.19 %	Current 13.01.20 £'000	Current 13.01.20 %
Treasury Investments				
Banks	9,000	60	10,100	95
Local Authorities	-	-	-	-
DMADF (HM Treasury)	-	-	-	-
Money Market Funds	6,000	40	500	5
Total Treasury Investments	**15,000**	**100**	**10,600**	**100**
Treasury External Borrowing				
Local Authorities	(70,500)	17	(67,500)	15
PWLB	(369,587)	81	(369,587)	81
LOBOs	(17,500)	4	(17,500)	4
Total External Borrowing	**(457,587)**	**100**	**(454,587)**	**100**
Net Treasury Investment / (Borrowing)	**(442,587)**		**(443,987)**	

4.3. **Indicator 4** - The Council's treasury position at 31 March 2020, with estimates for future years, is summarised below. The table below shows the actual external borrowing (Gross Debt) against the CFR

Gross debt & capital financing requirement	2018/19 Actual £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m
External Borrowing					
Market Borrowing	419.6	457.6	475.9	559.6	587.6
Repayment of borrowing	(22.0)	(48.0)	(73.5)	(19.5)	(23.1)
Expected change in borrowing	60.0	66.3	157.3	47.5	17.7
Other long-term liabilities	49.6	49.2	70.5	69.8	69.1
Gross Debt at 31 March	**507.2**	**525.1**	**630.2**	**657.4**	**651.3**
CFR	577.4	595.7	701.5	729.5	724.1
% of Gross Debt to CFR	**87.8%**	**88.1%**	**93.0%**	**90.1%**	**89.9%**

4.4. Based on the prudential indicators there are a number of key measures to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short-term, exceed the total of the CFR in the year plus the estimates of any additional CFR for 2020/21 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.

4.5. The Chief Finance Officer (S151) 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 Medium Term Financial Strategy (MTFS).

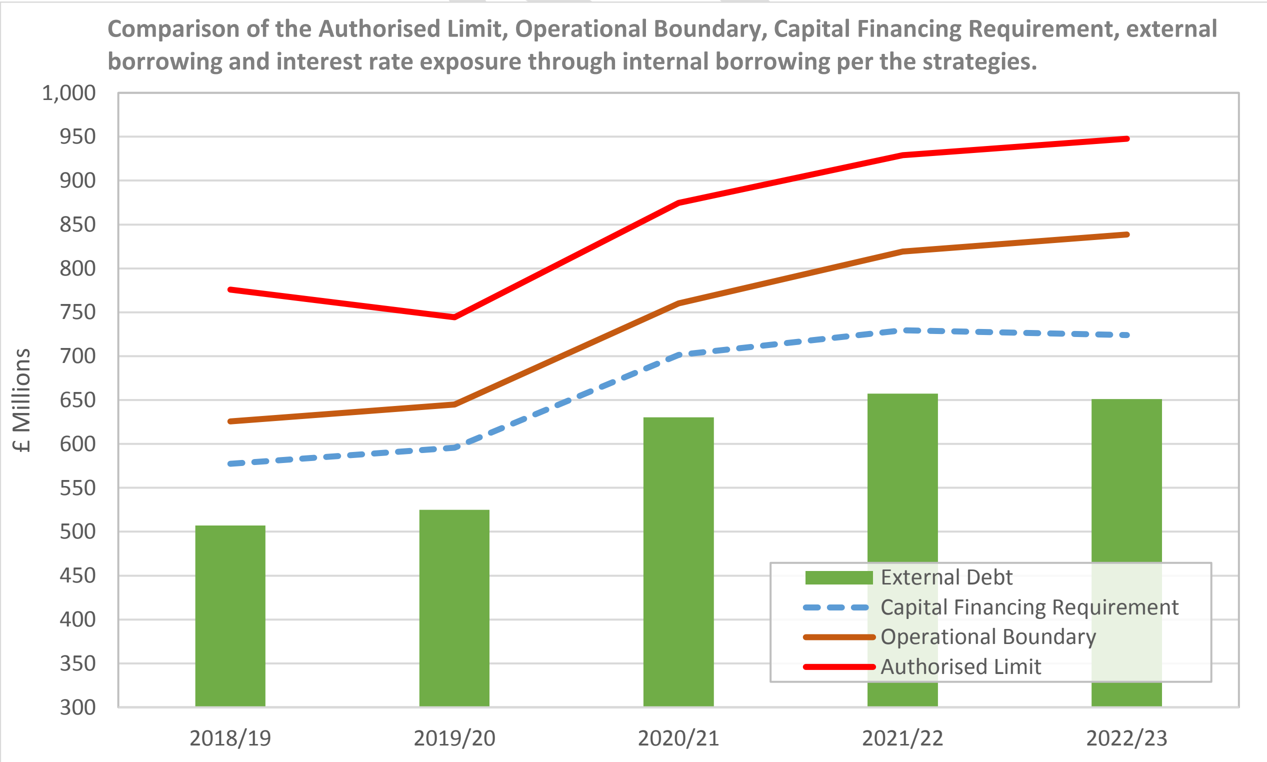
4.6. **Indicator 5** - The Operational Boundary - external borrowing is not normally expected to exceed this limit. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded. The Operational Boundary is set out below:

