Leicester
City Council

OVERVIEW SELECT COMMITTEE **12th February 2020**
COUNCIL **19th February 2020**

Treasury Management Strategy 2020/21

Report of the Director of Finance

1. Purpose of Report

1.1 This report proposes a strategy for managing the Council's borrowing and cash balances during 2020/21 and for the remainder of 2019/20. (This is the treasury management strategy).

2. Summary

2.1 Treasury management is the process by which our borrowing is managed, and our cash balances are invested. Whilst there are links to the budget process, the sums in this report do not form part of the budget. To the extent that the Council has money it can spend, this is reflected in the budget report. Cash balances reported here cannot be spent, except to the extent already shown in the budget report or the accounts.

2.2 The Council has incurred debt to pay for past capital expenditure.

2.3 The Council also has cash balances. These are needed for day to day expenditure (e.g. to pay wages when they are due). A substantial proportion can only be used to repay debt but (because of Government rules) we are usually unable to use this proportion to repay debt. Thus, they are held in investments.

2.4 A related report on the agenda is the Treasury Policy, which establishes a framework for the governance of treasury management.

3. Recommendations

3.1 Members of Overview Select Committee are recommended to note the report and make any comments to the Director of Finance as wished, prior to Council consideration.

3.2 The Council is recommended to approve this treasury strategy, which includes the annual treasury investment strategy at Appendix B. The strategy will become effective as soon as it is approved.

4. Borrowing

4.1 As at 31st March 2020, the Council will have a total long-term debt of £180m. comprising £135m borrowed from the Public Works Loans Board (a Government quango), and £45m from the financial markets.

4.2 In years prior to 2011, the Government usually supported our capital programme by means of “supported borrowing approvals.” The Government allowed us to borrow money, and paid us to service the debt through our annual revenue support grant. This is similar to someone supporting a family member to buy a house, by paying the mortgage instalments.

4.3 The Government no longer does this, choosing instead to support our capital programme by means of capital grants (i.e. lump sums). Consequently, our debt levels are largely static, until individual loans are due for repayment. As most of our debt is long term, with repayments due 28 to 57 years from now, we might expect to see little change in this level of debt.

4.4 Early repayment of debt used to be a tool at our disposal, but government rule changes made this prohibitively expensive for PWLB debt. However, in 2018/19 we prematurely repaid £51m of financial market loans.

4.5 Best practice requires the Council to set certain limits on borrowing and investments, and these are provided at Appendix A.

4.6 Recently the Government increased the interest rates charged for borrowing from the Public Works Loans Board (PWLB).

4.7 Given our high cash balances it is unlikely that the Council will need to borrow in the foreseeable future and one important consideration is that the interest rate foregone when cash balances are used in lieu of borrowing are less than the interest rate paid on new borrowing. However, we have to consider that currently long-term interest rates remain historically low and taking a long term view it may be cheaper to borrow now and not in the future when interest rates have risen. Accordingly, whilst the core assumption of this strategy is that no long-term borrowing will take place in 2020/21, it allows for the possibility that it does.

4.8 For many years the PWLB has been the dominant lender to local authorities, but with the recent increase in interest rates borrowing from other sources may be a viable and cost-effective option. Both existing and new lenders are understood to be developing loan structures that may be attractive. The Treasury Policy reflects this changing situation and grants sufficient delegated power to the Director of Finance to access new lenders if required.

4.9 For some local authorities the impact of the increase in borrowing rates from the PWLB has not simply been an unwelcome cost increase but has made planned capital schemes unviable (and especially in the case of housing projects). In our case this does not apply as existing planned and approved schemes don't assume that we will need to borrow over the medium term.

4.10 One borrowing option for local authorities may be the Municipal Bonds Agency (MBA). It is owned by a group of sponsoring local authorities and exists to enable local authorities to borrow collectively. Until now, the MBA has not been a cost-effective option because loans from the PWLB have been cheaper but in the future it may be viable. It's possible therefore that we might borrow from the MBA, but a more likely scenario is that we lend to other local authorities via the MBA.

