	Executive **6 February 2019**	**Agenda Item No.** **6**

Title	Treasury Management Strategy 2019/20
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Wards of the District directly affected	-
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	N/A
Background Papers	Treasury Management Information via External Advisers, Brokers, External Investment Agents etc.

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes (972)
Equality Impact Assessment Undertaken	No – not relevant

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	15/01/2019	Andy Jones
Head of Service	15/01/2019	Mike Snow
CMT	15/01/2019	
Section 151 Officer	15/01/2019	Mike Snow
Monitoring Officer	15/01/2019	Andy Jones
Finance	N/A	Finance Report
Portfolio Holder(s)	15/01/2019	Cllr. Peter Whiting
Consultation & Community Engagement		
None		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

1. Summary

1.1. This report details the strategy that the Council will follow in carrying out its treasury management activities in 2019/20.

2. Recommendation

2.1. That the Executive notes:

The changes to the various Treasury Management Practices as detailed in paragraph 3.1 below.

2.2. That the Executive recommends to Council:

a) The Treasury Management Strategy for 2019/20 as outlined in paragraph 3.2 and contained in Appendix A,

b) The 2019/20 Annual Investment Strategy as outlined in paragraphs 3.3 and contained in Appendix B including the following changes:

   1. That as per paragraph 1.4 of Appendix B and Annex 2 to Appendix B, the minimum sovereign country rating in respect of investments in counterparties residing outside the United Kingdom be amended from "at least the equivalent of the UK" to a minimum of AA- and that no UK sovereign rating applies to UK domiciled counterparties.

   2. The current counterparty limits are increased to those shown in paragraph 2.7 of Appendix B and Annex 2 to Appendix B, and that the condition currently restricting investments in banks to those domiciled in the UK be removed for the reasons outlined in paragraph 2.8 of Appendix B.

c) The Minimum Revenue Provision Policy Statement as outlined in paragraph 3.4 below and contained in paragraphs 5.1 to 5.4 of Appendix C.

d) The Prudential Indicators as outlined paragraph 3.5 below and contained in Appendix D.

3. Reasons for the Recommendations

3.1. The Council's treasury management operations are governed by various Treasury Management Practices (TMP's), the production of which is a requirement of the CIPFA Treasury Management code and which must be explicitly followed by officers engaged in treasury management. These have previously been reported to the Executive. There have been the following changes to various Treasury Management Practices (TMP's) and these changes are outlined below.

TMP 1 - Risk Management.

Paragraph 2.1(a,d,e) – Change in minimum sovereign country rating for counterparties residing outside the United Kingdom from "at least equal to the UK's" to "minimum sovereign rating of AA-". This has been recommended by Link, the Council's treasury advisers, to help

	mitigate any potential adverse effects of Brexit in terms of a downgrade to the UK's sovereign credit rating on the Council's ability to invest its funds. Also see paragraph 1.4 of Appendix B.
Paragraph 2.1(k,l) –	Redefinition of Constant Net Asset Value Money Market Funds to Government Debt Constant Net Asset Value Money Market Funds and introduction of Low Volatility Net Asset Value Money Market Funds following reform of European Money Market Funds.
Paragraph 2.2 –	increase in counterparty limits as outlined in paragraph 2.7 of Appendix B.

TMP 4 - Approved Investments, Methods and Techniques

Paragraph 2.1(j) –	changed to reflect the new definition of Money Market Funds as per TMP 1.

TMP 11 - Use of External Service Providers.

Paragraph 1.3 (h) -	changed to reflect the new definition of Money Market Funds as per TMP 1.
Paragraph 2.1 –	updated to reflect change of treasury advisers name from Capita – Treasury Solutions Ltd to Link Asset Services.

Finally, the various TMP's have been updated throughout to reflect:

a) the new definition of a short term investment as outlined in the 2018 Investment Guidance issued by MHCLG i.e. one that is 365 days or less and

b) the change of name from DCLG to MHCLG.

3.2. Under CIPFA's updated Treasury Management in Public Services Code of Practice the Council continues to be required to have an approved Treasury Management Strategy, within which its Treasury Management operations can be carried out. The proposed Strategy for 2019/20 is included as Appendix A.

