Agenda item: ☐

Decision maker:	Cabinet City Council
Subject:	Treasury Management Policy for 2015/16
Date of decision:	5 March 2015 (Cabinet) 13 March 2015 (Governance and Audit and Standards Committee – information only) 17 March 2015 (City Council)
Report by:	Chris Ward, Head of Financial Services and Section 151 Officer
Wards affected:	All

Key decision: Yes
Budget & policy framework decision: Yes

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1. Purpose of report

The purpose of this report is to obtain the Council's approval for 2015/16 to the Treasury Management Policy Statement (attached) which includes:

- Annual Minimum Revenue Provision for Debt Repayment Statement
- Annual Investment Strategy

2. Recommendations

2.1a the prudential indicators in Appendix A be approved;

2.1b the Head of Financial Services and Section 151 Officer and officers nominated by him be given authority to lend surplus funds as necessary in accordance with the Treasury Management Policy;

2.1c the Head of Financial Services and Section 151 Officer is given delegated authority to either replace maturing debt or repay it depending on the outlook for long term interest rates that exists at the time

2.1d the upper limits for fixed interest exposures are set as follows:

2014/15	**£272m**
2015/16	**£304m**
2016/17	**£377m**
2017/18	**£383m**

2.1e the upper limits for variable interest exposure are set as follows:

2014/15	**(£246m) – Investments up to £246m**
2015/16	**(£278m) – Investments up to £278m**
2016/17	**(£332m) – Investments up to £332m**
2017/18	**(£331m) – Investments up to £331m**

2.1f the following limits be placed on principal sums invested for periods longer than 364 days:

31/3/2015	**£265m**
31/3/2016	**£243m**
31/3/2017	**£231m**
31/3/2018	**£228m**

2.1g **the City Council set upper and lower limits for the maturity structure of its borrowings as follows:**

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper Limit	Lower Limit
Under 12 Months	10%	0%
12 months & within 24 months	10%	0%
24 months & within 5 years	20%	0%
5 years & within 10 years	20%	0%
10 years & within 20 years	40%	0%
20 years & within 30 years	40%	0%
30 years & within 40 years	40%	0%
40 years & within 50 years	50%	0%

2.1h **authority to reschedule debt during the year is delegated to the Head of Financial Services and Section 151 Officer subject to conditions being beneficial to the City Council;**

2.1i **no restriction be placed on the amount that can be borrowed in sterling from an individual lender provided it is from a reputable source and within the authorised limit for external debt approved by the City Council;**

2.1j **the principals upon which the apportionment of borrowing costs to the Housing Revenue Account (HRA) should be based are as follows:**

- **The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;**
- **The loans portfolio is managed in the best interests of the whole authority;**
- **The costs and benefits of over and under borrowing above or below the capital financing requirement (CFR) are equitably shared between the General Fund and the HRA;**

2.1k the regulatory method of calculating Minimum Revenue Provision (MRP) be applied to pre 1 April 2008 debt and new government supported debt but excluding finance leases and service concessions (including Private Finance Initiative schemes);

2.1l the asset life (equal instalment) method of calculating MRP is applied to post 1 April 2008 self-financed borrowing but excluding:

- Finance leases
- Service concessions (including Private Finance Initiative schemes)
- Borrowing to fund long term debtors (including finance leases);

2.1m MRP on finance leases and service concessions including Private Finance Initiative (PFI) arrangements equals the charge that goes to write down the balance sheet liability;

2.1n the principal element of the income receivable from long term debtors be set aside to repay debt if the asset was financed through self-financed borrowing in order that the repayment of the debt is financed from the capital receipt;

2.1o the principal element of the rent receivable from finance leases be set aside to repay debt if the asset was financed through self-financed borrowing in order that the repayment of the debt is financed from the capital receipt;

2.1p the Housing Revenue Account (HRA) provide for the repayment of the Self Financing Payment over 30 years;

2.1q that specified investments should only be placed with institutions that have a long term credit rating of at least A- from at least two credit rating agencies except registered social landlords for which a single credit rating will be required;

2.1r investments should only be placed with institutions based in either the United Kingdom or sovereign states with a AA+ credit rating;

2.1s the Council's investments are limited to senior debt;

2.1t the bodies meeting the criteria of categories 1 to 8 in paragraph 16.15 are approved as repositories of specified investments of the City Council's surplus funds;

2.1u **that investments in banks, building societies and registered social landlords (RSLs) with a duration exceeding 2 years are secured**

2.1v **credit ratings be reviewed monthly and that any institution whose credit rating falls below the minimum level stated in paragraph 16.15 of the Treasury Management Policy be removed from the list of specified investments;**

2.1w **institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category;**

2.1x **non-specified investments in aggregate are limited to the following:**

	£
Building societies with a BBB credit rating and unrated building societies	81m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company's banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	243m
Investments denominated in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Total	**331m**

2.1y the total amount that can be directly invested with any organisation at any time should be limited as follows (see paragraph 18.1):

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 5 years
Category 2	£30m for up to 5 years
Category 3	£30m for up to 10 years
Category 4	£26m for up to 5 years
Category 5	£20m for up to 10 years
Category 6	£20m for up to 5 years
Category 7	£13m for up to 5 years
Category 8	£10m for up to 5 years
Category 9	£10m for up to 2 years
Category 10	£6m for up to 2 years
Category 11	£6m for up to 364 days
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 364 days

2.1z the Head of Financial Services and Section 151 Officer in consultation with the Leader of the Council is given delegated authority to revise the total amount that can be directly invested with any organisation at any time

2.1aathat the following investment limits be applied to sectors:

Money market funds	**£80m**
Building societies	**£107m**
Registered social landlords	**£80m**

2.1ab that the following investment limits be applied to regions outside the United Kingdom:

Asia & Australia	**£40m**
Americas	**£40m**
Continental Europe	**£30m**

2.2 the Head of Financial Services and Section 151 Officer submits the following:

(i) an annual report on the Treasury Management outturn to the Cabinet by 30 September of the succeeding financial year;

(ii) A Mid Year Review Report to the Cabinet and Council;

(iii) the Annual Strategy Report to the Cabinet in March 2016;

(iii) quarterly Treasury Management monitoring reports to the Governance and Audit and Standards Committee.

3. Background

The City Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice. The Code of Practice requires the City Council to approve a Treasury Management Strategy before the start of the financial year.

In addition the Government has issued statutory guidance that requires the Council to approve an Annual Minimum Revenue Provision for Debt Repayment Statement and an Annual Investment Strategy before the start of the financial year.

The Treasury Management Strategy, the Annual Minimum Revenue Provision for Debt Repayment Statement and the Annual Investment Strategy are all contained within the attached Treasury Management Policy Statement.

4. Reasons for recommendations

The recommendations within the attached Treasury Management Policy Statement reflect the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice and statutory guidance issued by the Government. These are designed to:

- Enable the Council to borrow funds as part of managing its cash flow or to fund capital expenditure in a way that minimises risk and costs
- Provide for the repayment of supported borrowing in a way matches Government support for such borrowing
- Provide for the repayment of unsupported borrowing over the life of the assets financed
- Ensure that the Council's investments are secure
- Ensure that the Council maintains sufficient liquidity
- Maximise the yield on investments in a way that is commensurate with maintaining the security and liquidity of the investment portfolio

5. Equality impact assessment (EIA)

The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

6. Legal Implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

7. Head of Finance's comments

All financial considerations are contained within the body of the report and the attached appendices

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Signed by Head of Financial Services & Section 151 Officer

Appendix: Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy 2015/16

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	**Location**
1 Treasury Management Files	Financial Services
2	

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 17 March 2015.

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Signed by the Leader of the Council

TREASURY MANAGEMENT POLICY STATEMENT INCLUDING:

- **TREASURY MANAGEMENT STRATEGY**
- **ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT**
- **ANNUAL INVESTMENT STRATEGY 2015/16**

Portsmouth City Council
Head of Financial Services and Section 151 Officer
(Written by Michael Lloyd, Financial Services)

TREASURY MANAGEMENT POLICY STATEMENT 2014/15

CONTENTS

1 BACKGROUND

1.1 This Council defines its Treasury Management activities as "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks."

1.2 This 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.

1.3 This 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 management techniques, within the context of effective risk management.

1.4 The City Council's treasury management activities are governed by various codes of practice and guidance that the Council must have regard to under Local Government Act 2003. The main codes and guidance that the Council must have regard to are:

- Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA) which sets out the key principles and practices to be followed.

- The Prudential Code for Capital Finance in Local Authorities published by CIPFA which governs borrowing by local authorities.

- The Guidance on Local Government Investments published by the Department for Communities and Local Government which governs local authorities investment activities and stipulates that investment priorities should be security (protecting the capital sum from loss) and liquidity (keeping money readily available for expenditure when needed), rather than yield.

