Gateshead Council

REPORT TO CABINET
19 March 2019

Title of report: **Treasury Policy Statement and Treasury Strategy 2019/20 to 2023/24**

Report of: **Darren Collins, Strategic Director, Corporate Resources**

Purpose of the Report

1. Cabinet is asked to recommend that Council approve the attached Treasury Policy Statement and Treasury Strategy for 2019/20 to 2023/24.

Background

2. To provide a framework for the Strategic Director, Corporate Resources to exercise his delegated powers, the Council agrees a five-year Treasury Management Policy and Treasury Strategy which is reviewed at the start of each financial year.

3. The attached Treasury Policy and Treasury Strategy have been prepared considering the Local Government Act 2003, Ministry of Housing, Communities and Local Government 's (MHCLG) Guidance on Local Government Investments, CIPFA's Prudential Code for Capital and CIPFA's Code of Practice on Treasury Management (2017).

4. The Audit and Standards Committee reviewed the Treasury Policy Statement and Treasury Strategy on 4 March 2019 and raised no comments for submission to Council.

Proposals

5. Cabinet is asked to recommend that Council approve the Treasury Policy and Treasury Strategy attached at Appendix 2 and Appendix 3, to ensure that the Council fully complies with the requirements of good financial practice in Treasury Management.

Recommendation

6. Cabinet is asked to agree the Treasury Policy Statement attached at Appendix 2 of this report and the Treasury Strategy as attached at Appendix 3 and recommend them for approval to Council.

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Appendix 1

Policy Context

1. The proposals in this report are consistent with Council priorities and in particular they ensure that effective use is made of the Council's resources to ensure a sustainable financial position. The effective management of resources supports the Council's strategic approach 'Making Gateshead a Place Where Everyone Thrives'.

Background

2. The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

3. In December 2017 CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code (the Code) which represents best practice. The Council fully complies with the Code and this contributes towards achieving good practice.

4. Part 1 of the Local Government Act 2003 specifies the powers of a local authority to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Borrowing is linked to the CIPFA Prudential Code for Capital which sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable. The Prudential Code refers to the need for a clear and integrated treasury strategy.

5. In addition, under Section 15 of the Local Government Act 2003, authorities are required to have regard to the MHCLG's guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Council's Treasury Strategy.

6. MHCLG consulted on proposed changes to the investment guidance which closed on 22 December 2017; the final revised guidance was issued early 2018 and was effective for financial years commencing on or after 1st April 2018. The revised guidance focuses on non-financial asset investments.

7. Under Part 4 of the Council's Constitution the Strategic Director, Corporate Resources will produce a Treasury Policy Statement annually, setting out the general policies and objectives of the Council's treasury management function.

8. The Council also provides a treasury management service to the Gateshead Housing Company through a Service Level Agreement.

Treasury Policy

9. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Council.

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

11. CIPFA's Code requires the setting out of responsibilities and duties of councillors and officers to allow a framework for reporting and decision making on all aspects of treasury management. To achieve this CIPFA has recommended the adoption of 12 treasury management practices (TMPs).

12. These principles are intended to provide a working document that forms a detailed framework for treasury management activities. The policy fully encompasses CIPFA's Code of Practice. In addition, the policy fully takes account of the requirements of the Prudential Code for Capital Finance in Local Authorities and the guidance issued by the MHCLG supporting Part 1 of the Local Government Act 2003 in respect of local authority investments. The Treasury Policy is attached at Appendix 2.

Treasury Strategy

13. The Treasury Strategy for 2019/20 to 2023/24 is attached at Appendix 3. This covers the specific activities proposed for 2019/20 to 2023/24 in relation to both borrowing and investments and ensures a wide range of advice is taken to maintain and preserve all principal sums, whilst obtaining a reasonable rate of return, and that the most appropriate borrowing is undertaken. The primary objective of the investment strategy is to maintain the security of investments at all times.

14. The term "investments" used in the definition of treasury management activities also covers non-financial assets which the Council may hold primarily for financial returns. The control of risk and optimising returns on these more commercial investments is consistent with the Council's risk appetite.

15. The Council have reviewed the maximum maturity periods and amounts which can be invested with counterparties outlined in Appendix 6. In ensuring that these limits meet our requirements an assessment of risk has been undertaken and advice obtained from Link Asset Services.

16. The Council has produced the Treasury Strategy to comply with the requirements of the Code, the Prudential Code for Capital Finance in Local Authorities (2017) and Part 1 of the Local Government Act 2003. The Council considers that compliance with the above ensures that best practice is followed.

Consultation

17. Consultation on the production of the Treasury Policy Statement, including the Treasury Strategy for 2019/20 to 2023/24, has taken place with the Council's treasury advisers (Link Asset Services). The outcome of the consultation process, along with guidance issued by CIPFA and the MHCLG, has informed the format and content of the policy and strategy statements.

18. The Leader of the Council has been consulted on the contents of this report.

Alternative Options

19. There are no alternative options, as the Treasury Policy and Strategy reports recommended for approval are required in order to comply with CIPFA's Code of Practice on Treasury Management (2017).

Implications of recommended options

20. **Resources:**

a) **Financial Implications** - The Strategic Director, Corporate Resources confirms that the financial implications are set out in this report. There are no additional financial implications associated with the report itself.

b) **Human Resources Implications** - There are no human resources implications arising from this report.

c) **Property Implications** – There are no property implications arising from this report.

21. **Risk Management Implications**

The Treasury Policy and Treasury Strategy which informs activity in this area were prepared with the primary aim of minimising risk to ensure that the Council's principal sums are safeguarded. Maximising income is considered secondary to this main aim.

22. **Equality and Diversity Implications**

There are no equality and diversity implications arising from this report.

23. **Crime and Disorder Implications**

There are no crime and disorder implications arising from this report.

24. **Sustainability Implications**

There are no sustainability implications arising from this report.

25. **Human Rights Implications**

There are no human rights implications arising from this report.

26. **Area and Ward Implications**

There are no direct area and ward implications arising from this report.

27. **Background Information:**

The following documents have been used in preparation of the report:

- Local Government Act 2003
- MHCLG Guidance on Local Government Investments
- CIPFA's Prudential Code for Capital (2017)
- CIPFA's Code of Practice on Treasury Management (2017)
- Council's approved Treasury Management Practice Statements

Appendix 2

Treasury Policy 2019/20 to 2023/24

1. Approved Activities of the Treasury Management Operation

1.1 In December 2017 CIPFA published a revised Code of Practice on Treasury Management in the Public Services (the Code), which represents best practice. Treasury management activities are defined by CIPFA as:

> “The management of the organisation’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

1.2 The term “investments” used in the definition of treasury management activities includes all financial assets of the organisation, as well as other non-financial assets which the Council may hold primarily for financial returns. The control of risk and optimising returns on these more commercial investments is also consistent with the Council’s risk appetite.