3.3. This Council has regard to the Government's Guidance on Local Government Investments. The guidance states that an Annual Investment Strategy must be produced in advance of the year to which it relates and must be approved by the full Council. The Strategy can be amended at any time and it must be made available to the public. The Annual Investment Strategy for 2019/20 is shown as Appendix B. Increasing cash balances and the potential consequences of a disorderly Brexit make it necessary to consider increasing certain counterparty limits and amending the minimum country sovereign credit rating. It has increasingly become the case that UK branches of non UK domiciled banks are sending deposits raised in the UK back to their home countries, hence the recommendation to amend "UK Private Banks" to "Private Banks" in order to avoid losing valuable counterparties. It is not considered that this poses any significant threat to the security of our investments in such banks.

3.4. The Council has to make provision for the repayment of its outstanding long term debt and other forms of long term borrowing such as Finance Leases. Statutory guidance issued by CLG requires that a statement on the Council's policy for its annual Minimum Revenue Provision (MRP) should be submitted to the full Council for approval before the start of the financial year to which it relates and this is contained in Appendix C.

3.5. The Prudential Code for Capital Finance in Local Authorities which was last revised in 2018 introduced new requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of an integrated treasury management strategy. The Prudential Code requires the Council to set a number of Prudential Indicators and this report does therefore incorporate within Appendix D the indicators to which regard should be given when determining the Council's treasury management strategy for the next 3 financial years.

4. Policy Framework

4.1. Fit For the Future (FFF)

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects.

The FFF Strategy has three strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	**Services**	**Money**
External		
Health, Homes, Communities	**Green, Clean, Safe**	**Infrastructure, Enterprise, Employment**
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/ productivity of local economy Increased employment and income levels
Impacts of Proposal		
No direct impact	No direct impact	No direct impact
Internal		
Effective Staff	**Maintain or Improve Services**	**Firm Financial Footing over the Longer Term**
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money

FFF Strands		
People	**Services**	**Money**
right skills and right behaviours		
Impacts of Proposal		
No impact	No impact	To continue to maximize the income earned on our investments whilst first ensuring security and appropriate levels of liquidity.

4.2. **Supporting Strategies**

Each strand of the FFF Strategy has several supporting strategies. The Treasury Management function is consistent with the relevant supporting strategies.

4.3. **Changes to Existing Policies**

The Treasury Management function is in accordance with existing policies.

4.4. **Impact Assessments**

There are no impacts of new or significant policy changes proposed in respect of equalities.

5. Budgetary Framework

5.1. The Treasury Management Strategy has a significant impact on the Council's budget through its objective of maximising investment income and minimising interest payable whilst ensuring the security and liquidity of financial resources.

The 2019/20 budget for investment income is as follows:

2019/20 Budget	**£000**
External investment income	1,038.6
Plus deferred capital receipts interest	20.6
Plus long-term debtor loans	36.6
Less HRA allocation	(623.5)
Net interest to General Fund	**472.3**

6. Risks

6.1. Investing the Council's funds inevitably creates risk and the Treasury Management function effectively manages this risk through the application of the SLY principle. Security(S) ranks uppermost followed by Liquidity (L) and finally Yield(Y). It is accepted that longer duration investments increase the security risk within the portfolio; however this is inevitable in order to achieve the optimal return and still comply with the SLY principle which is a cornerstone of treasury management within local authorities.

6.2. Section 2 of Appendix B provides more detail on how the risk is mitigated.

6.3. By engaging with our treasury management consultants, the Council is able to tolerate the risks to which it is exposed. Link Asset Services (Link), the Council's consultants, provide regular briefings, alerts and advice in respect of the Council's portfolio. Provision also allows for training so Members and officers responsible for the Council's treasury management function are informed and competent.

6.4. The strategies outlined in this report are based on an orderly exit from the EU at the end of March 2019. There is significant risk to counterparty creditworthiness and also the interest rate assumptions and economic forecasts upon which the interest rates are predicated should the exit from the EU be disorderly. The treasury management function along with Link Asset Services will keep this situation under review and bring forward suitably modified strategies for approval should the need arise.