2 BORROWING LIMITS AND THE PRUDENTIAL CODE

2.1 The Prudential Code requires the City Council to approve an authorised limit and an operational boundary for external debt together with other prudential indicators designed to ensure that the capital investment plans are affordable, prudent and sustainable. These were approved by the City Council on 10th February 2015.

i) Authorised Limit

The authorised limit for external debt is the maximum amount of debt which the authority may legally have outstanding at any time. The Authorised Limit includes headroom to enable the Council to take advantage of unexpected movements in interest rates and to accommodate any short-term debt or unusual cash movements that could arise during the year

	£m
Borrowing	419
Other Long Term Credit Liabilities	84
	503

ii) Operational Boundary

The Operational Boundary is based on the probable external debt during the course of the year. It is not a limit, but acts as a warning mechanism to prevent the authorised limit (above) being breached.

	£m
Borrowing	399
Other Long Term Credit Liabilities	84
	483

iii) Other Prudential Indicators Contained in the Prudential Code

The following indicators are also included in the Prudential Code:

- Capital expenditure
- Ratio of financing costs to net revenue stream
- Capital financing requirement
- Housing Revenue Account (HRA) limit on indebtedness
- Incremental effect of capital investment decisions on council tax at band D
- Incremental effect of capital investment decisions on housing rents

These are contained in Appendix A.

It has been necessary to revise the estimated non - Housing Revenue Account (HRA) capital financing requirement since it was approved by the Council on 10 February.

It is recommended that the prudential indicators in Appendix A be approved **(Recommendation 2.1(a))**.

The Prudential Code also requires local authorities to adopt the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. These are guides to good practice that the City Council has adopted and followed for several years.

3 TREASURY MANAGEMENT POLICY STATEMENT

3.1 The prime objective of the Treasury Management function is the effective management and control of risk associated with the activities described in paragraph 1.1. The Code identifies the main Treasury Management risks, some of which may not apply to the City Council, as:

- Credit risk – ie. that the local authority is not repaid, with due interest in full, on the day repayment is due.

- Liquidity risk – ie. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs.

- Interest rate risk – ie. that the authority fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the authority has budgeted.

- Exchange rate risk – This is the risk that the authority enters into a contract priced in a foreign currency and the exchange rate fluctuates adversely between entering the contract and settling the contract.

- Maturity (or refinancing risk) – This relates to the authority's borrowing or capital financing activities, and is the risk that the authority is unable to repay or replace its maturing funding arrangements on appropriate terms.

- Legal risk – ie. that one or other party to an agreement will be unable to honour its legal obligations.

- Procedures (or systems) risk – ie. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error or corruption.

- Market risk – This is the risk of adverse market fluctuations in the value of the principal sums of tradable investments such as Government gilts.

3.2 The approved activities of the Treasury Management operation are as follows: -

(a) Cash flow (daily balance and longer term forecasting);

(b) Investing surplus funds in approved investments;

(c) Borrowing to finance cash deficits;

(d) Funding of capital payments through borrowing, capital receipts, grants or leasing;

(e) Management of debt (including rescheduling and ensuring an even maturity profile);

(f) Interest rate exposure management;

(g) Dealing procedures;

(h) Use of external managers for temporary investment of funds.

3.3 It is proposed that the Head of Financial Services and Section 151 Officer and officers nominated by him be given authority to lend surplus funds as necessary in accordance with the Treasury Management Policy **(Recommendation 2.1(b))**.

4 TREASURY MANAGEMENT STRATEGY FOR 2015/16

4.1 Objectives

It is estimated that the net interest and debt repayment costs for 2015/16 will amount to approximately £34.6m. The Treasury Management policy will therefore form a cornerstone of the Medium Term Resource Strategy. Specific objectives to be achieved in 2015/16 are:

(a) Borrowing

- To minimise the revenue costs of debt
- To manage the City Council's debt maturity profile to ensure that no single financial year exposes the authority to a substantial borrowing requirement when interest rates may be relatively high
- To match the City Council's debt maturity profile to the provision of funds to repay debt if this can be achieved without significant cost
- To effect funding in any one year at the cheapest long term cost commensurate with future risk
- To forecast average future interest rates and borrow accordingly (i.e. short term and/or variable when rates are 'high', long term and fixed when rates are 'low').
- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements
- To reschedule debt in order to take advantage of potential savings as interest rates change or to even the maturity profile.

(b) Lending

- To ensure the security of lending (the maximisation of returns remains a secondary consideration) by investing in:
    - the United Kingdom Government and institutions or projects guaranteed by the United Kingdom Government;
    - Other local authorities in England, Scotland and Wales
    - Aaa rated money market funds;
    - British institutions including commercial companies that meet the City Council's investment criteria
    - Foreign institutions including commercial companies that meet the City Council's investment criteria within the jurisdiction of a AA+ government
- To maintain £10m in instant access accounts
- To make funds available to Council's subsidiaries
- To make funds available for the regeneration of Hampshire
- To optimise the return on surplus funds
- To manage the Council's investment maturity profile to ensure that no single month exposes the authority to a substantial re-investment requirement when interest rates may be relatively low to the extent that this can be managed without compromising the security of lending

4.2 Risk Appetite Statement

The Council attaches a high priority to a stable and predictable revenue cost from treasury management activities in the long term. This reflects the fact that debt servicing represents a significant cost to the Council's net revenue budget. The Council's objectives in relation to debt and investment can accordingly be stated as follows:

To assist the achievement of the council's service objectives by obtaining funding and managing the debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of long term interest cost stability. Sums are invested with a diversified range of counter parties using the maximum range of instruments consistent with avoiding the risk of the capital sum being diminished through movements in prices.

This means that the Council is not totally risk averse. Treasury management staff have the capability to actively manage treasury risks within the scope of the Council's treasury management policy and strategy.

In particular when investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities, but may invest in other bodies including unrated building societies and corporate bonds. The Council may invest surplus funds through tradable instruments such as treasury bills, gilts, certificates of deposit and corporate bonds. The duration of such investments will be limited so that they do not have to be sold (although they may be) prior to maturity thus avoiding the risk of the capital sum being diminished through movements in prices. Ordinarily, the Council will not invest in share capital or property as it puts the capital sum at risk through movements in prices.

4.3 <u>Gross Debt and the Capital Financing Requirement</u>

In order to ensure that over the medium term, debt will only be for a capital purpose, CIPFA's Prudential Code which the City Council is legally obliged to have regard to requires the City Council to ensure that debt does not, except in the short term, exceed the total of capital financing requirement (CFR). The CFR measures the Council's underlying need to borrow. If in any year there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for the comparison with gross external debt. The Council's forecast gross debt is shown in the table below.

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Borrowing	376,471	373,120	369,769	366,417	363,066	359,715
Finance leases	4,978	4,230	3,609	2,958	2,301	1,649
Service Concessions (including Private Finance Initiative schemes)	83,068	82,109	79,639	76,455	73,769	70,264
Total Gross debt	**464,517**	**459,459**	**453,017**	**445,830**	**439,136**	**431,628**
Capital Financing Requirement (CFR):						
Opening CFR in 2014/15	411,405	-	-	-		
Change in CFR in 2014/15	2,616					
Closing CFR in 2014/15	414,021	414,021	414,021	414,021	414,021	414,021
Cumulative increase in CFR in future years		16,330	20,803	20,803	20,803	20,803
Closing CFR		**430,351**	**434,824**	**434,824**	**434,824**	**434,824**
Under / (Over) Borrowing		**(29,108)**	**(18,193)**	**(11,006)**	**(4,312)**	**3,196**

The main reason for the Council's gross debt exceeding its CFR relates to borrowing undertaken for the Housing Revenue Account self-financing scheme in advance. The expected direction of gilt yields was upwards. Subsequently the Government announced that they would allow local authorities to borrow this sum from the Public Works Loans Board at National Loans Fund (NLF) rates. NLF rates are typically 1.13% below the rates the PWLB normally offers to local authorities. The Council therefore took advantage of this and borrowed a further £88.6m Consequently, the Council's gross debt will exceed its estimated capital financing requirement by £50.5m at the end of 2014/15. The Council's gross debt is forecast to exceed its capital financing requirement by £29.1m at the end of 2015/16. This balance will be used to fund future capital investment by the Council resulting in the Council's gross debt falling below the Council's capital financing requirement in 2019/20.

4.4 Gross and Net Debt

4.4.1 The borrowing and investment projections for the Council are as follows:

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Gross Debt at 31 March	464,517	459,459	453,017	445,830
Investments at 31 March	(315,173)	(292,615)	(280,916)	(277,904)
Estimated Net Debt	**149,344**	**166,844**	**172,101**	**167,926**

4.4.2 The Council has a high level of investments relative to its gross debt due to having a high level of reserves and provisions, mainly built up to meet future commitments under the Private Finance Initiative schemes and future capital expenditure. In addition Councils are required to set aside a minimum revenue provision (MRP) for the repayment of debt, but it is often not economic to actually repay debt because of the premiums that would be incurred if loans are repaid early which therefore gives rise to investments pending the repayment of debt.

4.4.3 The high level of investments increases the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. There is a short term risk that the rates at which the money can be invested will be less than the rates at which the loans were taken out. The level of investments will fall as capital expenditure is incurred, commitments under the PFI schemes are met and loans are repaid.

4.5 Interest Rates

4.5.1 Interest Rate Forecasts for 2015/16

No treasury consultants are currently employed by the City Council to advise on the borrowing strategy. However, the City Council does employ Capita Asset Services to provide an economic and interest rate forecasting service and maintains daily contact with the London Money Market.