1.3 The Council provides a treasury management service to the Gateshead Housing Company through a Service Level Agreement. Borrowing to fund the capital programme of the Company is also carried out by the Council and is included in the overall borrowing figure.

2. Formulation of the Treasury Strategy

2.1 The formulation of a Treasury Strategy involves determining the appropriate borrowing and investment decisions with the prime objective of safeguarding the Council’s assets and secondary objectives of obtaining a reasonable rate of return on investments and minimising the costs of borrowing. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Council and ensure robust due diligence procedures cover all external non-treasury investments.

2.2 The Treasury Strategy encompasses the requirements of CIPFA’s Treasury Management Code of Practice, Prudential Code for Capital and the MHCLG Guidance on Local Government Investments.

2.3 The Treasury Strategy covers the following:

a) the current treasury position;
b) Prudential and treasury indicators which limit the treasury risk and activities of the Council;
c) prospects for interest rates;
d) the borrowing strategy;
e) debt rescheduling;
f) policy on borrowing in advance of need;
g) the investment strategy;
h) creditworthiness policy; and
i) the policy on the use of external service providers.

The strategy for 2019/20 to 2023/24 is attached at Appendix 3.

3. Prudential and Treasury Indicators

3.1 Under Part 1 of the Local Government Act 2003 the Council may borrow money
(a) for any purpose relevant to its functions under any enactment, or
(b) for the purposes of the prudent management of its financial affairs.

3.2 Under the requirements of the Prudential Code and Treasury Management Code of Practice the following indicators have been adopted:

- Actual and estimates of financing costs to net revenue stream;
- Estimates of capital expenditure;
- Actual capital expenditure;
- Estimate of Capital Financing Requirement;
- Actual Capital Financing Requirement;
- Authorised limit;
- Operational boundary;
- Actual external debt;
- Gross debt and Capital Financing Requirement;
- Upper and lower limit of maturity structure of borrowing fixed and variable; and
- Upper limit on principal sums invested for periods of over 365 days.
- In addition to the above indicators, local indicators showing the level of reserves which are backed by cash in the bank and internal borrowing as a percentage of the capital financing requirement have been introduced to this report.

3.3 Given the link to the budget and capital programme, these indicators were approved by the Council on 21 February 2019 as part of the Budget and Council Tax Level 2019/20 report. For completeness, the approved indicators are attached at Appendix 4.

4. Annual Investment Strategy

4.1 Part 1 of the Local Government Act 2003 relaxed the constraints under which local authorities can invest.

4.2 The MHCLG has issued guidance to supplement the investment regulations contained within the Local Government Act 2003. It is also referred to under Section 15 (1) of the 2003 Local Government Act which requires authorities to “have regard (a) to such guidance as the Secretary of State may issue and (b) to such other guidance as the Secretary of State may by regulations specify”. The guidance encourages authorities to invest prudently but without burdening them with the detailed prescriptive regulation of the previous regime.

4.3 Central to the guidance and the Code is the need to produce an Annual Investment Strategy. This is included as Section 6 of the Treasury Strategy in Appendix 3.

4.4 The Annual Investment Strategy document will include:

- The Council’s risk appetite in respect of security, portfolio liquidity and return;

- The definition of ‘high’ and ‘non-high’ credit quality to determine what are specified investments and non-specified investments;
- Which specified and non-specified instruments the Council will use, dealing in more detail with non-specified investments given the greater potential risk;
- The categories of counterparties that may be used during the course of the year e.g. foreign banks, nationalised/part nationalised banks, building societies;
- The types of investments that may be used during the course of the year;
- The limit to the total amount that may be held in each investment type;
- The Council’s policy on the use of credit ratings, credit rating agencies and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list and how the Council will deal with changes in ratings, rating watches and rating outlooks;
- Limits for individual counterparties, groups and countries; and
- Guidelines for making decisions on investments and borrowing;
- The Council’s policy on commercial investments held for return.

5. Policy on Interest Rates Exposure

5.1 The Budget and Council Tax Level 2019/20 approved by Council on 21 February 2019, sets treasury limits for the maximum and minimum level of exposure to fixed and variable rate borrowing. The use of any financial instruments, such as derivatives, to mitigate interest rate risks will be considered on an individual basis and the Strategic Director, Corporate Resources will obtain approval from the Council prior to entering into any arrangement of this nature.

6. Policy on Delegation, Review Requirements and Reporting Arrangements

6.1 It is the Council’s responsibility under the Code to approve a Treasury Policy statement.

6.2 The Council delegates the review of the policy and monitoring of the performance of the treasury management function to Cabinet, the scrutiny of treasury management strategy and policies to the Audit and Standards Committee, and the execution and administration of treasury management decisions to the Strategic Director, Corporate Resources, who will act in accordance with the organisations policy statement and TMPs and CIPFA’s Standard of Professional Practice on Treasury Management. Any proposals to approve, adopt or amend policy require the consent of the Council and are matters for the Council to determine.

6.3 Council will receive:

a) a Treasury Policy Statement and five-year Treasury Strategy report, including the annual Investment Strategy, for approval before the commencement of each financial year; and
b) an annual report on borrowing and investment activity by 30 September of each year.
c) a mid-year report on borrowing and investment activity.

6.4 The Audit and Standards Committee will receive:

a) a Treasury Policy Statement and five-year Treasury Strategy report for scrutiny; and
b) a mid-year report on borrowing and investment activity.

6.5 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
b) an overview of how the associated risk is managed
c) the implications for future financial sustainability

6.6 The aim of this report is to ensure that all elected members of the council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

6.7 The Capital Strategy 2018/19 to 2023/24 was approved by Cabinet on 20th November 2018.

Appendix 3

Treasury Strategy 2019/20 to 2023/24

1. Introduction

1.1 The CIPFA Code of Practice on Treasury Management 2017 (the Code) emphasises a number of key areas including the following:

a) All authorities must formally adopt the Code.
b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
c) The Council's appetite for risk, including the appetite for any use of financial instruments in the prudent management of those risks, must be clearly identified within the strategy report and will affirm that priority is given to security and portfolio liquidity when investing treasury management funds and explain how that will be carried out.
d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
h) The main annual treasury management reports must be approved by full council.
i) There needs to be a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
k) Treasury management performance and policy setting should be subjected to prior scrutiny.
l) Councillors should be provided with access to relevant training as those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
m) Responsibility for these activities must be clearly defined within the organisation.
n) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the Treasury Management Practices).
o) "Investments" covers the financial and non-financial assets which the organisation holds primarily for financial returns. This will include investments which are not managed as part of the normal treasury management delegations.