7. Alternative Option(s) considered

7.1. An alternative to the strategy being proposed for 2019/20 would be to not alter the current counterparty limits, the minimum sovereign rating and to continue to restrict investments in non UK domiciled banks to UK branches where the funds are not transferred back to the banks home country. However, this would risk the Council running out of acceptably credit rated counterparties and possibly having to lower its minimum credit ratings below that which it feels comfortable with.

8. Background

8.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

8.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

8.3. The 2019/20 Treasury Management and Annual Investment Strategies together with the 2019/20 Minimum Revenue Provision Policy take account of the various changes stemming from the following documents:-

- CIPFA Treasury Management Code of Practice 2018
- CIPFA Prudential Code 2018
- 2018 MHCLG Statutory Investment Guidance
- 2018 MHCLG Statutory Minimum Revenue Provision Guidance

The main change to the above codes/guidance relates to non-financial asset investments which authorities treasury management functions are increasingly involved with. Such non–financial investments can include the purchase of property for capital or rental gain or loans to third parties in pursuit of service outcomes.

8.4. CIPFA defines treasury management as:

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

8.5. Whilst any commercial initatives such as the purchase of properties in order to provide capital appreciation or rental income or loans to third parties will impact on the treasury function in terms of cashflow etc., these activities are generally regarded as non-treasury activities and are separate from day to day treasury management activities.

8.6. **Revised Reporting Requirements**

In addition to the current reports submitted to Finance and Audit Scrutiny Committee and The Council from 2019/20, the CIPFA revised Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

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

The aim of this capital strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments such as acquisition of Investment Properties or Loans to Third parties will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

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

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required.

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

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report where appropriate.

Appendices

A Treasury Management Strategy

B Investment Strategy

Annex 1 - Types of Investment
Annex 2 - Counterparty Limits
Annex 3 - Approved Countries for Investment

C Minimum Revenue Provision Policy

D Prudential Indicators

E Link Economic Background

Appendix A

Treasury Management Strategy

1 Interest Rate Forecasts

1.1 The major influences on the Council's investment and borrowing strategies are the Bank of England Bank Rate and Public Works Loans Board (PWLB) rates respectively. The Council has appointed Link as treasury advisors who have provided the interest rates forecast shown below:

Quarter	Bank Rate	25 yr PWLB Rate	50 yr PWLB Rate
Dec 2018	0.75%	2.90%	2.70%
Mar 2019	0.75%	2.90%	2.70%
Jun 2019	1.00%	3.00%	2.80%
Sep 2019	1.00%	3.10%	2.90%
Dec 2019	1.00%	3.10%	2.90%
Mar 2020	1.25%	3.20%	3.00%
Jun 2020	1.25%	3.30%	3.10%
Sep 2020	1.25%	3.30%	3.10%
Dec 2020	1.50%	3.40%	3.20%
Mar 2021	1.50%	3.40%	3.20%
Jun 2021	1.75%	3.50%	3.30%
Sep 2021	1.75%	3.50%	3.30%
Dec 2021	1.75%	3.60%	3.40%
Mar 2022	2.00%	3.60%	3.40%

1.2 It should be noted that this is Link's central view of the interest rate path. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK especially with regard to whether we have an orderly or disorderly exit from the EU. A disorderly exit could lead the Monetary Policy Committee (MPC) to lower the Bank Rate in order to stimulate the economy and could also impact on the UK's sovereign credit rating, a reduction in which could result in higher Gilt interest rates which would then follow through to increased PWLB rates as these are based on Gilt rates plus 0.8%. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

2 Borrowing Strategy

2.1 The Council's current long term borrowing portfolio consists of £136.157m PWLB debt. These loans were taken out to finance the Housing Revenue Account (HRA) Self Financing settlement and the interest paid on this debt is entirely borne by the HRA and is provided for as part of the HRA Business Plan. The first of these loans is scheduled to be repaid on 28th March 2053 with the final loan being repaid on 28th March 2062. The Council's treasury advisors will monitor the HRA debt portfolio and identify any opportunities for debt restructuring, should these arise.