Operational Boundary	**2018/19 Actual £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**
Borrowing	457.6	595.9	689.5	749.5	769.5
Other long-term liabilities	49.6	49.2	70.5	69.8	69.1
Total	**507.2**	**645.1**	**760.0**	**819.3**	**838.6**

4.7. **Indicator 6** - The Authorised Limit for external borrowing - this represents a limit beyond which external borrowing is prohibited. This limit is set and revised by full Council.

Authorised Limit	**2018/19 Actual £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**
Borrowing	457.6	695.1	804.0	859.3	838.6
Other long-term liabilities	49.6	49.2	70.5	69.8	69.1
Total	**507.2**	**744.3**	**874.5**	**929.1**	**947.7**

4.8. This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. Government under sections 4(1) and 4(2) may limit either the total of all Council borrowing, or those of a specific Council, although this power has not yet been exercised.



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5. Prospects for Interest Rates

5.1. The Council utilises the treasury services of Link Asset Services and part of their service is to assist the Council to formulate a view on interest rates to assist with borrowing and investment decisions.

5.2. The Link Asset Services forecast for bank base rate (as at November 2019) and PWLB new borrowing as at November 2019 is as follows (note that the PWLB Borrowing Rate includes the Certainty Rate adjustment):

Interest Rate (All rates shown as %)	Bank Rate View	5yr PWLB Rate	10yr PWLB Rate	25yr PWLB Rate	50yr PWLB Rate	Budget Assumption
Dec 19	0.75	2.30	2.60	3.20	3.10	1.00*
Mar 20	0.75	2.40	2.70	3.30	3.20	
Jun 20	0.75	2.40	2.70	3.40	3.30	1.50*
Sep 20	0.75	2.50	2.70	3.40	3.30	
Dec 20	0.75	2.50	2.80	3.50	3.40	
Mar 21	1.00	2.60	2.90	3.60	3.50	
Jun 21	1.00	2.70	3.00	3.70	3.60	3.68
Sep 21	1.00	2.80	3.10	3.70	3.60	
Dec 21	1.00	2.90	3.20	3.80	3.70	
Mar 22	1.00	2.90	3.20	3.90	3.80	
Jun 22	1.25	3.00	3.30	4.00	3.90	3.95
Sep 22	1.25	3.10	3.30	4.00	3.90	
Dec 22	1.25	3.20	3.40	4.10	4.00	
Mar 23	1.25	3.20	3.50	4.10	4.00	

** Based on inter-local authority borrowing rates, per point 5.4.*

5.3. The Council successfully applied to be one of the principal local authorities that would qualify for the Certainty Rate, during the period 1 November 2019 to 31 October 2020. This results in the Council being able to benefit from reduced interest rates on PWLB loans by 20 basis points (0.20%). The Council is assuming that there will be a similar scheme in place when this scheme expires. The Council will submit a new application to ensure it qualifies.