4.5.2 Long Term Borrowing Interest Rates

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

Most City Council borrowing in the past has been through the Public Works Loans Board (PWLB). The PWLB interest rates are determined by HM Treasury and are set by reference to the rates in the secondary market for gilts; the public sector is therefore able to benefit from Government borrowing rates. However the Government introduced a mark up between gilt rates and PWLB rates in October 2010 as part of the Comprehensive Spending review. The current mark up for councils that are eligible for the certainty rate, including Portsmouth, is 0.8%.

Capita Asset Services' estimate that 25-year PWLB certainty rates will be 3.4% at the start of 2015/16, rising to 4.0% by the end of 2015/16 and 4.8% by the end of 2017/18. On this basis the estimated interest rate on any new long-term loans in 2015/16 will be between 3.4 and 4.0%.

The Council does not intend to undertake any new borrowing in 2015/16.

4.5.3 Short Term Investment Interest Rates

The Bank of England's base rate is currently 0.5%. Capita Asset Services do not expect the base rate to increase until the fourth quarter of 2015 rising to 2.0% by the first quarter of 2018.

4.6 Borrowing / Lending Requirements

Because the Council has a high level of surplus cash invested it will have an overall net lending requirement.

It has been assumed that existing maturing debt of £3.4m in 2015/16 will not be replaced. Instead this debt will be repaid using internal funds (see paragraph 6.1(f)). It is recommended however, that the Head of Financial Services and Section 151 Officer be given delegated authority to either replace maturing debt or repay it depending on the outlook for long term interest rates that exists at the time **(Recommendation 2.1(c)).**

4.7 Volatility of Budgets

The budget for interest payments and receipts is based on both the level of cash balances available and the interest rate forecasts contained in paragraph 4.5. Any deviation of interest rates from these forecasts will give rise to budget variances.

The Council is exposed to interest rate fluctuations through the need to invest up to £195m of surplus cash per annum in the medium term.

The Council currently has substantial sums of cash invested in the short term, and if interest rates fall below the budget forecast, investment income will be less than that budgeted. For example, if short-term interest rates fall to 0.5% below the budget forecast, the income from the Council's investments will be £975k below budget in 2015/16. Conversely, if short-term interest rates rise to 0.5% above the budget forecast, income from the Council's investments will exceed the budget by £975k in 2015/16.

4.8 Upper limits for fixed interest rate exposures

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for fixed interest rate exposures.

The City Council's maximum fixed interest rate exposure throughout each year is anticipated to be as follows:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Maximum Projected Gross Borrowing – Fixed Rate	395	395	392	388
Minimum Projected Gross Investments – Fixed Rate	(123)	(91)	(15)	(5)

It is recommended that the upper limits for fixed interest rate exposures be set as follows **(Recommendation 2.1(d))**:

2014/15 £272m

2015/16 £304m

2016/17 £377m

2017/18 £383m

The recommended upper limits for fixed interest rate exposure are set to provide sufficient flexibility for the Head of Financial Services and Section 151 Officer to take out fixed rate loans to finance capital expenditure if interest rates fall or are expected to rise significantly.

4.9 Upper limits for variable interest rate exposures

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for variable interest rate exposures.

The City Council's maximum variable interest rate exposure throughout each year is anticipated to be as follows:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Minimum Projected Gross Borrowing – Variable Rate	-	-	-	-
Maximum Projected Gross Investments – Variable Rate	(246)	(278)	(332)	(331)

The Council's variable interest rate exposure is negative because it has no variable rate loans and a high proportion of its investments are either variable rate or will need to be reinvested within a year. The Council's requirement for cash varies considerably through the year. Therefore the Council needs to invest a proportion of its surplus cash either in instant access accounts or short term investments to avoid becoming overdrawn. The Council is exposed to an interest rate risk in that its investment income will fall if interest rates fall, whilst its borrowing costs will remain the same as all its loans are fixed at rates that will not fall with investment rates. Investment rates are currently very low and the scope for further reductions is very limited. The Council's maximum projected gross variable interest rate investments increases as existing long term fixed interest rate investments mature. Some of this risk may be mitigated through making further long term fixed rate investments. However, this will increase credit risk. It would also be prudent to maintain an even maturity profile so that the Council can benefit from rising interest rates in the future.

It is recommended that the upper limits for variable interest rate exposures be set as follows **(Recommendation 2.1(e))**:

2014/15 (£246m) – Investments up to £246m

2015/16 (£278m) – Investments up to £278m

2016/17 (£332m) – Investments up to £332m

2017/18 (£331m) – Investments up to £331m

4.10 Limits on total principal sums invested for periods longer than 364 days

Under the Treasury Management Code it is necessary to specify limits on the amount of long term investments, ie. investments exceeding 364 days that have maturities beyond year end.

Investing long term at fixed rates provides certainty of income and reduces the risk of interest rates falling. However this benefit is significantly reduced at the moment as the interest rates on new investments are low, typically less than 1% which restricts how much further returns can fall. At the current time, investing long term allows higher yields to be obtained, although it would be prudent to maintain opportunities to invest when interest rates are higher. There are regular fluctuations in the Council's cash balances which can amount to £50m. In addition cash balances are expected to be at their lowest at the end of the financial year as tax receipts are lower in March. On this basis it is recommended that the following limits be placed on total principal sums invested for periods longer than 364 days to **(Recommendation 2.1(f))**:

31/3/2015 = £265m
31/3/2016 = £243m
31/3/2017 = £231m
31/3/2018 = £228m

4.11 <u>Limits for the maturity structure of borrowing</u>

The Government has issued guidance on making provision for the repayment of General Fund debt (see paragraph 8) which the Council is legally obliged to have regard to. The City Council is required to begin to make provision for the repayment of debt in advance of most of the Council's debt falling due for repayment. Therefore the City Council is required to provide for the repayment of debt well in advance of it becoming due. This is illustrated in Appendix B. This means that it is necessary to invest the funds set aside for the repayment of debt with its attendant credit and interest rate risks (see paragraph 3.1). The City Council could reschedule its debt, but unless certain market conditions exist at the time, premium payments have to be made to lenders (see paragraph 4.12).

CIPFA's Treasury Management in the Public Services Code of Practice which the City Council is legally obliged to have regard to requires local authorities to set upper and lower limits for the maturity structure of their borrowing.

It is recommended that the upper limit should be set high enough to allow for debt to be rescheduled into earlier years and for any new borrowing to mature over a shorter period than that taken out in the past. The high upper limit for debt maturing in over 40 years time reflects existing borrowing as the upper limit cannot be set lower than the existing maturity profile and is also necessary because no provision is being made for the repayment of debt incurred by the Housing Revenue Account apart from the Self Financing payment.

It is recommended that the lower limit be set at 0%.

In order to ensure a reasonably even maturity profile (paragraph 4.1(a)), it is recommended that the council set upper and lower limits for the maturity structure of its borrowings as follows **(Recommendation 2.1(g))**.

Amount of fixed rate borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Loan Debt Maturity	**Loans Minimum Revenue Provision (MRP)**	**% Over / (Under) Loans MRP**	**Upper limit**	**Lower limit**
Under 12 months	1%	4%	(3%)	10%	0%
12 months and within 24 months	4%	4%	0%	10%	0%
24 months and within 5 years	3%	12%	(9%)	20%	0%
5 years and within 10 years	4%	15%	(11%)	20%	0%
10 years and within 20 years	15%	32%	(17%)	40%	0%
20 years and within 30 years	11%	23%	(12%)	40%	0%
30 years and within 40 years	20%	7%	13%	40%	0%
40 years and within 50 years	42%	3%	39%	50%	0%

The current maturity pattern contained in Appendix B is well within these limits.

4.12 Debt Rescheduling

4.12.1 At the present time, all the City Council's long term external debt has been borrowed at fixed interest rates ranging from 3.19% to 5.01%. 42% of the Council's debt matures in over 40 years' time. Appendix B shows the long term loans maturity pattern. Therefore debt rescheduling could be beneficial in evening out the debt maturity profile.

4.12.2 In the event that it was decided to further reschedule debt, account will need to be taken of premium payments to the PWLB. These are payments to compensate the PWLB for any losses that they may incur.

4.12.3 The HRA will be responsible for its proportion of the premium due for early redemption of debt, based on the percentage of debt attributable to the HRA at the start of the financial year. The premiums would be charged to the General Fund and the HRA. Regulations allow the City Council to spread the cost of the premiums over a number of years, during which the accounts would benefit from reduced external interest rates.

4.12.4 The Head of Financial Services and Section 151 Officer will continue to monitor the Council's debt and will undertake further rescheduling if it would be beneficial.

4.12.5 It is recommended that authority to reschedule debt during the year be delegated to the Head of Financial Services and Section 151 Officer subject to conditions being beneficial to the City Council **(Recommendation 2.1(h))**.