2.2 As a result of the refurbishment of St Nicholas Park and Newbold Comyn Leisure Centres, the Council is currently "internally borrowed", that is, instead of borrowing externally it has utilised the cash backing its Reserves and Balances to the tune of £8.999m and, as a result of its capital programme aspirations, this is expected to rise to £20.6m by the end of 2018/19 before falling back to around £13.3m by the end of 2022/23. At present this strategy is prudent as investment returns are low and counterparty risk is still present. However, this position is not sustainable into the future as at some point the Council will need to replenish the cash backing the Reserves and Balances in order to pay for future developments. In addition, the uncertainties surrounding the path of PWLB rates as a result of Brexit make it prudent to consider "externalising" some of the internal borrowing by taking PWLB loans during 2019/20. Accordingly, the strategy proposed for 2019/20 is to take PWLB loans amounting to £11.672m during the year. This will probably be taken in two stages, at the beginning and end of the year. The loans are likely to consist of two annuity loans, one for a period of 25 years and the second for 40 years, to match the expected life of the assets financed. Based on the forecast for borrowing rates at the time of taking the loans this will result in interest and principal repayments of £549k per annum and a total repayment of £18.5m. The proposed strategy will be kept under review, particularly in respect of interest rate movements and fully discussed and agreed with Link Asset Services before being implemented.

2.3 The major source of long term borrowing for local authorities is the PWLB. However, it is possible the recently established Municipal Bond Agency will be offering loans to local authorities in the future. It is envisaged that the rates will be lower than those offered by the PWLB. This Authority may make use of this new source of borrowing as and when appropriate. The Council will also consider other sources of external finance if they provide a lower rate of interest than comparable PWLB loans.

2.4 Should the Council identify any further long term borrowing needs during 2019/20, if deemed to be advantageous due to the expected path of interest rates, the Council may borrow in advance of need subject to prior appraisal of the risk and the borrowing must not take place in excess of 18 months before the anticipated need.

2.5 The Council will continue to engage in short term borrowing (up to 365 days), if necessary, in order to finance temporary cash deficits. However, by managing the Council's cash flow effectively these will be kept to a minimum. In each case, wherever possible, the loan will be taken out for periods of less than 7 days in order to minimise the interest payable. The Council has not incurred any short term borrowing in 2018/19 to date and is not expecting to in 2019/20.

3 Capital Prudential Indicators for 2019/20 to 2021/22

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

3.2 The Council must have regard to the 2018 Prudential Code for Capital Finance in Local Authorities and there is an overriding requirement for capital spend to be prudent, affordable and sustainable. This is measured by adherence to prudential indicators as set by the Authority. Prudential indicators are approved as part of the budget resolution in February and are relevant for setting an integrated Treasury Management Strategy. These can be found in Appendix D.

3.3 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital expenditure £000	**2017/18 Actual**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
General Fund	11,758	12,495	4,200	449	577
HRA	3,649	10,598	22,156	4,633	4,636
Commercial Activities/Non Financial Investments*	0	5,952	0	0	0
Total (A)	**15,407**	**29,045**	**26,356**	**5,082**	**5,213**

* Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

The table below summarises how these plans are being financed by capital or revenue resources. Any shortfall of resources results in an increase in the Capital Financing Requirement indicating a borrowing need.

Financing of capital expenditure £000	**2017/18 Actual**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Capital receipts	745	1,906	3,449	0	0
Capital grants and contributions	2,695	1,299	2,206	25	0
Capital reserves	3,535	9,772	18,585	4,511	4,513
Revenue	941	4,422	2,071	501	655
Subtotal (B)	**7,916**	**17,399**	**26,311**	**5,037**	**5,168**
Net borrowing need for the year (A – B)	**7,491**	**11,646**	**45**	**45**	**45**

The Council is required under the CIPFA Prudential Code for Capital Financing in Local Associations to produce a Capital Strategy, as part of best practice. The Council's first Capital Strategy for the period 2019/20 to 2023/24 is being considered as part of the 2019/20 Budget report.

4 Benchmarking

4.1 Link co-ordinates a sub-regional treasury management Benchmarking service of which Warwick District Council is an active participant. The Council aims to achieve or exceed the weighted average rate of return of the Link model portfolio, which is published quarterly.