1.2 This Strategy has been prepared in accordance with the Code.

1.3 The Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code:

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Treasury Management Policy & Strategy / Annual Investment Strategy	Council approval with review delegated to Cabinet/ Audit and Standards Committee	Annually before the start of the year or where a material change is proposed
Annual Report	Council with review delegated to Cabinet/ Audit and Standards Committee	Annually by 30 September after the end of the year
In year changes to agreed Treasury Management Policy & Strategy / Annual Investment Strategy / Prudential and Treasury Indicators	Cabinet	By exception
Scrutiny of treasury management performance via mid-year report	Council approval with review delegated to Cabinet / Audit and Standards Committee	Mid-Year
Scrutiny of treasury management Policy, Strategy and procedures	Audit and Standards Committee	Annually before the start of the year
Treasury Management Monitoring Reports	Strategic Director, Corporate Resources	Monthly/Weekly
Treasury Management Practices	Strategic Director, Corporate Resources	Monthly

1.4 The revised Prudential Code covers the following Prudential Indicators which were approved by Council on 21 February 2019:

- Actual and estimates of financing costs to net revenue stream;
- Estimates of capital expenditure;
- Actual capital expenditure;
- Estimate of Capital Financing Requirement;
- Actual Capital Financing Requirement;
- Authorised limit for external debt;
- Operational boundary for external debt;
- Actual external debt;
- Gross debt and Capital Financing Requirement;
- Upper and lower limit of maturity structure of borrowing fixed and variable;
- Upper limit on principal sums invested for periods of over 365 days.

1.5 In addition to the above indicators, local indicators showing the level of reserves which are backed by cash in the bank and internal borrowing as a percentage of the capital financing requirement have been introduced to this report. Also, where there is a significant difference between the net and the gross borrowing position the risk and benefits associated with this strategy will be clearly stated in the annual strategy.

1.6 The strategy covers:

a) Prospects for interest rates;
b) Treasury limits in force which will limit the treasury risk and activities of the Council, including prudential and treasury indicators;
c) The borrowing strategy;
d) Sensitivity forecast;
e) External and internal borrowing;
f) Debt rescheduling;
g) Policy on borrowing in advance of need;
h) The investment strategy; and
i) The policy on the use of external service providers.

2. Prospects for Interest Rates

2.1 The table shown below outlines the Council's view of anticipated movements in interest rates, based on guidance received from the Council's treasury management advisers Link Asset Services as at 12 February 2019.

	March 2019	June 2019	Sept 2019	Dec 2019	March 2020	March 2021	March 2022
Bank Rate	0.75%	0.75%	1.00%	1.00%	1.00%	1.50%	2.00%
5 yr PWLB*	1.80%	1.90%	2.00%	2.10%	2.20%	2.50%	2.70%
10 yr PWLB	2.20%	2.30%	2.40%	2.50%	2.60%	2.90%	3.00%
25 yr PWLB	2.70%	2.80%	2.90%	3.00%	3.10%	3.40%	3.60%
50 yr PWLB	2.50%	2.60%	2.70%	2.80%	2.90%	3.20%	3.40%

* Public Works Loan Board, a statutory body operating within the UK Debt Management Office, which is an executive agency of HM Treasury. The PWLB's function is to lend money to other prescribed public bodies.

Short Term Interest Rates

2.2 2018 started with weak growth of only 0.1% in quarter 1. However, quarter 2 rebounded to 0.4% followed by quarter 3 being exceptionally strong at 0.6%. Quarter 4 though, was depressed by the cumulative weight of Brexit uncertainty and came in at only 0.2%. Growth is likely to continue being weak until the conclusion of Brexit.

The above forecasts are based on a major assumption that Parliament and the EU agree an orderly Brexit, either by 29 March or soon after. At their 7 February meeting, the MPC repeated that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; they have quoted a Bank Rate of around 2.50% in ten years' time but have declined to give a medium-term forecast. However, with so much uncertainty around Brexit, the next move could be up or down, even if there was a disorderly Brexit.

Long Term Interest Rates

2.3 Following advice from the Council's treasury management advisers, the Council's view on longer term fixed interest rates is that there will be a 20-basis point difference between 25-year and 50-year rates. 25-year rates are expected to finish 2019/20 close to 3.10% whilst 50-year rates are expected to be near to 2.90%. It is also expected that PWLB rates on loans less than ten years in duration will be lower than longer term loans.

3. Treasury Limits for 2019/20 to 2023/24 including Prudential Indicators

3.1 It is a statutory requirement of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 31(a), as amended by the Localism Act 2011, requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from increases in interest charges and increases in running costs from new capital projects are limited to a level, which is affordable within the projected income of the Council for the foreseeable future.

3.2 It is a statutory duty under Section 3 of Part 1 of the Local Government Act 2003*,* and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Affordable Borrowing Limit. The Authorised Limit represents the legislative limit specified in the Act.

3.3 The Prudential Code for Capital Finance in Local Authorities is a professional code that sets out a framework for self-regulation of capital spending, in effect allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Code requires that treasury management decisions be taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Council. The Council will take into account its arrangements for the repayment of debt and consideration of any impact, on the authority’s overall fiscal sustainability.

3.4 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and housing rent levels is affordable.

3.5 To facilitate the decision-making process and support capital investment decisions the Prudential Code and the Treasury Management Code require the Council to agree and monitor a minimum number of prudential indicators which were approved by Council on 21 February 2019 as attached at Appendix 4.

3.6 The Strategic Director, Corporate Resources will ensure systems are in place to monitor the treasury limits and will report to Council instances where limits are breached, with the exception of short-term breaches of the Operational Boundary. The Operational Boundary is set so that if breached it acts as an early warning of the potential to exceed the higher Authorised Limit and as such temporary breaches due to debt restructuring and temporary borrowing are acceptable, providing they are not sustained.

4. Borrowing Strategy

4.1 The Local Government Act 2003 does not prescribe approved sources of finance, only that borrowing may not, without the consent of HM Treasury, be in other than Sterling.

4.2 The main options available for the borrowing strategy for 2019/20 are PWLB loans, market loans and the Municipal Bond Agency. The interest rate applicable to either PWLB or markets loans can be fixed or variable.

4.3 Variable rate short term borrowing is expected to be cheaper than long term fixed borrowing and therefore may be considered throughout the financial year. Due to the expectation that interest rates will rise, the risk of the potential increase in interest rates will be balanced against any potential short-term savings.