5.4. The MTFS assumes that 2020/21 borrowing is taken from the local authority market at an average rate of 1.5% for loan lengths between 1 to 3 years.

5.5. From 2021/22 the current assumption is to revert to borrowing at the PWLB 50 year rate with an average taken across the quarters for that year but then adjusted with a range of borrowing periods and associated interest rates. The Chief Finance Officer believes this prudent until the future borrowing strategy is fully developed once the market response to the PWLB rate rise has crystailsed.

5.6. The interest rate forecasts provided by Link Asset Services in paragraph 5.2 are predicated on an assumption of an agreement being reached on Brexit, including terms of trade, between the UK and the EU. On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

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

5.7. The balance of risks to the UK:

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

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

5.9. Link Asset Services interest rate forecasts, detailed above, are based on their views of the future economic climate, and below are some extracts taken from their economic forecasts:

- Brexit - now that the Conservative Government has gained a large overall majority in the general election on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.
- GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.
- While the Bank of England went through the routine of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a

deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

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

- If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

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

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

6. Investment and Borrowing Rates

6.1. Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

6.2. Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is unlikely that this authority will do any further longer term borrowing for the next three years, or until such time as the extra 100 bps margin is removed

6.3. Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Chief Finance Officer (S151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.4. There will remain a cost of carry to any new long-term borrowing that temporarily increases cash balances. This revenue cost is the difference between borrowing costs and investment returns.

7. Borrowing Strategy

7.1. The Council is currently maintaining an under-borrowed position, where the CFR balance is greater than gross debt, see Indicator 2, and chart on page **Error! Bookmark not defined.**. This is in line with the agreed strategy that the Council's cash balances be used to fund capital expenditure before additional borrowing is undertaken. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

7.2. The capital programme consists of three main types of capital projects:

- Invest to Save – Self Funding Schemes
- Specific Schemes – eg School Extensions
- Rolling Capital Projects eg Enhancing current assets

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

7.4. The MTFS is based on the following borrowing strategy for the next three years. The borrowing strategy is under constant review throughout the year monitoring changes in interest rates and borrowing opportunities. The proposed strategy for 2020/21 financial year is:

a) To consider the rescheduling (early redemption and replacement) of loans to maximise interest rate savings and possible redemption discounts.

b) Significant risk of a sharp fall in long and short term rates may arise. This might be due to a marked increase of risks around relapse into recession or of risks of deflation. In this case long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.

c) Significant risk of a much sharper rise in long and short-term rates than currently forecast may arise. This may arise due to a greater than expected increase in world economic activity or a sudden increase in inflation risks. In this case the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

d) Following the 100 bps increase in PWLB rates, loans will primarily be arranged from the other Local Authorities as the market responds to this change.

e) To maintain an appropriate balance between PWLB, Local Authority and other market debt in the debt portfolio and a balance in the maturity profile of debt.

f) To give full consideration to other debt instruments e.g. Local Authority Bonds as an alternative to PWLB borrowing. Due regard will be given to money laundering regulations. The Council is monitoring the development of the scheme and may participate if this proves beneficial.

8. New Borrowing Approaches to Be Considered

8.1. To realign the loan maturity profile with the rate the existing CFR debt will be financed by taking out shorter term Local Authority Loans. In the current climate this will reduce interest costs in the short term.

8.2. Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates) and the Municipal Bonds Agency (no issuance at present but there is potential). The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving.

8.3. Maturing long-term debt is replaced by new borrowing. To achieve long-term financial sustainability the Council should aim to reduce its overall debt and the associated financing costs including interest. A high value of outstanding debt represents a financial risk because of potential interest rate changes.