5. **Investments**

5.1 The effort involved in treasury management now revolves almost solely around management of our cash balances. These fluctuate during the course of a year, and range from £250m to £300m dependent on circumstances (e.g. closeness to employees' pay day).

5.2 The Council has substantial investments, but this is not "spare cash". There are three reasons for the level of investments:-

(a) Whilst the Government no longer supports capital spending with borrowing allocations, we are still required to raise money in the budget each year to repay debt. Because of the punitive rules described above, we are not usually able to repay any debt, and therefore have to invest the cash;

(b) We have working balances arising from our day to day business (e.g. council tax received before we have to pay wages, and capital grants received in advance of capital spending);

(c) We have reserves, which are held in cash until we need to spend them. We expect reserves to fall over the next few years. The reserves position is described in the budget report

5.3 The key to investment management is to ensure our money is safe, whilst securing the highest possible returns consistent with this.

5.4 In terms of **security**, the key issues are:-

(a) The credit worthiness of bodies we lend money to ("counterparties");

(b) The economic environment in which all financial institutions operate. The financial crash of 2008, for instance, destabilised a lot of banking institutions which appeared credit worthy prior to this;

(c) What would happen if a financial institution did, in fact, run into trouble?

5.5 The world economic situation appears fragile and growth remains slow, including in the EU. Many commentators see a possibility that the position could deteriorate. At the point of writing there remains uncertainty about the eventual impact of Brexit.

5.6 In 2008, many Governments bailed out banks regarded as “too big to fail”. Since 2008, the world’s largest economies have implemented measures to make banks stronger, but also to reduce the impact if they do fail (and the cost to taxpayers). These measures would see institutional investors who have lent money (such as the Council) taking significant losses before there is any taxpayer support. In practice, these measures are likely to be invoked when a bank starts to run into trouble, before it actually fails. This process is known as “bail in”.

5.7 A linked measure has been to split major UK high street banks into “ring-fenced” banks used by individuals and small to medium businesses; and “non-ring-fenced” banks for larger businesses (including most Councils) and for other non-core banking activities, such as those involving financial markets.

5.8 The upshot is that we cannot regard any financial institution as a safe haven over the medium term – we need to keep watch for any signs of trouble.

5.9 The key to our investment strategy is therefore to diversify our investments (so we don’t “keep all our eggs in one basket”), invest with local authorities, or with public sector bodies that <u>are</u> backed by the Government, or seek additional security for our money.

5.10 In respect of **<u>return</u>**, bank base rates are at 0.75%, and our advisors believe that they will remain extremely low for two years at least. In the worst case, there is a risk that bank base rates could be cut close to nil.

5.11 Greater returns can be achieved by lending for longer periods, but this starts to increase the risks described above.

5.12 The details of our investment strategy are described in Appendix B, but in summary:-

(a) We will lend on an <u>unsecured</u> basis to the largest UK banks and building societies for periods not exceeding one year, subject to our treasury advisors’ advice. Bail-in rules mean lending for longer on an unsecured basis is too great a risk;

(b) We will lend for longer periods, and to smaller banks or building societies, if our money is <u>secured</u> (i.e. if we can take possession of the bank’s assets in the event of failure to repay);

(c) Lending to other local authorities has long been a cornerstone of our investment strategy, and this will continue. No local authority has ever defaulted on a loan. We will lend to local authorities for up six years, and may invest in bonds that they issue with a maturity of up to six years, enabling us to secure greater returns;

(d) We will place some money with pooled investments, such as money market funds. These are professionally managed funds, which place money in a range of financial assets, some based overseas. This helps achieve diversification. In cases where money is not secured, we will make sure funds can be returned very quickly. Interest rates on money market funds are low because we can get our money back quickly (we need to have funds available at "instant access);

(e) We will lend to the Government and other public sector bodies;

(f) Limits in the investment strategy previously set at five years have been increased to six years. This is mainly because we record the maturity from the date we contract for an investment rather than when the investment actually commences (and we pay for it) - a five year limit prevents us from contracting to enter into a five year investment at a future date, which often is the market norm.