5 APPROVED METHODS OF RAISING CAPITAL FINANCE

5.1 The following list specifies the various types of borrowing instruments which are available: -

	Variable	Fixed
PWLB	Y	Y
Market Long-term	Y	Y
Local Government Bonds Agency	Y	Y
Market Temporary	Y	Y
Overdraft	Y	
Negotiable Bonds	Y	
Internal (capital receipts & revenue balances)	Y	Y
Commercial Paper	Y	Y
Medium Term Notes	Y	Y
Leasing	Y	Y
Bills & Local Bonds	Y	Y

5.2 The main methods of raising capital finance used by the City Council are discussed in greater detail within Section 6 of this report. Other methods are not generally used because of the perceived risk or because administrative costs are high, such as in the case of Local Bonds.

5.3 Local authorities are not required to conform to the Money Laundering Regulations stipulated in the Financial Services Acts. However, these principles where practical will be applied when arranging future money market borrowing to ensure that funds are not obtained from potentially unscrupulous sources.

6 APPROVED SOURCES OF BORROWING

6.1 Further information on some of the main borrowing instruments used by the City Council is set out below: -

(a) Public Works Loans Board (PWLB)

The main source of longer term borrowing for the City Council for many years has been from the Government through the Public Works Loans Board. The PWLB offers fixed rate loans from 1 year to 50 years at varying rates with different methods of repayment.

Alternatively the PWLB offers variable rate loans for 1 to 10 years, where the interest rate varies at 1, 3 or 6 month intervals. These loans can be replaced by fixed rate loans before maturity at an opportune time to the authority.

(b) Money Market Loans – Long Term

Loans for 1 to 70 years are available through the London Money Market although, depending of the type of loan being arranged, the rates of interest offered may not match those available from the PWLB, especially for Equal Instalment of Principal loans (E.I.P. loans). Any loans to be taken are evaluated to ensure that the interest rate is the lowest the City Council could obtain.

Loans offered by the money market are often LOBO (Lenders Option, Borrowers Option) loans. This enables the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force. At the time when the interest rate becomes variable, the lender has the option to increase the rate charged every 6 months (or any other agreed review period). The borrower has the option to repay the loan with no penalties if the interest rate is increased on any of the review dates.

(c) Bonds

Bonds may be suitable for raising sums in excess of around £150m. The interest payable on bonds may be less than that charged by the PWLB, but considerable upfront fees would be incurred. To obtain the best interest rate, the Council would need to obtain a credit rating which would need to be maintained. This would incur a further upfront fee and an annual maintenance fee.

Because such a large amount needs to be borrowed to attract investors and also to reduce the upfront fees and negate the need for an individual credit rating a pooled issuance with other local authorities may be more viable.

(d) Municipal Bonds Agency

A municipal bonds agency is being established by the Local Government Association (LGA) to enable local authorities to undertake long term borrowing at lower rates than those offered by the PWLB. The LGA plans to have the municipal bonds agency operational in April 2015. Loans will be advanced on fixed dates determined by the municipal bonds agency of which it is anticipated that there will be two in 2015/16. Loans will be repayable at maturity with the duration of the loan being fixed by the municipal bonds agency.

(e) Money Market Loans – Temporary (Loans up to 364 days)

The use of temporary borrowing through the London Money Market forms an important part of the strategy. The authorised limit for external debt in 2015/16 of £503m set by the City Council on 10 February 2015 must not be exceeded.

It is anticipated that the City Council will not need to use the temporary borrowing facility in 2015/16.

(f) Overdraft

An overdraft limit of £2m has been agreed with the Barclays Bank plc. Interest on the overdraft is charged at 1% above base rate. The City Council does not anticipate that short-term borrowing will generally be necessary during 2015/16 as it currently holds sufficient funds to enable the authority's cash flow to be managed without the need to borrow. However, the overdraft facility may be used when there are unforeseen payments and funds placed on temporary deposit cannot be called back in time.

(f) Internal Funds

Internal funds include all revenue reserves and other specific reserves maintained by the City Council, including the minimum revenue provision which is available to either repay debt or to be used instead of new borrowing. The cash held in internal funds such as earmarked reserves can be borrowed in the short term to finance capital expenditure or the repayment of debt, thus delaying the need to borrow externally.

6.2 It is recommended that no restriction be placed on the amount that can be borrowed in sterling from an individual lender provided it is from a reputable source and within the authorised limit for external debt approved by the City Council **(Recommendation 2.1(i)).**

7. APPORTIONMENT OF BORROWING COSTS TO THE HOUSING REVENUE ACCOUNT (HRA)

7.1 The Localism Act 2011 requires local authorities to allocate existing and future borrowing costs between council housing (the HRA) and the General Fund. It is for local authorities to choose an allocation method that achieves the principles detailed in their treasury management strategies.

7.2 As previously stated, the Council took advantage of the NLF rates and borrowed £88.6m and subsequently applied the borrowing to fund the HRA Self Financing "buy out". The Council then switched the original PWLB borrowing of £84m taken earlier in the year and applied that to fund existing and future General Fund capital expenditure.

7.3 The approved Treasury Management Strategy for 2012/13 provided for a single loans pool to be maintained for both HRA and General Fund. This reflects the previous co-operation between the General Fund and the HRA and provides for the loans portfolio to be managed in the best interests of the whole authority. If the HRA had its own loans pool, having already borrowed £84m at an average rate of 4.51% to fund the Self Financing payment, it would not have been able to borrow much at the NLF rates that were subsequently offered. A single loans pool means that the HRA gets more of the long term benefits of the 3.49% NLF rate loans than it could have done on its own. Although a single loans pool does not allow the HRA to directly benefit from the NLF rate loans, it is felt that a single loans pool is broadly equitable between the HRA and the General Fund in the Council's circumstances.

7.4 It is proposed to continue to operate with a single loans pool and apportion costs according to locally established principles. It is recommended that the principles upon which the apportionment of borrowing costs should be based are as follows **(recommendation 2.1(j))**:

- The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;
- The loans portfolio is managed in the best interests of the whole authority;
- The costs and benefits of over and under borrowing above or below the capital financing requirement (CFR) are equitably shared between the General Fund and the HRA.

7.5 For the purpose of apportioning borrowing costs it will be assumed that the HRA is under or over financed in the same proportion as the Council as a whole. The HRA will be charged interest at the Council's average cost of borrowing adjusted to take account of any under or over financing which will be charged at the average return on the Council's investments.

8 ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT

8.1 The Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2012 require the Council to make "prudent provision" for the repayment of General Fund debt from 2008/09 onwards. There is no requirement to make "prudent provision" for the repayment of Housing Revenue Account (Council Housing) debt. The Government has provided a definition of "prudent provision" which the Council is legally obliged to "have regard" to. The guidance aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

8.2 The guidance also requires the Council to adopt an Annual Minimum Revenue Provision (MRP) for Debt Repayment Statement. This is contained within paragraphs 9, 10, 11, 12 and 13 below.

9 GOVERNMENT- SUPPORTED BORROWING OTHER THAN FINANCE LEASES AND SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES

9.1 The Government has supported some local authority borrowing through the Formula Grant. Provision may be made for the repayment of existing and new government supported borrowing through the Capital Financing Requirement Method or the Regulatory Method.

9.2 For debt that is supported by Formula Grant, authorities are able to make revenue provision for the repayment by setting aside 4% of their Adjusted Non-Housing Capital Financing Requirement (CFR). The CFR represents the underlying requirement to borrow for capital expenditure. It takes the total value of the City Council's fixed assets and determines the amount that has yet to be repaid or provided for within the Council's accounts. The CFR is adjusted so that it excludes self-financed debt incurred after 1 April 2008. This is known as the CFR Method.

9.3 Alternatively, for debt that is supported by Formula Grant, authorities are able to continue to use the formulae in the previous regulations, since Formula Grant is calculated on that basis. This is known as the Regulatory Method. This method is also based on the CFR but is adjusted by the effect of the previous regulations. This method is more complex than the CFR method. However it is estimated that the MRP under this method will be £320k less per annum than under the CFR method. It is therefore recommended that the Regulatory Method of calculating MRP be applied to pre 1 April 2008 debt and new government supported debt **(Recommendation 2.1(k))**. This is the same method as that adopted for 2014/15.

10. SELF- FINANCED BORROWING EXCLUDING FINANCE LEASES, SERVICE CONCESSIONS (INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES), AND BORROWING TO FUND LONG TERM DEBTORS (INCLUDING FINANCE LEASES)

10.1 For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, there are three options offered by the guidance, the Asset Life (Equal Instalment) Method, the Asset Life (Annuity) Method and the Depreciation Method. The guidance suggests that the Asset Life (Annuity) Method is only appropriate for projects where income or savings will increase over time. Both the Asset Life (Equal Instalment) Method and the Depreciation Method should result in a similar MRP. Of these two methods the Asset Life method is the simplest to calculate and therefore it is recommended that this method be used and that MRP begin to be made in the year after the asset is completed **(Recommendation 2.1(l))**. This is the same method as that adopted for 2014/15.