4.4 There are different types of market loans available, including forward starting, at variable and fixed interest rates. These loans generally would have to be offered at rates below the current or future PWLB forecast rates to make them an attractive option. The forward starting loans will be considered as a means of mitigating future interest rate movements, i.e. where the Council can agree an interest rate ahead of when it would actually be required to draw down the funds. This also avoids the 'cost of carry' – the difference between borrowing costs and investment returns.

4.5 To mitigate this interest rate risk a limit is placed on the total level of borrowing that can be taken as variable interest rate loans. To provide scope to utilise new market products should they become available as well as minimise the cost of borrowing and increase the diversification of the debt portfolio it is proposed that the limit on variable rate loans should be 40% of total borrowing in 2019/20.

4.6 The main strategy is therefore:

- Current (February 2019) long term PWLB rates (50 years) are around 2.40%. It is forecast that this will rise over the financial year 2019/20 with targets rates being, 2.60% Q1, 2.70% Q2, 2.80% Q3 and 2.90% Q4. Should interest rates fall below these targets borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity, this may include Local Infrastructure Rate borrowing. The average interest rates forecast across this financial year for various borrowing periods are as follows: -
  10 years – 2.45%
  25 years – 2.95%
  50 years – 2.75%

- The use of short term borrowing (6 months to 18 months) will also be considered with the aim of minimising borrowing costs. This short-term borrowing will be replaced with longer term loans when rates are preferable.

- External borrowing rates currently far exceed the return that is available for investments, meaning savings can be achieved by borrowing internally from reserves in the short term. The current policy of internal borrowing will continue to be followed as a short-term funding option serving to minimise overall cost.

- Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate.

Sensitivity of the forecast

4.7 The Council, in conjunction with Link Asset Services, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to any changes. The main sensitivities of the forecast are likely to be the two scenarios below:

- *if it was felt that there was a significant risk of a sharp FALL in long and short-term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

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

4.8 Against this background, caution will be adopted in the management of the 2019/20 treasury operations. The Strategic Director, Corporate Resources will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances having delegated powers to invest and manage the funds and monies of the Council.

External and Internal Borrowing

4.9 As at 31 January 2019 the Council has net debt of £581.083m; this includes total borrowing of £659.915m and investments of £78.832m.

4.10 Investment returns are likely to remain relatively low during 2019/20 but to be on a gently rising trend over the next few years.

4.11 Borrowing interest rates have been volatile so far in 2018/19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when it may not be possible to avoid new borrowing to finance capital expenditure and/or refinance maturing debt.

4.12 There remains a cost of carry, (the difference between higher borrowing costs and lower investment returns) to any new long term borrowing that causes a temporary increase in cash balances as this position will most likely incur a revenue cost.

4.13 The Council has examined the potential for undertaking early repayment of external PWLB or LOBO debt in order to reduce the difference between its gross and net debt positions. The significant difference between early redemption rates and interest rates payable on new debt means that large premiums are likely to be incurred by such action. This situation will be monitored in case the differential is narrowed by changes in current borrowing rates.

Borrowing in advance of need

4.14 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure that it is in line with the projected capital financing requirement and prudential indicators and that the Council can demonstrate value for money and ensure the security of the funds.

4.15 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow; and
- consider the alternative forms of funding.

Municipal Bond Agency

4.16 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council may consider this as an additional source of borrowing as and when appropriate.

5. Debt Rescheduling

5.1 Any rescheduling opportunities will be considered in line with procedures approved under the Council’s Treasury Management Practice Statements and will include a full cost/benefit analysis of any proposed variations. Any positions taken via rescheduling will be in accordance with the strategy position outlined in Section 4 above and will also take into account the prudential and treasury limits.

5.2 The reasons for any proposed rescheduling will include:

- the generation of cash savings at minimum risk;
- help to fulfil the treasury strategy; and
- in order to amend the maturity profile and/or the balance of volatility in the Council’s borrowing portfolio.

5.3 The Strategic Director, Corporate Resources in line with delegated powers outlined in the approved Treasury Management Practice Statement, will approve all rescheduling.

5.4 As short-term borrowing rates are expected to be cheaper than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. Opportunities identified will take into consideration the likely cost of refinancing these short-term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

5.5 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short-term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.

All rescheduling will be reported to Council in the mid-year and annual reports.

6. Investment Strategy 2019/20 to 2021/22

Introduction

6.1 The Council has regard to the MHCLG's Guidance on Local Government Investments and CIPFA's Code of Practice. The Council must produce a strategy on an annual basis which covers the subsequent three years.

6.2 The MHCLG and CIPFA have extended the meaning of "investments" to include both financial and non-financial investments. Non-financial investments are essentially the purchase of income yielding assets.

6.3 This annual strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the categories of **specified investments** and **non-specified investments.**

- Specified investments are those with a high-level credit quality and subject to a maturity limit of one year.
- Non-specified investments are those with less high credit quality, may be for periods in excess of one year and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

6.4 Both specified and non-specified investment types currently utilised by the Council are detailed in Appendix 6, along with approved limits. These limits reflect the Council's investment requirements whilst assessing risk and obtaining advice from Link Asset Services.

6.5 In addition to these, numerous other investment options are available for use and these may be considered suitable for use in the future. Should this be the case then the option will be evaluated in line with the procedures contained within the approved Treasury Management Practice Statement.

Investment Objectives

6.6 All investments will be in Sterling.

6.7 The Council's primary investment objective is the security of the capital investment. The Council will also manage the investments to meet cash flow demands and to achieve a reasonable return commensurate with the proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments.

6.8 The borrowing of monies purely to invest is unlawful and the Council will not engage in such activity.

Creditworthiness Policy

6.9 The Council applies the creditworthiness service provided by Link Asset Services. The service uses a sophisticated modelling approach with credit ratings from the three main rating agencies - Fitch, Moody's and Standard and Poor's. This service uses a scoring system to ensure that it does not give undue consideration to just one agency's ratings. It does not rely solely on the current credit ratings of counterparties but also uses the following information as overlays which are combined in a weighted scoring system:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap spreads, financial agreements that compensate the buyer in the event of a default, which give an early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

6.10 The end product of this modelling system is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service gives the required level of security for its investments. It is also a service which the Council would not be able to replicate using in-house resources.

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

The minimum credit rating criteria the Council use will be a Short-Term rating (Fitch or equivalents) of F1 and a long-term rating of A. In circumstances where ratings from all three agencies are not available, two acceptable ratings will be deemed as sufficient.
Where three ratings are published and all three do not meet our minimum criteria the counterparty will not be used until such a time as all three ratings meet the minimum criteria or the lowest rating is withdrawn.