8.4. The use of Capital receipts or S106 receipts to make MRP is a one-off revenue saving. Using these funds in this way means they are not available to fund Capital assets and reduce the overall borrowing requirement.

8.5. Interest rates are liable to change. In the event of significant changes the Council seeks to avoid an increased revenue cost on its capital financing charges.

8.6. The Treasury Management Strategy uses the planned Capital Programme to calculate the borrowing requirement. Typically the Council does not spend at the planned level in any financial year.

8.7. Link Asset Services have a product that will allow the Council to borrow from the market at current interest rates with a small premium but not draw down the funds until they are required - ‘forward borrow’.

9. Treasury Debt Prudential Indicators

9.1. There are three debt treasury indicators which ensure debt structure remains within appropriate limits. This manages risk and reduces the impact of any adverse movement in interest rates.

9.2. **Indicator 7 –** Upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.

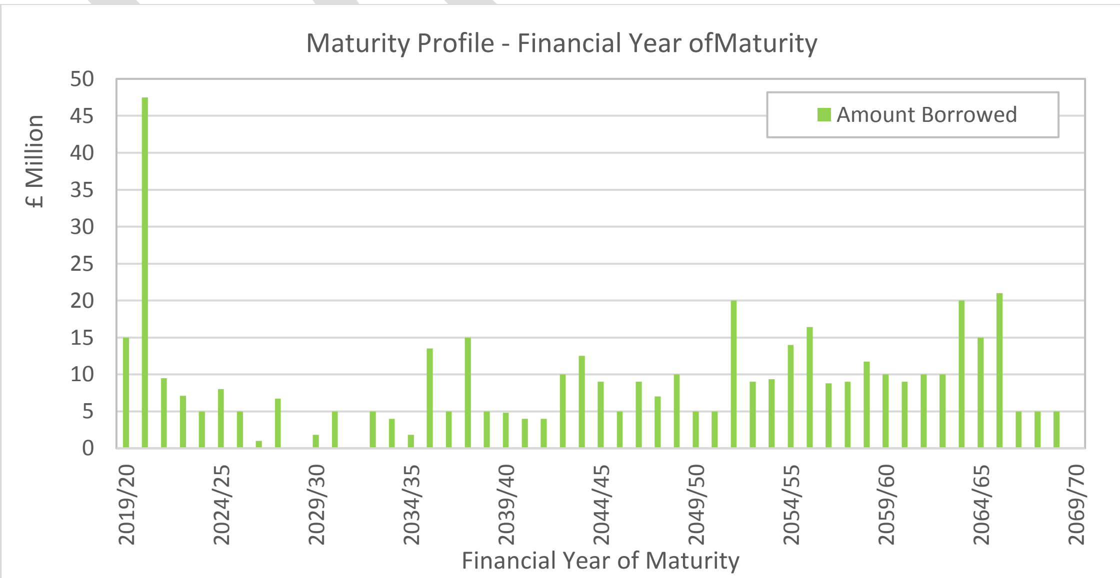
9.3. **Indicator 8** - Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

Interest Rate Exposure (Upper Limits)	**2018/19 Actual £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**
(7) Limits on fixed interest rate net debt	457.6	695.1	804.0	859.3	878.6
% of fixed interest rate exposure	100%	100%	100%	100%	100%
(8) Limits on variable interest rate on net debt	-	173.8	201.0	214.8	219.7
% of variable interest rate exposure	0%	25%	25%	25%	25%

9.4. **Indicator 9** - Maturity structure of borrowing. These gross limits are set to reduce the Council's immediate exposure to large fixed rate sums falling due for refinancing.