11 FINANCE LEASES AND ON BALANCE SHEET SERVICE CONCESSIONS (INCLUDING PRIVATE FINANCE INIATIVE SCHEMES)

11.1 The move to International Financial Reporting Standards has involved arrangements under the Private Finance Initiative (PFI) and service concessions coming onto the balance sheet. A part of the service charge or rent payable will be taken to reduce the balance sheet liability rather than being charged to the service revenue account. This accounting treatment is similar to that for finance leases. Under these leases the risks and rewards of asset ownership rest with the City Council and the assets are shown on the City Council's balance sheet. These leases are therefore in effect a form of borrowing. Statutory guidance allows, in the case of finance leases and on balance sheet service concessions including PFI contracts, the MRP requirement to be regarded as met by a charge equal to the element of the rent / charge that goes to write down the balance sheet liability. It is recommended that this methodology be used to calculate the MRP on finance leases and service concessions including PFI arrangements **(Recommendation 2.1(m))**.

12 SELF FINANCED BORROWING TO FUND LONG TERM DEBTORS INCLUDING FINANCE LEASES

12.1 The income received from long term debtors has an interest and a principal element. The interest element is credited to the revenue account. The principal part of the income receivable will be taken to reduce the loan asset on the balance sheet rather than being credited to the revenue account. This part of the rent receivable generates a capital receipt. Capital receipts can principally be used to finance new capital expenditure or repay debt. It is recommended that the principal element of the rent receivable be set aside to repay the borrowing that financed these assets **(recommendation 2.1(n))**. This is in line with the MRP policy adopted in 2014/15 for long term debtors funded by unsupported borrowing.

12.2 Under finance leases the risks and rewards of asset ownership rest with the lessee and the assets are not shown on the City Council's balance sheet. These leases are therefore in effect a form of lending. A part of the rent receivable will be taken to reduce the loan asset value on the balance sheet rather than being credited to the revenue account. This part of the rent receivable generates a capital receipt which can principally be used to finance new capital expenditure or repay debt. It is recommended that the principal element of the rent receivable be set aside to repay the borrowing that financed these assets **(recommendation 2.1(o))**. This is in line with the MRP policy adopted in 2014/15 for finance leases funded by unsupported borrowing.

13 HOUSING REVENUE ACCOUNT (HRA) BORROWING

13.1 There is no statutory requirement for the HRA to provide for the repayment of its debt. On 28 March 2012 the HRA was required to make a self financing payment to the Government of £88.619m. It is recommended that the HRA provide for the repayment of this debt over 30 years in line with the HRA Business Plan **(recommendation 2.1(p))**. The HRA will continue its practice of not providing for the repayment of its other debts.

14 ANNUAL INVESTMENT STRATEGY

14.1 The Government has also issued guidance on investments. The guidance requires the City Council to adopt an Annual Investment Strategy. This is contained within paragraphs 15, to 21 below. The requirements of the Department for Communities and Local Government are in addition to the requirements of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice.

14.2 During the year the Council may be asked to approve a revised strategy if there are investment issues which the full Council might wish to have brought to their attention.

14.3 The guidance defines a prudent policy as having two objectives:

- achieving first of all security (protecting the capital sum from loss);
- liquidity (keeping the money readily available for expenditure when needed).

Only when proper levels of security and liquidity have been secured should yield be taken into account.

14.4 Investment strategies usually rely on credit ratings and both the current and recommended Investment Strategies are based on credit ratings. Although the recommended Investment Strategy is based on credit ratings other sources of information will be taken into account prior to placing deposits such as information in the quality financial press and credit default swaps (CDS) prices.

14.5 CDS are a financial instrument for swapping the risk of debt default. The buyer of a credit default swap pays a premium for effectively insuring against a debt default. He receives a lump sum payment if the debt instrument is defaulted. The seller of a credit default swap receives monthly payments from the buyer. If the debt instrument defaults they have to pay an agreed amount to the buyer of the credit default swap. Absolute prices can be unreliable; however trends in CDS spreads do give an indicator of relative confidence about credit risk.

15. INVESTMENT CONSULTANTS

15.1 The City Council currently employs consultants to provide the following information:

- Interest rate forecasts
- Credit ratings
- CDS prices

15.2 The City Council does not employ consultants to provide strategic advice.

16. SPECIFIED INVESTMENTS

16.1 The Government requires the Council to identify investments offering high security and high liquidity. These are known as specified investments. Specified investments will be made with the minimum of procedural formalities. They must be made in sterling with a maturity of no more than one year and must not involve the acquisition of share capital in any corporate body.

16.2 Credit rating information is available to the financial market through three main credit rating bodies ie. Moody's, Fitch, and Standard and Poor. The credit ratings provided are as follows:

- Short Term Rating (measures an institution's suitability for short term investment)
- Long Term Rating (measures an institution's suitability for long term investment). These ratings are explained in Appendix C.
- Viability / Financial Strength Rating (where available measures the likelihood that an organisation will require assistance from third parties such as its owners or official institutions)
- Support Rating (where available measures a potential supporter's (either a sovereign state's or an individual owner's) propensity to support a bank and its ability to support it)

16.3 The grades of short and long term credit rating are as follows with the best credit ratings at the top. The credit ratings that meet the City Council's investment criteria for specified investments are shaded.

Fitch		Moody's		Standard & Poor's	
Short Term	Long Term	Short Term	Long Term	Short Term	Long Term
F1+	AAA	P-1	Aaa	A-1+	AAA
	AA+		Aa1		AA+
	AA		Aa2		AA
	AA-		Aa3		AA-
F1	A+		A1	A-1	A+
	A	P-2	A2		A
	A-		A3	A-2	A-
F2	BBB+	P-3	Baa1	A3	BBB+
	BBB		Baa2		BBB
F3	BBB-		Baa3		BBB-

Support ratings are graded 1 to 5, with 1 being the highest rating.

16.4 The main rating agencies have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". Standard and Poor have started this process and among others have placed Barclays Bank, HSBC Bank, Lloyds Bank, Nationwide Building Society, and Standard Chartered Bank on negative watch. The removal of all sovereign support from the credit ratings would result in HSBC's long term credit rating being reduced by one notch from AA- to A+, and Standard Chartered's long term credit rating being reduced by one notch from A+ to A. The removal of all sovereign support from the credit ratings would result in Barclays, Lloyds and Nationwide all having their long term credit ratings reduced by 2 notches from A to BBB+. It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis.

16.6 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. This has resulted in a number of Long Term ratings being given a negative outlook where they exceed the Financial Strength rating.

16.7 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

16.8 It is recommended that specified investments should only be placed with institutions that have a long term credit rating of at least A- from at least two rating agencies except registered social landlords for which a single credit rating will be required **(Recommendation 2.1q).** Registered social landlords (RSLs) are regulated by the Government and their debts can be secured on their housing stock. However, most RSLs are only rated by a single agency.

16.9 In addition to rating financial institutions the rating agencies also rate governments. These are known as sovereign credit ratings. Sovereign credit ratings give an indication of a government's capacity to support its financial institutions. Sovereign credit ratings are also dependent on a government's ability to raise taxes and thus also give an indication of the state of a nation's general economy. It is recommended that investments should only be placed with institutions based in either the United Kingdom or states with an AA+ credit rating **(Recommendation 2.1r).**

16.10 When an institution or state has differing ratings from different agencies, the average rating will be used to assess its suitability. This is a change from the previous practice of using the lowest credit rating to assess the suitability of institutions for investment. This change is necessary as Standard and Poor may reduce its long term credit rating for the majority of the UKs high street banks to BBB+ which would not meet the Council's minimum criteria for specified investments. Standard and Poor's changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. Those institutions that have not been rated by a particular agency will not be discarded because of the lack of ratings.

16.11 It is proposed that investments be allowed in government bodies, banks including supranational banks, building societies, money market funds, enhanced money market funds, RSLs and corporate bonds that meet the Council's investment criteria.

16.12 Money market funds are well diversified funds that invest in high quality very short term instruments enabling investors to have instant access to their funds. Enhanced money market funds, also known as short dated investment funds, are also well diversified funds investing in high quality counter parties, but for longer periods, and require a few days' notice of withdrawals.

16.13 Corporate bonds are tradable loan instruments issued by commercial companies. Credit ratings measure the risk of default, ie. the risk of not receiving principal and interest when it is due, across these institutions in a way that allows them to be compared. However, other measures of credit risk such as CDS prices are not available for all institutions including most building societies, RSLs and commercial companies.

16.14 There are over 30 registered social landlords (RSLs) with a single or double A credit rating. RSLs are subject to Government regulation but their debts are not guaranteed by the Government. As RSLs own houses, lending to RSLs can be secured by a charge against the RSLs properties.

16.15 The risk of loss following a default is much smaller for building societies. Building societies also operate under a separate legal regime to banks, which limits the amount of lending not secured on residential property and limits the amount of wholesale funding.

16.16 It is recommended that the Council's investments be limited to senior debt **(Recommendation 2.1s)**. This recommendation was not included in the 2014/15 Investment Strategy, but is included to provide clarification and does not represent a change in the Council's investment practices. Subordinated corporate bonds are sometimes issued by financial institutions and commercial companies. Subordinated corporate bonds offer higher yields, but in the event of an institution defaulting, senior debtors are repaid before subordinated debtors. Because of this, subordinated bonds often have a lower credit rating than senior debt issued by the same institution.