6.11 The credit ratings will be monitored as follows:

- All credit ratings are reviewed weekly. The Council has access to Fitch, Moody's and Standard and Poor's credit ratings and is alerted to changes through its use of the Link Asset Services creditworthiness service. Ongoing monitoring of ratings also takes place in response to ad-hoc e-mail alerts from Link Asset Services.
- If a counterparty's or deposit scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/deposit scheme as a new deposit will be withdrawn immediately.
- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered for approval by the Strategic Director, Corporate Resources.

6.12 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and information on government support for banks and the credit ratings of government support.

6.13 The Council has determined the minimum long term and short-term ratings it deems to be "high" for each category of investment. These "high" ratings allow investments of 365 days or less to be classified as **specified investments**. The Council's approved limits for this "high" credit rating for deposit takers is as follows:

High Rated	Fitch	Moody's	Standard & Poor's
Short Term (ability to repay short term debt)	F1	P1	A1
Long Term (ability to repay long term debt)	A	A2	A

6.14 In addition to the above specified investments, the Council has also fully considered the increased risk of **non-specified investments** and has set appropriate limits for non-high rated deposit takers. These are as follows:

Non- High Rated	Fitch	Moody's	Standard &Poor's
Short term	F1	P1	A1
Long term	A-	A3	A-

The selection of counterparties with an acceptable level of creditworthiness will be achieved by selecting institutions down to a minimum durational band within Link Asset Services weekly credit list of worldwide potential counterparties. The maximum maturity periods and amounts to be placed in different types of investment instruments are detailed in Appendix 6.

6.15 UK Government nationalised/part nationalised banks will have a maximum limit of 40% or £20m of total investment, all other counterparties will not exceed a maximum limit equal to 20% of total investments or £15m. Unless there are major changes in the level of investment balances throughout the year this limit will be reviewed prior to the commencement of each financial year.

6.16 Where more than one counterparty from a group is included on the counterparty list the group in total will be controlled by the above limits with the maximum limit being that of the parent company. Within the group each counterparty/subsidiary will have individual limits based on their creditworthiness although the total placed with the subsidiaries will not exceed the limit of the parent company. Subsidiaries that do not satisfy the minimum credit criteria will not be included.

6.17 A number of counterparties are also approved by the Strategic Director, Corporate Resources for direct dealing. These counterparties are included on the approved list and dealing will be within agreed limits. Direct dealing with individual counterparties must be approved by the Strategic Director, Corporate Resources prior to investments being placed.

UK Banks - Ring Fencing

6.18 The largest UK banks, are required by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing".

6.19 Ring-fencing is a regulatory initiative created in response to the global financial crisis which improves the resilience of banks by changing their structure. In general, simpler, lower risk activities will be offered by a ring-fenced Bank (RFB), whilst more complex and riskier activities will sit within a non-ring-fenced bank (NRFB).

Foreign Banks

6.20 We will continue to use UK banks irrespective of the UK sovereign rating, however non-UK banks domiciled in countries with a minimum sovereign rating of AA+ will be considered for inclusion on the approved list, they must also meet the high rated lending criteria and have operations based in the UK. Limits will be prescribed by the Link Asset Services creditworthiness list and limited to 365 days or less. Each country will be limited to the maximum investment limit of £15m or 20% of the Council's total investments. A list of those countries with a minimum sovereign rating of AA+ is shown in Appendix 7.

Local Authorities

6.21 The Council invests with other Local Authorities on an ad hoc basis; each investment is considered on an individual basis and agreed by the Strategic Director, Corporate Resources, prior to funds being placed. Limits are detailed at Appendix 6.

Investment balances / Liquidity of investments

6.22 The Council deposits funds beyond 365 days to a maximum of 3 years. This will continue where the counterparty is deemed to be a low credit risk to ensure a good rate of return is maintained in the current market conditions. Deposits beyond 365 days will only be considered when there is minimal risk involved. With deposits of this nature there is an increased risk in terms of liquidity and interest rate fluctuations. To mitigate these risks a limit of £15m (20% of total investments whichever is the higher) has been set and a prudential indicator has been calculated (See Appendix 4). Such sums will only be placed with counterparties who have the highest available credit rating or other local authorities.

6.23 Deposits for periods longer than 365 days are classed as **non-specified investments** and this will increase the total limit of overall deposits in this classification to 75%.

Non-Treasury Investments

6.24 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as **'non-specified investments'**.

6.25 A loan or grant by the Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Council. It is therefore important for the Council to clearly identify if the loan was capital expenditure or if it is an investment made primarily to generate a financial yield. The latter will be assessed using the Council's Investment Framework.

6.26 The Council will ensure that all the organisation's investments are covered in either the Capital Strategy or Investment Strategy, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

6.27 To date the Council have not entered any non-treasury investments which are purely to generate a commercial return, neither are there any plans to consider entering into non-treasury investments solely or primarily to obtain a revenue return. However, if an opportunity to do so arose the long term financial impact and the risks inherent to the scheme would be assessed as part of the due diligence process. Where the size of the investment or the risk of the investment required external advice, this will be obtained. Any potential investment entered for a commercial return will require prior Cabinet approval.

6.28 The Council does not invest for solely commercial reasons or to generate income to support the revenue budget. Any capital investment entered into to deliver service objectives and/or the placemaking role of the local authority is monitored and reported in line with the Capital Strategy. Capital investments are assessed in terms of their contribution to deliver the following objectives:

- Additional Council Tax
- Increased Jobs
- Improved Council Services
- Income Generation
- Increased Housing
- Energy Reductions

Further information can be obtained from the Council's Capital Strategy at the following link: http://vmgovintweb/ieListDocuments.aspx?CId=138&MId=2001
.

6.29 The Council maintains a schedule setting out a summary of existing material Investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure, which is attached at Appendix 8.

Internal Investment Strategy

6.30 The Strategic Director, Corporate Resources will monitor the interest rate market and react appropriately to any changing circumstances.

6.31 The Council takes the view that bank rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter1 2022. Bank rate forecasts for financial year ends are 2018/19 0.75%, 2019/20 1.00%, 2020/21 1.50% and 2021/22 2.00%.

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

6.33 The Council will avoid locking into longer term deals while investment rates are down at historically low levels. Long term deposits, beyond 365 days, will only be used where minimal risk is involved and the counterparties are considered to be supported by the UK Government.

Investment Risk Benchmark

6.34 The Council will use an investment benchmark to assess the investment performance of its investment portfolio against the 7-day London Interbank Bid Rate (LIBID). The Council is also a member of the Link Asset Services investment benchmarking Group who meet semi-annually. As a member, quarterly reports on comparative performance with other members of the group and the wider Link Asset Services client base are received. The benchmarking return for the group is a reasonable target for the Council, which allows the relative risk appetite to be considered as part of the benchmark.