4.2 During 2018/19 year to date, the Council's performance has been in line with the model portfolio.

5 Performance

5.1 Performance of the treasury function is reported twice yearly to the Finance and Audit Scrutiny Committee.

5.2 The Treasury Management Team will seek to achieve a return on its money market investments of 0.0625% over the London Interbank Bid Rate (LIBID) of a similar duration (LIBID refers to the average interest rate which major London banks are willing to borrow from each other).

6 External Contracts

6.1 The Council has exercised the option to extend our contract with Link, our treasury advisors, by two years, taking the current agreement to January 2020. Therefore during the currency of this strategy it will be necessary to re-tender for this service.

6.2 Banking services are provided by HSBC Bank Plc, with the current agreement running until February 2020. This agreement has an option to extend for a further five years and research will be undertaken with a view to exercising this option.

7 Training

7.1 The CIPFA Code requires that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Following the 2019 Council elections, our treasury consultants will deliver in house training to Members of the Finance and Audit Scrutiny Committee as well as other interested Members. Further training will then be provided as and when required.

7.2 Those officers currently involved in treasury management receive training from the Council's treasury consultants and this has been and will be kept up to date by regular attendance at seminars held by our consultants, and also through other sources such as CIPFA publications and market intelligence.

Appendix B

<u>Annual Investment Strategy</u>

1 Background

1.1 The Council will have regard to the 2018 MHCLG Guidance on Local Government Investments and the 2018 revised CIPFA Treasury Management in the Public Services Code of Practice.

1.2 The Council's investment priorities will be Security first, Liquidity second and thirdly Yield.

1.3 The Annual Investment Strategy specifies which investments the Council may use for prudential treasury management. Annex 1 details the types of investment the Council may invest in, split under the headings of specified and non-specified investments in accordance with statutory guidance and also details the counterparty limits.

1.4 Specified investments are currently defined as those with a high credit rating including a Fitch (or Moody's or S&Ps equivalent) sovereign rating at least equal to that of the United Kingdom. At the time of writing this was AA long term and F1+ short term. However if there were to be a disorderly Brexit, it is possible that the credit rating agencies could downgrade the sovereign rating for the UK but as we have no minimum sovereign rating applying to the UK this approach will not limit the number of UK counterparties available to the Council. To ensure our credit risk is not increased outside the UK, it is recommended that the sovereign rating requirement for investments is amended to "Non UK countries with a minimum sovereign rating of AA-". This is the recommended minimum as currently suggested by Link Asset Services and a list of countries that currently qualify using the new criteria is shown in Annex 3. By removing the minimum for the UK, we will have the ability to continue using UK counterparties even where the sovereign rating falls below the AA- threshold for other countries. This list will be added to, or deducted from, by officers should ratings change. Given that AA- is still a high credit rating it is not expected that the adoption of this recommendation will have a significant impact on the security of the Council's investments with banks within the countries listed in Annex 3.

1.5 Use of non specified investments provides a useful tool for investing relatively small amounts of money for short periods of time and obtaining a competitive return on the investment. The restrictions, as detailed in Annex 1, allow the management of the increased risk compared to specified investments.

2 Creditworthiness policy

2.1 The Council relies on credit ratings published by the three main Credit Rating agencies, Fitch Ratings, Moody's Investor Services and Standard & Poor's which are supplied to it by its treasury advisers. These ratings are used to establish the credit quality of counterparties and investment schemes. These institutions also issue regular ratings watch bulletins and where these are negative and affect one of our counterparties this will be taken into account when deciding whether or not to place future investments with them.

2.2 The Council also utilises elements of the creditworthiness service provided by Link in determining the duration of its investments with certain counterparties. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

2.3 All credit ratings will be monitored routinely and will inform every investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the service.

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

2.4 Reliance will not be placed solely on the use of this external service. In addition this Council will use market data and market information to help support its decision making process.

2.5 All investments in property, corporate bond and corporate equity funds will be supported by the advice of Link, our treasury advisors.