16.17 It is proposed to divide the approved counter parties for specified investments into eight categories as follows:

	Recommended Maximum Investment in a Single Organisation
Category 1 United Kingdom Government including the Debt Management Office Deposit Facility	Unlimited investments for up to 5 years
Category 2 Local authorities in England, Scotland and Wales	£30m for up to 5 years
Category 3 RSLs with a single long term credit rating of Aa-	£30m for up to 10 years
Category 4 Banks with a short term credit rating of F1+ and a long term rating of Aa-. Aaa rated money market funds, Aa rated enhanced money market funds	£26m for up to 5 years
Category 5 RSLs with a single A long term credit rating of A-	£20m for up 10 years
Category 6 Banks and corporate bonds with a short term credit rating of F1 and a long term rating of A+. Building societies with a short term credit rating of F1 and a long term rating of A.	£20m for up to 5 years.
Category 7 Banks and corporate bonds with a short term credit rating of F1 and a long term rating of A. Building societies with a short term credit rating of F1 and a long term rating of A-.	£13m for up to 5 years
Category 8 Banks and corporate bonds with a short term credit rating of F1 and a long term rating of A-.	£10m for up to 5 years

16.16 It is proposed that the bodies meeting the criteria of categories 1 to 8 in paragraph 16.11 be approved as repositories of specified investments of the City Council's surplus funds **(Recommendation 2.1(t)).** A list of financial institutions currently meeting the Councils investment criteria is contained in Appendix D. There are too many RSLs and companies issuing corporate bonds to include in the list.

16.17 The maximum duration for investments in corporate bonds was previously four years and reflected a likely lack of sovereign support in the event of a commercial company getting into financial difficulties. However, given that the likelihood of sovereign support in the event of a bank or building society getting into financial difficulties is now much reduced, it is felt that the duration limits for corporate bonds, banks and building societies should be the same.

16.18 It is recommended that investments in banks, building societies and RSLs with durations in excess of two years should be secured in order to reduce the consequences of such institutions defaulting **(recommendation 2.1u)**. This represents a change from the current investment strategy as the consequences of default could be particularly severe in the event of a bank or building society defaulting as legislation will allow regulators to use a proportion of the Council's funds to support such an institution if it got into financial difficulties, known as a "bail in". This risk can be mitigated by investing in covered bonds which are typically secured on a pool of mortgages. Loans to RSLs can be secured on their housing stock.

16.19 It is recommended that the credit ratings be reviewed monthly and that any institution whose lowest credit rating falls below the criteria for category 8 in paragraph 16.11 be removed from the list of specified investments **(Recommendation 2.1(v))**.

16.19 It is recommended that institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category **(Recommendation 2.1(w))**.

17. NON-SPECIFIED INVESTMENTS

17.1 The Government's Guidance requires that other less secure types of investment be identified and that a limit be set on the overall amount that may be held in such investments at any time in the year. Non-specified investments are investments that are not secure, ie. do not have an "A" credit rating or are not liquid, ie. have a maturity in excess of 364 days. Investments that are not denominated in sterling would also be non-specified investments due to exchange rate risks.

17.2 49% of the Councils investments are currently placed with local authorities due to the absence of a sufficient number of counter parties. Whilst other local authorities offer security, they only offer a modest return. It is estimated that the average amount of cash invested in 2015/16 will be £304m. In order to reduce the risks associated with placing funds with a relatively small number of counter parties and to improve returns it is recommended that further investment categories be established for non-specified investments that do not meet the criteria for specified investments.

Category 9 - £10m for 2 years
Short Term – F2 (or equivalent from Moody's and Standard & Poor)
Long Term – BBB or better (or equivalent from Moody's and Standard and Poor)

Category 9 will consist of rated building societies that meet the above criteria.

The building societies included in category 9 do not have sufficient systemic importance to make a Government rescue likely if they get into financial difficulties. However building societies do not typically have exposure to the Euro zone or riskier investment banking activities. In addition there is an established tradition of intra sector support and when building societies have got into financial difficulties they have always been taken over by another building society. Therefore it is felt that the duration limit for this category should be increased to 2 years. It was previously 364 days.

Category 10 - £6m for 2 years

Many smaller building societies that have been more conservative in their lending approach do not have credit ratings. An analysis of building society accounts suggests that many of those without credit ratings are in a better financial position than some of the larger ones who do hold credit ratings.

Category 10 consists of the unrated building societies in the strongest financial position. It is proposed to divide those unrated building societies in a strong financial position into 2 groups with the duration limit for the strongest unrated building societies being increased to 2 years. It was previously 364 days.

The limits on these building societies are less than £6m to take account of their small size in terms of assets.

Building Society	**Limit**
Furness	£4.2m
Leek United	£4.2m
Newbury	£3.9m
Hinkley & Rugby	£2.8m
Tipton and Crossley	£1.8m
Marsden	£1.7m
Dudley	£1.6m
Loughborough	£1.4m
Harpenden	£1.4m
Staffordshire Railway	£1.2m
Swansea	£1.1m
Chorley and District	£1.0m

Category 11 - £6m for 364 days

Category 11 consists of the unrated building societies that are in a strong financial position.

The limits on some building societies are less than £6m to take account of their small size in terms of assets.

Building Society	**Limit**
Nottingham	£6.0m
Progressive	£6.0m
Cambridge	£5.7m
Monmouthshire	£4.8m
Darlington	£2.6m
Market Harborough	£2.0m
Melton Mowbray	£1.9m
Scottish	£1.9m
Hanley Economic	£1.6m
Mansfield	£1.4m
Vernon	£1.3m

17.4 The Council's treasury management operation is exposed to the Council's subsidiary company MMD (Shipping Services) Ltd. The Council has £550k lodged with Lloyds TSB to guarantee MMD's banking limits.

17.5 The Annual Investment Strategy provides for the Council to lend to the United Kingdom Government and local authorities in England, Scotland and Wales, A rated financial institutions and A rated corporate bonds for 5 years, and to RSLs for 10 years. However as these investments would be over a year they cannot be included as specified investments.

17.6 The Council sometimes enters into contracts denominated in foreign currencies. Such contracts normally relate to civil engineering schemes at the port. It can be beneficial to buy Euros early to fund these projects and avoid the associated currency risk.

17.7 It is recommended that non-specified investments should be limited to the following (**Recommendation 2.1 (x)**):

	£
Building societies with a BBB credit rating and unrated building societies	81m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company's banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	243m
Investments in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Total	**331m**

18. MAXIMUM LEVEL OF INVESTMENT IN INDIVIDUAL ORGANISATIONS

18.1 The Government's Guidance does not require a limit to be placed on the amount that can be placed in any one investment. However in order to minimise risk further, it is proposed that the total amount that can be directly invested with any organisation at any time should be limited as follows **(Recommendation 2.1(y)):**

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 5 years
Category 2	£30m for up to 5 years
Category 3	£30m for up to 10 years
Category 4	£26m for up to 5 years
Category 5	£20m for up to 10 years
Category 6	£20m for up to 5 years
Category 7	£13m for up to 5 years
Category 8	£10m for up to 5 years
Category 9	£10m for up to 2 years
Category 10	£6m for up to 2 years
Category 11	£6m for up to 364 days
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 364 days

18.2 It is recommended that the Head of Financial Services and Section 151 Officer in Consultation with the Leader of the Council be given delegated authority to revise the total amount that can be directly invested with any organisation at any time **(Recommendation 2.1(z)).**

18.3 AAA money market funds offer security and same day access. By aggregating investments they can also invest in financial institutions that may not be interested in the relatively small sums that the Council can invest. The Council will only invest in money market funds that are managed by major banks with considerable investment expertise. Although AAA money market funds are well diversified in their investments there is a risk that more than one fund could have investments with the same bank or that the Council may also have invested funds in the same bank as a money market fund. Therefore it is proposed that the Council should aim to have no more than £70m invested in money market funds with an absolute limit of £80m.

18.4 Most building society lending is secured against residential properties. If property prices fall there may be inadequate security to support building societies lending giving rise to a systemic risk.

18.5 As RSL's offer one principal service and their assets principally consist of residential properties, excessive investments in RSLs would also expose the Council to a systemic risk.

18.5 In order to minimise systemic credit risk in any sector it is recommended that the following limits be applied **(Recommendation 2.1(aa))**:

Money market funds	£80m
Building societies	£107m
Registered Social Landlords	£80m

18.6 In order to minimise systemic credit risk in any region it is recommended that the following limits be applied to the geographic areas where investments can be made in foreign countries.

18.7 Concerns that there could be a major crisis in the Eurozone (EZ) subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation and the Middle East have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a prolonged period of very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries.

18.8 In addition to weak growth, the Eurozone is also subject to political risks. The Greek general election on 25 January 2015 brought to power a political party which is anti EU and anti-austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti-austerity political parties throughout the EU are much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti-austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the European Central Bank to defend their debt.

18.9 However, there is an implicit degree of protection since the policy only allows investments in banks and commercial companies based in sovereign states with a AA+ credit rating.

18.9 For these reasons it is recommended that the limit for total investments in continental Europe be reduced from £40m to £30m.