End of year investment report

6.35 By the end of September each year Council will receive a report from Cabinet on its investment activity as part of its annual treasury report.

Policy on use of external service providers

6.36 The Council currently uses Link Asset Services as its external treasury management advisers.

6.37 It is recognised that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.

6.38 It is also recognised that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Scheme of Delegation

6.39 As required by the Guidance Notes for Local Authorities the Treasury Management Scheme of Delegation is detailed in Appendix 3, paragraph 1.3.

Role of the Section 151 Officer

6.40 As required by the Guidance Notes for Local Authorities the role of the Section 151 Officer in relation to treasury management is detailed below:

- Recommending the Code of Practice to be applied, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Submitting budgets and budget variations;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy of internal audit, and liaising with external audit; and
- Arranging for the appointment of external service providers;
- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management;
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;

- Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.

Appendix 4

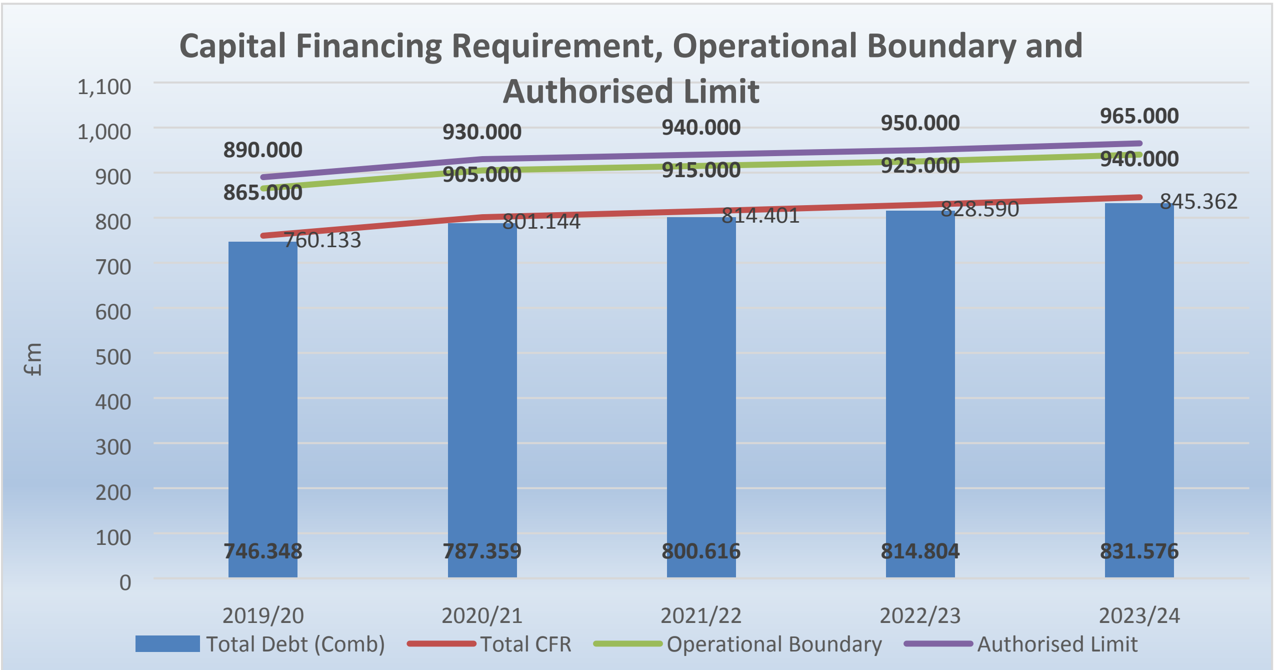
Prudential Indicators –Treasury Management

Authorised Limit for External Debt					
	2019/20 £000	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Borrowing	890,000	930,000	940,000	950,000	965,000

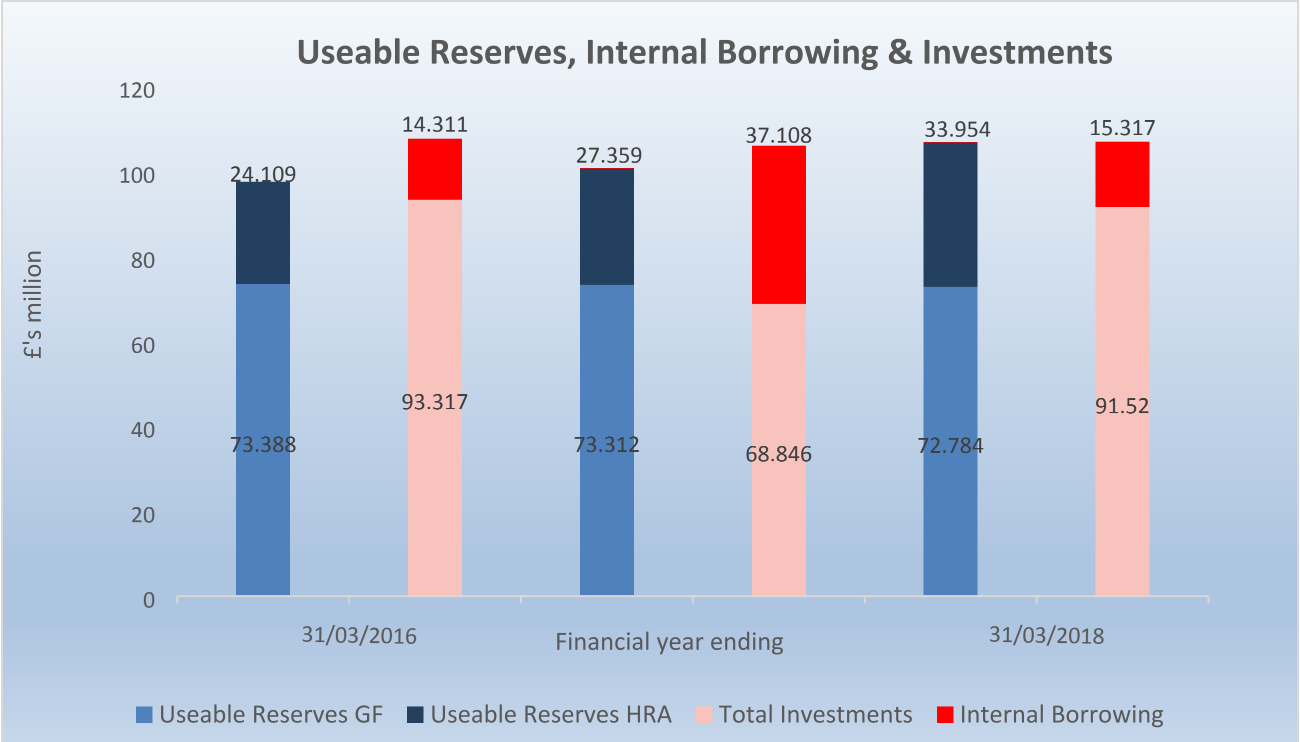
The Authorised Limit for External Debt sets the maximum level of external borrowing that the Council can incur. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the Council's expected maximum borrowing need with headroom for unexpected cashflow. The limit also provides scope for the Council to borrow in advance of need.