Maturity Structure of borrowing	**Upper Limit**	**As at 13 January 2020**
Under 12 months	40%	14%
12 months to 2 years	40%	2%
2 years to 5 years	80%	3%
5 years to 10 years	80%	5%
10 years and above	100%	76%

9.5. The following chart shows the Council's debt maturity profile by financial year as at 13 January 2020:



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10. Policy on Borrowing in Advance of Need (Future Capital Expenditure)

10.1. The Council will not borrow more than it requires, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. However, at any time the Council may obtain a loan or other financing at what are considered advantageous terms in anticipation of future capital expenditure. The money borrowed will be invested temporarily. The Council may also borrow in the day-to-day management of its cash flow operations or as an alternative to redeeming higher yielding investments.

10.2. The Council will ensure there is a clear link between the capital programme across the future years and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of capital expenditure.

10.3. The Council will ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and factored into the MTFS.

10.4. Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

11. Debt Rescheduling on Existing Debt Portfolio

11.1. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

12. Investment Strategy Principles

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

12.2. 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

12.3. The 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).

13. Investment Counterparty Selection Criteria and Financial Investment Strategy

13.1. As the Council has run down its cash balances, surplus cash will be generated from cash flow movements e.g. a grant received in advance of spend or from borrowing in advance of need. Therefore investment activity will be kept to a minimum.

13.2. However, where it is necessary for investments to be undertaken in order to manage the Council's cash flows, the Council's primary principle is for the security of its investments. 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.
- 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.

13.3. The Chief Finance Officer (S151) will maintain a counterparty list in compliance with the set out below. Any revision of the criteria will be submitted to Council for approval as necessary.

13.4. The Councils minimum criteria will apply to the lowest rating for any institution according to the type of investment account being used. For instance, the credit rating criteria for the use of the Council's call accounts and Money Market Funds, which are used for short-term investments only, will use the Short-Term credit ratings in the table shown within 13.5. If an institution is rated by the three credit agencies and two meet the Council's criteria and the other one does not, the institution will fall outside the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

13.5. In order to minimise the risk to investing, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The Council uses the creditworthiness service provided by Link Asset Services which uses ratings from all three rating agencies, Fitch, Moody's and Standard and Poor's, as well as Credit Default Swap (CDS) spreads. Link Asset Services monitors ratings on a real time basis and notifies clients immediately on any rating changes or possible downgrades. Minimum Credit Ratings Criteria – further explanations are given in Annex 1.

Minimum Credit Ratings for Group 2 Banks		
Agency	**Short-Term**	**Long-Term**
Fitch	F1	A
Moody's	P-1	Aa
Standard & Poor's	A-1	A

13.6. All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three rating agencies by Link Asset Services

13.7. The Council does not place sole reliance on the use of Link Asset Service's advice as the Council uses internal expertise and knowledge to make decisions. Market data, market information, information on government support for banks and the credit ratings of that government support are also considered when making treasury decisions.

13.8. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-Specified investments), and is shown in the order of use by the Council, all of the following are subject to continuous credit rating reviews:

- Money Market Funds
- UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
- Bank of Scotland call account (part of the Lloyds Banking Group).
- UK Local Authorities.

13.9. The Council also uses Barclays Bank, the Council's own banker. If Barclays fall below the criterion in 13.5 then the following strategy will be followed:

- with regard to the three credit rating agencies, if one reduces its rating but the other two remain the same or improve, the Council will reduce the maximum of £15m in the call account to £5m and a keep a low balance in the current account.
- if two or more credit rating agencies reduce their ratings below the criteria in 13.5 the Council will still require to use the Barclays accounts for transactional purposes, so maximum balance of £500k will be left overnight in the current account to prevent the account becoming overdrawn and incurring overdraft fees.
- Seek advice from Link Asset Services

13.10. The above action applies to Barclays only due to its status as the Council's banking provider. Use of other bank accounts would be subject to criteria set out in the point 13.5. The above approach to Barclay's Bank has been developed following consideration that the Council needs banking facilities to process daily banking transactions, and such activity presents a lower risk profile compared to investment activity the significant impact, resource requirement, and risk exposure of changing bank provider the possible state and stability of the banking sector and viable alternative suppliers.