18.10 It is recommended that the following limits be applied **(Recommendation 2.1(ab))**:

Asia & Australia	£40m
Americas	£40m
Continental Europe	£30m

18.7 The limits above only apply to direct investments. The City Council's exposure to any institution, sector or region may exceed the limits stated above through indirect investments via money market funds. Money market funds employ specialist staff to assess counter party risks and all investments made by money market funds are short-term.

19. LIQUIDITY OF INVESTMENTS

19.1 The City Council maintains a three year cash flow forecast which is updated daily. This forecast is used to determine the maximum period for which funds may be prudently committed, ie. the City Council's core cash. The City Council maintains at least £10m invested on an instant access basis to ensure that unforeseen cash flows can be financed.

20. INVESTMENT OF MONEY BORROWED IN ADVANCE OF NEED

20.1 Section 12 of the Local Government Act gives a local authority the power to invest for "any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs". While the speculative procedure of borrowing purely to invest at a profit is clearly unlawful, there is no legal obstacle to the temporary investment of funds borrowed for the purpose of funding capital expenditure incurred in the reasonably near future.

20.2 Borrowing in advance of need may enable the City Council to obtain cheaper loans than those available at the time when expenditure is incurred, although the consequent investment of funds borrowed in advance of need does expose the City Council to credit risk. The interest payable on funds borrowed in advance of need is likely to exceed the interest earned on the investment of those funds in the current economic climate.

20.3 The main reason for the Council's gross debt exceeding its CFR relates to borrowing undertaken for the Housing Revenue Account self-financing scheme in advance. The expected direction of gilt yields was upwards. Subsequently the Government announced that they would allow local authorities to borrow this sum from the Public Works Loans Board at National Loans Fund (NLF) rates. NLF rates are typically 1.13% below the rates the PWLB normally offers to local authorities. The Council therefore took advantage of this and borrowed a further £88.6m. Consequently, the Council's gross debt will exceed its estimated capital financing requirement by £50.5m at the end of 2014/15. The Council's gross debt is forecast to exceed its capital financing requirement by £29.1m at the end of 2015/16. The Council's gross debt is forecast to exceed its capital financing requirement (calculated in accordance with the prudential indicator of gross debt and the capital financing requirement) by £4.3m at the end of 2018/19. This balance will be used to fund future capital investment by the Council and the Council's gross debt is forecast to fall below the Council's capital financing requirement (calculated in accordance with the prudential indicator of gross debt and the capital financing requirement) in 2019/20.

21. TRAINING OF INVESTMENT STAFF

21.1 The Finance Manager (Technical & Financial Planning) manages the treasury function with assistance from the Senior Financial Planning Accountant. Both these officers are qualified Chartered Public Finance Accountants and hold the Association of Corporate Treasurers Certificate in International Treasury Management. The City Council is also a member of CIPFA's Treasury Management Network which provides training events throughout the year. Additional training for investment staff is provided as required.

22. DELEGATED POWERS

22.1 Once the Treasury Policy has been approved, the Head of Financial Services and Section 151 Officer has delegated powers under the constitution of the City Council, to make all executive decisions on borrowing, investments or financing.

23. TREASURY SYSTEMS AND DOCUMENTATION

23.1 Once the Policy Statement has been approved by the Council, the documentation of the Treasury Systems will be updated so that all employees involved in Treasury Management are clear on the procedures to be followed and the limits applied to their particular activities.

23.2 The Treasury Management Practices document covers the following topics: -

- risk management
- best value and performance measurement
- decision making and analysis
- approved instruments, methods and techniques
- organisation, clarity and segregation of responsibilities, and dealing arrangements
- reporting requirements and management information arrangements
- budgeting, accounting and audit arrangements
- cash and cash flow management
- money laundering
- staff training and qualifications
- use of external service providers
- corporate governance

24. REVIEW AND REPORTING ARRANGEMENTS

24.1 The Head of Financial Services and Section 151 Officer will submit the following:-

(i) an annual report on the treasury management outturn to the Council by 30 September of the succeeding financial year

(ii) a mid year review to the Council

(iii) the Annual Strategy Report to the Council in March 2016

(iv) quarterly treasury management monitoring reports to the Governance and Audit and Standards Committee

APPENDIX A

PRUDENTIAL INDICATORS

Capital Expenditure	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Children & Education	9,554	10,230	11,905	8,093	738	70	-
Culture & Leisure	2,245	1,552	4,355	2,533	169	100	-
Environment & Community Safety	812	807	12,321	10,040	14,831	12,000	4,400
Health & Social Care (Adults Services)	1,455	1,389	5,243	179	-	-	-
Planning, Regeneration & Economic Development	1,169	46,933	71,498	60,375	25,252	25,351	-
Commercial Port	959	1,197	6,432	4,530	7,030	-	-
Resources	3,368	10,126	5,798	1,224	21	25	-
Traffic & transportation	31,643	15,030	17,594	5,065	3,721	3,435	3,031
Millennium	(254)	6	-	-	-	-	-
Housing General Fund	2,061	3,434	1,859	2,980	2,623	2,658	2,725
Non HRA	53,012	90,704	137,005	95,019	54,385	43,639	10,156
HRA	30,110	31,147	41,720	30,908	21,906	25,634	31,757
Total	**83,122**	**121,851**	**178,725**	**125,927**	**76,291**	**69,273**	**41,913**

Ratio of Financing Costs to Net Revenue Stream	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non - HRA	10.3%	9.8%	13.1%	14.0%	14.5%	14.0%	15.1%
HRA	12.4%	12.1%	13.4%	12.7%	12.4%	11.8%	11.4%

Capital Financing Requirement	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Original - Non - HRA	267,848	270,716	263,192	254,225	245,452	237,304	228,548
Revised Non - HRA	267,848	256,803	260,185	260,161	258,444	250,296	241,540
HRA	143,557	157,218	170,166	174,663	171,735	168,781	165,827

HRA Limit on Indebtedness	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
HRA	181,701	181,701	181,701	181,701	181,701	181,701	181,701

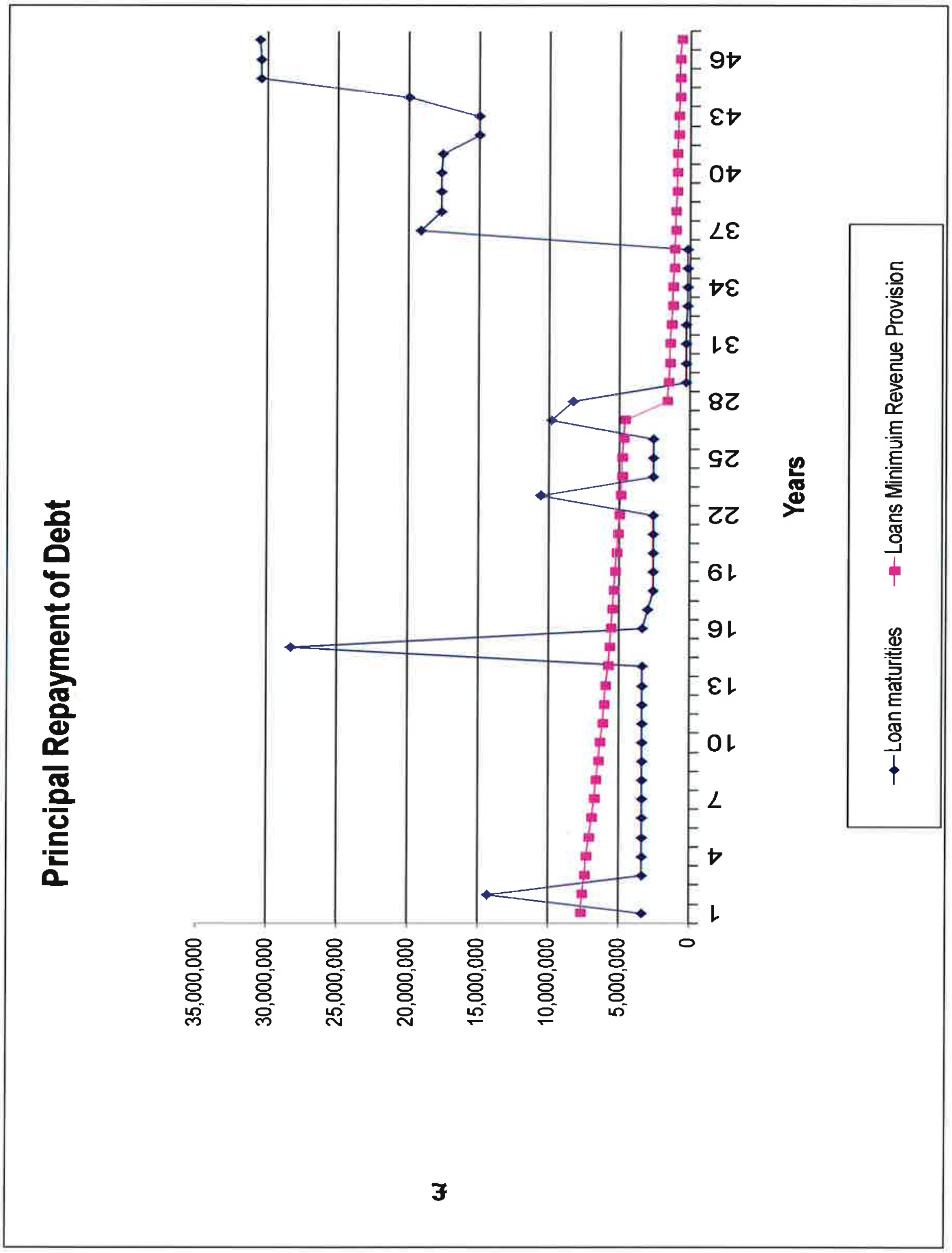
Authorised Limit for External Debt	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Borrowing	426,373	416,768	418,861	417,289	415,083	411,652	400,517
Other Long Term Liabilities (ie Credit Arrangements)	87,148	86,095	84,388	81,297	77,463	74,119	69,962
Total	**513,521**	**502,863**	**503,249**	**498,586**	**492,546**	**485,771**	**470,479**