2.6 All investments will be in sterling. The Council's investment priorities are the security and liquidity of its investments. The Council's objective will be to maximise the return whilst safeguarding as much as possible the capital sum and avoiding cash flow problems. The Council will not engage in borrowing for purely investment purposes.

2.7 The Council will ensure that it maintains the lists of permitted investments and counterparty limits (Annexes 1 and 2) and will revise and submit the criteria to Council for approval when required. In respect of counterparty limits, the Council's investment balances continue to increase mainly due to increasing Housing Revenue Account balances which currently are not projected to be spent in the foreseeable future. Therefore in order to provide flexibility particularly in the case of a disorderly Brexit and to continue to be able to invest in the highest quality counterparties it is proposed to increase the counterparty limits for certain institutions as follows:-

A rated private banks from £4m to £5m

A+ rated private banks from £6m to £7m

AA- rated private banks from £7m to £8m

Government Debt CNAV MMF's from £9m to £10m

LVNAV MMF's from £9m to £10m

2.8 The list of counterparties contained in Annex 1 currently limits investments in banks to those described as UK banks which is commonly interpreted as those banks offering retail deposit facilities in the UK or branches of foreign banks where the money invested remains within the UK as opposed to being sent abroad to the parent bank. Increasingly these days, foreign bank branches operating in the UK do "passport" investments raised in the UK back to their parent banks and it has become difficult to be certain that our investments made with foreign bank branches remain within the UK. Given that we only deal with banks that meet our credit rating criteria, particularly in this case the sovereign rating it is not felt that the security of our investments is unduly diminished in cases where the money is sent abroad. Therefore it is proposed that the description in the counterparty list for banks is amended from "private UK" to "private".

2.9 The Council has both cash flow derived and core balances available for investment. Investment decisions will be made with regard to cash flow requirements, core cash balances and the outlook for short term interest rates.

2.10 The Council will continue to use Money Market Funds (MMFs), call bank accounts and the money markets to invest cash flow driven money until the time when it is required. Core investments will be invested in a combination of corporate equity funds and the financial markets.

2.11 The Council has two corporate equity fund managers, Royal London Asset Management and Columbia Threadneedle, the performance of which will be kept under review. Currently both fund managers expect to make returns of around 4% in 2019/20. Although not currently anticipated, the Council may engage other fund managers to manage investments in similar or alternative investments; any appointment would be made in conjunction with Link and would be in adherence with the procurement rules.

2.12 Based on its cash flow forecasts, the Council anticipates that its investments in 2019/20 on average will be in the region of £91m of which £31m will be "core" investments i.e. made up of reserves and balances which are not required in the short term.

2.13 The maximum percentage of its core investments that the Council will hold in long term investments (over 365 days) is 70%. It follows therefore that the minimum percentage of its overall investments that the Council will hold in short term investments (365 days or less) is 30%. Having regard to the Council's likely cash flows and levels of funds available for investment the amount available for long term investment will be a maximum of 70% of the core investment portfolio subject to a total of £20 million at any one time in line with the Prudential Indicator covering this issue. These limits will apply jointly to the in house team and any fund managers so that the overall ceilings of 70% and £20 million are not breached.

2.14 The 2019/20 interest rate outlook is for Bank Rate to start the year at 1.00% and rise to 1.25% by the final quarter of the year. Based on current investment policies and interest rate projections, it is currently estimated that the overall portfolio will achieve a 1.35% return for 2019/20.

3 Investments that are not part of treasury management activity

3.1 Where, in addition to treasury management investment activity, the Council invests in other financial assets and property primarily for financial return, these investments will be proportional to the level of resources available and the Council will ensure the same robust procedures for the consideration of risk and return are applied to these decisions.

3.2 The Council recognises that investment in other financial assets e.g. loans to third parties and property may be taken for non-treasury management purposes, thus requiring careful investment management. Such activity includes loans supporting service outcomes and commercial investments, which are taken for mainly financial reasons.

3.3 The Council's framework to consider such non treasury management investments is reflected within the Council's Capital Strategy. All such investment proposals will be considered on their own merits, and have regard to treasury management principles.

3.4 The Council will ensure the organisation's investments are covered in the capital programme, investment strategy or equivalent, 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.