- Banks Group 1 - Part nationalised UK banks - Lloyds Banking Group Plc. (Bank of Scotland and Lloyds) and Royal Bank of Scotland Group Plc. (National Westminster Bank, The Royal Bank of Scotland and Ulster Bank Ltd). These banks can be included if they continue to be part nationalised and / or they meet the ratings in 14.6.
- Banks Group 2 – good credit quality - the Council will only use banks which are UK banks and have the minimum credit ratings criteria relating to the type of investment being undertaken.
- Building Societies – if they meet the ratings above
- Money Market Funds - AAA rated by Fitch
- Bill Payment Service – The Council currently has a contract with Santander UK who collect payments of Council Tax through the post office via various methods of payment such as Paypoint. The funds that are collected are transferred to the Council daily thus minimising the risk of Santander UK holding the Council's cash. This arrangement for the bill payment service falls outside the investment criteria for investments therefore any downgrade of Santander UK will not affect this service. However this arrangement will be closely monitored to ensure funds continue to be transferred daily.

13.11. The Council's lending list will comprise of the institutions that meet the investment criteria above. Each counterparty on the list is assigned a counterparty limit as per the table in Annex 1. Counterparties that no longer meet the investment criteria due to a credit rating downgrade will be removed from the list and any changes will be approved by Council. Approval will also be required if any new counterparties are added to the lending list.

13.12. Link Asset Services approach to assessing creditworthiness of institutions is by combining credit ratings, credit watches and credit outlooks to produce a colour coding system. The Council will use counterparties within the following maximum maturity periods, in order to mitigate the risk of investing in these institutions:

Link Asset Services Banding	Description
Blue	1 year (only applies to nationalised / semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	The Council will not invest with these institutions

13.13. The proposed criteria for Specified and Non-Specified investments are shown in Annex 1 for approval.

13.14. **Indicator 11** - Upper limit for total principal sums invested for over 365 days excluding loans. This limit is set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment, and is based on the availability of funds after each year-end and up-dates are reported to the Audit Committee at midyear.

Overall limit for sums invested over 365 days	2018/19 Actual £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m
Principal sums invested 365 days	0.0	0.0	10.0	10.0	10.0

14. Loans Made to Third Parties

14.1. The Council makes secured loans to third parties to advance the Council's strategic interests.

14.2. Loans are only made after the Council's formal decision making process has been followed. This includes formal approval by the Chief Finance Officer (S151).

14.3. As part of the formal decision to make the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment.

14.4. Non treasury investments are disclosed in the Capital Strategy.

14.5. A facility for an unsecured loan to Peterborough Limited, a Council wholly own company, of £1.75m was agreed at the end of the 2018/19 financial year for a period of five years. As at 13 January 2020, £1.39m of this loan had been draw down, £0.15m of which was a capital loan.

14.6. Further unsecured loans to Council owned Local Authority Trading Companies (LATCo's) only may require to be issued during the financial year and will only be issued in accordance with the governance set out in point 14.2 above.

15. Non-financial Investments

15.1. The Council does currently not hold any non-financial investments whose purpose is to generate revenue to support core services. For further information see the Acquisitions Policy.

16. Treasury Management Scheme of Delegation

16.1. The following is a list of the main tasks involved in treasury management and who in the Council is responsible for them:

Full Council / Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of the Annual Strategy.

Audit Committee / S151 Officer (Chief Finance Officer (S151))

- Approval of / amendments to the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

Section 151 Officer (Chief Finance Officer (S151)) / Head of Corporate Finance

- Reviewing the Treasury Management Policy and procedures and making recommendations to the responsible body.
- Recommending clauses, treasury management policy/practices and making recommendations to the responsible body.
- Submitting regular treasury management reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service advisors

17. Housing Revenue Account (HRA)

17.1. The council wrote to the Regulator of Social Housing on 9th October 2019 to inform them of the possible intention to reopen a HRA and engage in the supply of affordable housing. Discussions have begun with Homes England to determine what funding opportunities are available. The outline business case will need to be completed, which is dependent on funding opportunities and also the Councils final strategic direction in this area. As detailed plans for it's mobilisation will be dependent on this final strategic decision, this change has not been reflected in the current Treasury Management Strategy.