Operational Boundary for External Debt	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Borrowing	361,501	397,422	399,129	397,162	394,553	390,712	379,158
Other Long Term Liabilities (ie Credit Arrangements)	87,148	86,095	84,388	81,297	77,463	74,119	69,962
Total	**448,649**	**483,517**	**483,517**	**478,459**	**472,016**	**464,831**	**449,120**

Incremental Impact of Capital Investment Decisions on the Council Tax	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Revenue effect of existing capital programme	538	1,891	1,768	1,503	1,042	1,854
Revenue effect of proposed capital programme	538	2,039	1,703	1,208	662	1,474
Increase in revenue effect	0	148	(65)	(295)	(380)	(380)
Increase in Council Tax Band D	£0.00	£2.78	(£1.21)	(£5.54)	(£7.12)	(£7.12)

Incremental Impact of Capital Investment Decisions on Housing Rents	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Revenue effect of existing capital programme	22,590	29,218	27,476	22,420	18,778	22,405
Revenue effect of proposed capital programme	29,218	27,476	22,419	18,778	22,404	28,396
Increase in revenue effect	6,628	(1,742)	(5,057)	(3,642)	3,626	5,991
Effect on average weekly rent	£8.42	(£2.22)	(£6.46)	(£4.66)	£4.65	£7.70

APPENDIX B



Principal Repayment of Debt
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
£
1
4
7
10
13
16
19
22
25
28
31
34
37
40
43
46
Years
Loan maturities
Loans Minimuim Revenue Provision

APPENDIX C

DEFINITIONS OF LONG TERM CREDIT RATINGS

Credit ratings are issued by three main credit rating agencies, Fitch, Moody's and Standard & Poor. All three agencies use broadly the same scale. Fitch defines its long term ratings as follows:

AAA: Highest credit quality
"AAA" ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality
"AA" ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High Credit Quality
"A" ratings denote expectations of low default 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 in the case of the higher ratings.

BBB: Good credit quality

"BBB" ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

APPENDIX D

INVESTMENT COUNTER PARTY LIST

Category	Counter Party	Average Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
1	United Kingdom Government including investments explicitly guaranteed by the UK Government	AA+		Unlimited	5 years
2	All local authorities in England, Scotland & wales	n/a		30,000,000	5 years
3	Registered Social Landlords (RSLs)	AA-		30,000,000	10 years
4	Australia & New Zealand Banking Group	AA-		26,000,000	5 years
4	Commonwealth Bank of Australia	AA-		26,000,000	5 years
4	National Australia Bank	AA-		26,000,000	5 years
4	Westpac Banking Corporation	AA-		26,000,000	5 years
4	Bank of Montreal	AA-		26,000,000	5 years
4	Bank of Nova Scotia	AA-		26,000,000	5 years
4	Canadian Imperial Bank of Commerce	AA-		26,000,000	5 years
4	Royal Bank of Canada	AA-		26,000,000	5 years
4	Toronto Dominion Bank	AA		26,000,000	5 years
4	Pohjola Bank Plc	AA-		26,000,000	5 years
4	Rabobank Nederland NV	AA-		26,000,000	5 years
4	DBS Bank	AA		26,000,000	5 years
4	Overseas Chinese Banking Corp	AA		26,000,000	5 years
4	United Overseas Bank	AA		26,000,000	5 years
4	Nordia Bank AB	AA-		26,000,000	5 years
4	Bank of New York Mellon	AA-		26,000,000	5 years
4	Wells Fargo Bank NA	AA-		26,000,000	5 years
4	Nordic Investment Bank	AAA		26,000,000	5 years
4	Inter-American Developmemnt Bank	AAA		26,000,000	5 years
4	IBRD (World Bank)	AAA		26,000,000	5 years
4	Council of Europe Developmenmt Bank	AA+		26,000,000	5 years
4	Eurpopean Bank for Reconstruction & Development	AAA		26,000,000	5 years
4	Eurpean Investment Bank	AA+		26,000,000	5 years
4	Global Treasury Funds Plc	AAA	Money Market Fund	26,000,000	Instant Access
4	Morgan Stanley Funds Plc	AAA	Money Market Fund	26,000,000	Instatnt Access
4	Short Term Investment Company (Global Series) Plc	AAA	Money Market Fund	26,000,000	Instatnt Access
4	Goldman Sachs Sterling Liquidity Reserve	AAA	Money Market Fund	26,000,000	Instatnt Access
4	Scottish Widows Investment Partnership Global Liquidity Sterling Fund	AAA	Money Market Fund	26,000,000	Instatnt Access
4	BNY Mellon Sterling Liquidity Fund	AAA	Money Market Fund	26,000,000	Instatnt Access
4	Citibank	AAA	Money Market Fund	26,000,000	Instatnt Access
4	Deutsche Global Liquidity Series Plc	AAA	Money Market Fund	26,000,000	Instatnt Access
4	Morgan Stanley Funds Plc	AAA	Money Market Fund	26,000,000	Instatnt Access
4	Standard Life Sterling Liquidity Fund	AAA	Money Market Fund	26,000,000	Instant Access
5	Registered Social Landlords (RSLs)	A-		20,000,000	10 years
6	Standard Chartered Bank	A+		20,000,000	5 years
6	HSBC Bank plc	A+		20,000,000	5 years
6	National Bank of Canada	A+		20,000,000	5 years
6	Svenska Handelsbanken	A+		20,000,000	5 years
6	Swedbank AB	A+		20,000,000	5 years
6	JP Morgan Chase Bank NA	A+		20,000,000	5 years
6	DNB Bank	A+		20,000,000	5 years

Category	Counter Party	Minimum Long Term Credit Rating *	Comments	Investment Limit £	Maximum Term
7	ABN Amro Bank NV	A		13,000,000	5 years
7	ING Bank NV	A		13,000,000	5 years
7	Nationwide Building Society	A-		13,000,000	5 years
7	Skandinaviska Enskilda Banken (SEB)	A		13,000,000	5 years
7	Credit Suisse	A		13,000,000	5 years
7	UBS AG	A		13,000,000	5 years
7	National Bank of Canada	A		13,000,000	5 years
7	Coventry Building Society	A-		13,000,000	5 years
8	Lloyds TSB Bank plc	A-		10,000,000	5 years
8	Deutsche Bank AG	A-		10,000,000	5 years
8	Barclays Bank Plc	A-		10,000,000	5 years
9	Leeds Building Society	A-	Short term rating F2	10,000,000	2 years
9	Yorkshire Building Society	BBB		10,000,000	2 years
10	Furness Building Society	Unrated		4,200,000	2 years
10	Leek United Building Society	Unrated		4,200,000	2 years
10	Newbury Building Society	Unrated		3,900,000	2 years
10	Hinckley & Rugby Building Society	Unrated		2,800,000	2 years
10	Tipton & Coseley Building Society	Unrated		1,800,000	2 years
10	Marsden Building Society	Unrated		1,700,000	2 years
10	Dudley Building Society	Unrated		1,600,000	2 years
10	Loughborough Building Society	Unrated		1,400,000	2 years
10	Harpenden Building Society	Unrated		1,400,000	2 years
10	Stafford Railway Building Society	Unrated		1,200,000	2 years
10	Swansea Building Society	Unrated		1,100,000	2 years
10	Chorley and District	Unrated		1,000,000	2 years
11	Nottingham Building Society	BBB	Single rating	6,000,000	364 days
11	Progressive Building Society	Unrated		6,000,000	364 days
11	Cambridge Building Society	Unrated		5,700,000	364 days
11	Monmouthshire Building Society	Unrated		4,800,000	364 days
11	Darlington Building Society	Unrated		2,600,000	364 days
11	Market Harborough Building Society	Unrated		2,000,000	364 days
11	Melton Mowbray Building Society	Unrated		1,900,000	364 days
11	Scottish Building Society	Unrated		1,900,000	364 days
11	Hanley Economic Building Society	Unrated		1,600,000	364 days
11	Mansfield Building Society	Unrated		1,400,000	364 days
11	Vernon Building Society	Unrated		1,300,000	364 days

Notes

* The long term credit ratings shown are adjusted to take account of possible future actions resulting from negative watches & outlooks.