Operational Boundary for External Debt					
	2019/20 £000	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Borrowing	865,000	905,000	915,000	925,000	940,000

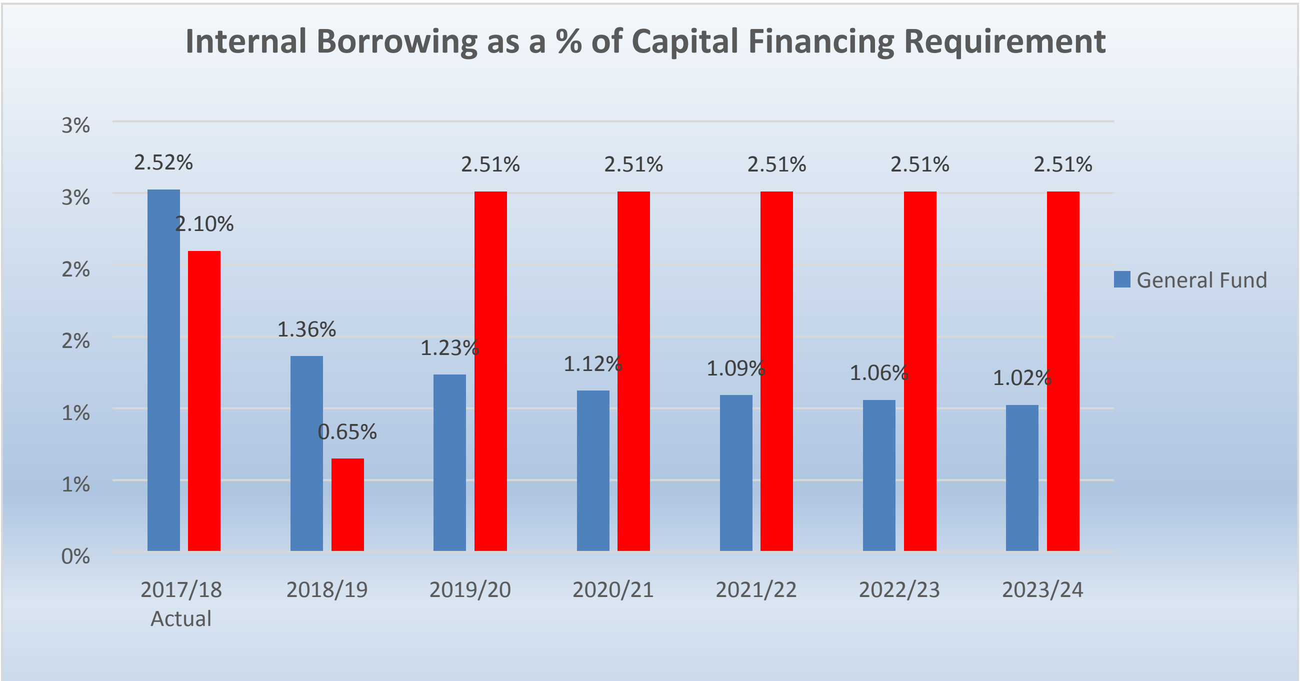
The Operational Boundary for External Debt is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an early warning indicator to ensure the authorised limit is not breached. Similar, to the authorised limit it also provides scope for the Council to borrow in advance of need



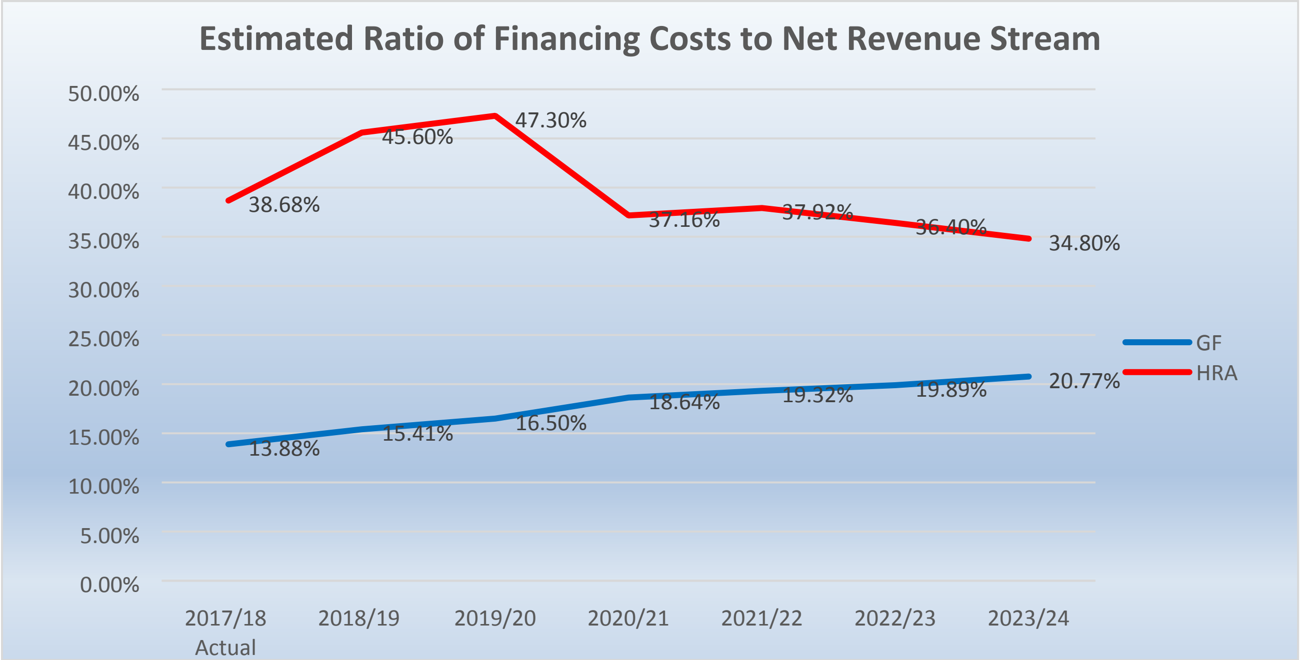
Capital Financing Requirement (CFR) shows the Council's capital borrowing requirement. Any gap between the CFR and the total debt highlights the potential to borrow further if the cashflow and treasury management position dictate.