17.2. If it is agreed to move forward with an HRA a revised Treasury Management Strategy will be produced which will include separately identified HRA capital expenditure and associated accumulated debt and further indicators relating to the affordability of this expenditure.

Specified Investment Credit Criteria and Limits
Specified Investment:

- Offer high perceived security such as placements with Central Government Agencies, Local Authorities or with organisations that have strong credit ratings
- They offer high liquidity i.e. short-term or easy access to funds
- Are denominated in £ sterling
- Have maturity dates of no more than 1 year
- For an institution scheme to qualify as a 'Specified Investment' it must have a minimum rating (see Section 14.6)

Investment Type	Maximum Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Deposit accounts with regulated UK Banks and UK Building Societies	Repayable on call, without notice	Minimum of two short-term rating criteria	100	15
Money Market Funds repayable on call, no notice	Call	Minimum rating – AAA (Fitch)	50	10
Debt Management Agency Deposit Facility	6 months currently	UK Government backed	N/A	75
Term Deposits UK Government & Local Authorities	Maturities of up to 1 year	Sovereign risk high security not credit rated	100	20
Term Deposits & Certificates of Deposit Banks Group 1	Maturities of up to 1 year	Minimum of three short-term rating criteria	100	75
UK Government & Local Authority Stock Issues	Maturities of up to 1 year	Sovereign risk high security not credit rated	100	20
Term deposits & Certificates of Deposit Banks Group 2	6 months	Minimum of three short-term rating criteria	50	10
Forward Term Deposits with Regulated UK Banks	Maturities of up to 1 year	Minimum of three short-term rating criteria	100	15

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Non-specified Investment Credit Criteria and Limits

- With the same institutions classified as “specified” investments but have maturity dates in excess of one year – once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity -, or
- Are offered by organisations that are not credit rated or the credit rating does not meet the criteria set out above
- In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the ‘Non-Specified’ Investments category at this time
- If the Council decide to use these investments then Indicator 11 will need to be revised

Investment Type	Maximum Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Term deposits with UK Government & Local Authorities	1-5 years	Sovereign risk high security not credit rated	20	20
Term deposits & Certificates of Deposit with Banks Group 1	1-5 years (tradable)	F1(Fitch – short-term) AAA (long-term)	10	10
UK Government & Local Authority Stock Issues	1-10 years (tradable)	Sovereign risk high security not credit rated	10	10
Term deposits & Certificates of Deposit with Banks Group 2	1-5 years (tradable)	F1 (Fitch-short-term) A (long--term)	20	10
Deposit accounts with regulated UK building societies	1 – 5 years	F1 (Fitch short-term) A (long-term)	5	5
Term deposits UK building societies no formal credit rating	Up to 1 year	Financial position assessed by Chief Finance Officer (S151).	5	5
Bonds issued by financial institution guaranteed by UK Govt	1-10 years (tradable)	UK Govt backed AAA (Fitch, S&P etc.)	5	5

In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the ‘Non-Specified’ Investments category at this time.

Explanation of Credit Ratings

Agency	Short-Term	Long-Term
Fitch	F1-Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; a "+" may be added to denote any exceptionally strong credit feature.	A-High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
Moody's	P-1-superior ability to repay short-term debt obligations	Aa-high quality and are subject to very low credit risk
Standard & Poor's	A-1-The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.	A-more susceptible to the adverse effects of changes in circumstances and economic conditions. However the obligor's capacity to meet its financial commitment on the obligation is still strong.