The internal Borrowing position represents the level to which reserves, and balances have temporarily been used to support borrowing positions and therefore the reserves will not be backed by cash in the bank.



Internal borrowing as a percentage of the Council's underlying borrowing requirement reflects the Council's exposure to interest rate movements and the element of borrowing that is being undertaken at variable rates (i.e. rates equivalent to the lost interest on investment income).



Ratio of financing costs to net revenue stream – financing costs must be met before any services have been delivered. Higher financing costs leaves less available to provide services.

Treasury Indicators

Upper and Lower Limits for the Maturity Structure of Fixed Rate Borrowings		
	Upper Limit	**Lower Limit**
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and within 20 years	30%	0%
20 years and within 30 years	30%	0%
30 years and within 40 years	50%	0%
40 years and within 50 years	50%	0%
50 years and above	50%	0%

Upper and Lower Limits for the Maturity Structure of Variable Rate Borrowings		
	Upper Limit	**Lower Limit**
Under 12 months	30%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	15%	0%
5 years and within 10 years	15%	0%
10 years and within 20 years	15%	0%
20 years and within 30 years	15%	0%
30 years and within 40 years	15%	0%
40 years and within 50 years	15%	0%
50 years and above	15%	0%

Upper Limit on Amounts Invested Beyond 365 Days					
	2019/20 £000	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Investments	15,000	15,000	15,000	15,000	15,000

Appendix 5

Specified Investments (All Sterling Denominated)

Investment type	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum Credit Rating	Capital Expend-iture	Circumstance of use	Maximum period
Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 365 days.	No	Yes	High security although LA's not credit rated. *See appendix 3 Creditworthiness Policy*	No	In-house	365 days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits with maturities up to 365 days.	No	Yes	Secure Varied minimum credit rating *See appendix 3 Creditworthiness Policy*	No	In-house	365 days

Short Term Money Market Funds The majority of these funds are instant access and therefore do not have a maturity date.	No	Yes	Secure Varied minimum credit rating *See appendix 3 Creditworthiness Policy*	No	In-house	The investment period is subject to liquidity and cash flow requirements. It is assumed that funds are placed overnight and will be returned and reinvested the next working day (although no actual movement of cash may take place).
Standard Money Market Funds and Ultra Short Duration Funds 3-day notice cash plus fund These funds require three-day notice for withdrawals and therefore do not have a maturity date.	No	Yes	Secure Varied minimum credit rating *See appendix 3 Creditworthiness Policy*	No	In-house	The investment period is subject to liquidity and cash flow requirements. Notice required is three days, however it is the intention to leave these funds for terms longer than other money market funds to achieve greater returns.

Non-Specified Investments (All Sterling Denominated)

Investment type	(A) Why use it (B) Associated risks	Share/ Loan Capital	Repayable/ Redeemable within 12 months	Security / Minimum credit rating	Capital Expenditure	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Rated deposit takers (banks and building societies) which do not meet the Council's "high" credit rating	(A) To improve ability to place smaller amounts (B) Greater risk than "high" credit rating counterparties but advance warning by rating agency of potential problems. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating *Minimum: Long term A-* *Short term F1*	No	In-house	Total not high rated deposits as a proportion of total investments 75%	6 months (but set on an individual counterparty basis)
Term deposits with UK Government, UK Local Authorities or credit rated banks and building societies, with maturities over 1 year	A) To improve the ability to "lock in" at times of high interest rates to secure a higher return over a longer period should rates be forecast to fall. B) Lower liquidity and greater risk of adverse interest rate fluctuations. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	No	Secure Varied minimum credit rating	No	In-house	Total investment per Counterparty 20%	3 years

Certificate of Deposits issued by banks and building Societies	A) Provides additional counterparties, as many banks do not want to take fixed term cash deposits. B) Credit risk could change but if adverse there is an option to sell onto a secondary market. The Council has fully considered this investment category and set appropriate investment and maturity limits in order to minimise risk.	No	Yes	Secure Varied minimum Credit rating *Minimum: Fitch Long term A- Short term F1*	No	In-House	20%	12 months (but set on an individual counterparty basis)

Appendix 6

Maximum Maturity Periods and Amounts

Organisation	Criteria	Max Amount*	Max Period
High Rated (Specified Investments – High rated and up to 365 days see Appendix 5) Foreign Banks	Minimum Fitch rating of F1 short term and A long term. Moody's minimum rating of P1 short term backed by A2 long term and S&P minimum rating of A1 short term and A long term. Must meet the minimum high rated criteria above and have a minimum sovereign rating of AA+	£20m (Gov't Backed, otherwise £15m) £15m country limit	3 years 365 Days
Non-High Rated	Minimum Fitch rating of F1 short term and A- long term. Moody's minimum rating of P1 short term backed by A3 long term and S&P minimum rating of A1 short term and A- long term.	£10m	6 months
UK Local Authorities	(i.e. local authorities as defined under Section 23 of the 2003 Act) Each investment is considered on an individual basis	£10m	3 years
Short-Term Money Market Funds (Same day settlement)	AAA mmf fund rating or equivalent with assets >£1bn	£10m	Overnight
Standard Money Market Funds and Ultra-Short Duration Funds (Trade plus 3-day settlement)	AAAf fund rating or equivalent, backed up with lowest volatility rating (S1) or equivalent with assets > £0.75bn	£10m	3 days

* Restricted to a maximum of either 40% or 20% of total investments depending on the counterparty.

Foreign Banks   Appendix 7

This list is based on those countries which have non-UK sovereign ratings of AA+ or higher at 15/01/19.

AAA

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

AA+

- Finland
- Hong Kong
- U.S.A.

Non-Treasury Management Investments **Appendix 8**

Investment	Latest Balance	Notes
SCAPE System Build Ltd	784,000.00	17% shareholding in SCAPE
Ncle International Airport	11,583,020.00	13.33% shareholding in Newcastle Airport
Hospital Of King James	74,494.76	Loan Balance @ 21/09/18
Long Term loan Keelman	11,916,536.63	Loan Balance @ 31/12/18
Long term loan CAB	537,583.90	Loan Balance @ 31/01/19
Loan to Trading Company	4,019,000.00	Loan Balance @ 21/02/19
Newcastle Airport Long Term Loan notes	10,298,654.00	Loan Notes - Interest paid bi annually - principal repayment due 2032
Soft Loans	413,396.05	Northern Music Trust - soft loan