5.13 In addition to the above, we will invest up to £30M in commercial property funds. These are pooled investments similar to "unit trusts". This continues the current strategy. Such funds are expected to pay dividends at a rate of 3.0% to 3.5%, which exceeds current cash returns of around 0.75%. Current investments are £8M. However, with such funds there is always a risk that values will decrease. Risks are harder than usual to assess due to uncertainty around "Brexit". Until such a time as this uncertainty reduces no further investments will be made.

5.14 Unlike pension funds, we do not invest in company shares which we would otherwise wish to assess from an ethical perspective. However, there is a new market emerging for investment with environmental and socially responsible objectives, and we will evaluate opportunities presented to us. Whilst there are established investments suitable for long term investors, such as pension funds, these tend not to be suitable for us. Our investment time horizon is 10 years at most.

5.15 The market for investments consistent with our investment time horizon is still emerging and we shall investigate opportunities as they arise. To the extent that such investments prove to be novel we can't specify in advance the type of investments that we might make but any such investments would be rigorously assessed. Aspects of investments may be outside the knowledge and expertise of officers (for example the success of solar farms depends upon future sales of electricity into the National Grid) and we would take expert advice as appropriate. Other investments such as "real estate investment trusts" specialising in supported housing are more familiar and may need less specialist advice.

5.16 A maximum of £20M would be invested in all such investments.

6. Regulatory Changes

6.1 During 2017 and 2018 revisions were made to the statutory guidance issued by MHCLG and to the professional guidance issued by CIPFA. These changes reflected a need for more robust guidance for commercial activities undertaken by councils, and especially with regard to investments in property. Nationally concerns have been expressed around a small number of authorities who have made very large property investments, sometimes outside of their own area.

6.2 A separate investment strategy dealing with commercial investments is elsewhere on your agenda, and a capital strategy is included as an appendix to the budget report.

6.3 This Treasury Strategy does not deal with matters covered by these two reports, though there is co-ordination between all these strategies.

7. Credit Rating Requirements for Investments

7.1 Credit ratings are key element of our treasury investment strategy, and are used to help us determine the financial strength of the borrower.

7.2 The credit rating of UK borrowers will rarely exceed that of the UK government and consequently a reduction in the credit rating of the UK government may result in credit rating downgrades for a large number of borrowers.

7.3 Brexit creates a higher than usual level of economic and political uncertainty, and under some scenarios could lead to a reduction in the credit rating of the UK government (the credit rating agency currently sees the outlook as negative). In the worst case the knock-on effect of this could be a widescale reduction in the credit ratings of the institutions to which we lend, such that large parts of our lending list might become unworkable.

7.4 If the UK government is downgraded there are two scenarios. One is that the financial operating environment of the UK becomes weaker and this weakens the strength of UK borrowers. The second is that the rating of the UK government caps the rating of domestic borrowers, but that the strength of the borrowers are unchanged. Intermediate positions are possible. Our actions will be based on an assessment of the actual situation and we shall take advice from our treasury advisors and the Director of Finance will present a report to the City Mayor for his approval recommending revisions to the lending list at Appendix B. All interest paying investments on such a revised lending list will have a minimum credit rating of BBB+ or (if unrated) be judged to be of equivalent standing. In this event, a revised treasury strategy will be presented to the Council at the earliest reasonable opportunity.

7.5 2019/20 has seen increasing financial pressure on local authorities, with evidence that some may struggle to meet their minimum statutory obligations. The most prominent is the situation of Northamptonshire. In addition some local authorities have been involved in very large scale investments which inevitably must carry some risks.

7.6 There is no legal mechanism for a local authority to go bankrupt or otherwise avoid paying money on loans that were lawfully incurred and there is a legal mechanism to recover loan payments. Irrespective of legalities the practical issue is what would happen if, say, an authority simply did not have the cash to both pay its staff and pay loans. In practice, this has never happened.

7.7 Our treasury advisors provide advice on lending to local authorities, and believe that the credit worthiness of most local authorities remains strong.

8. Premature Repayment of Debt

8.1 One tool of treasury management is the premature repayment of debt to achieve savings. This is something we used to do routinely, but (as discussed above) is now usually non-viable. We will take such opportunities if they present themselves at a sensible cost.

8.2 The reasons why our debt has 28 to 57 years to run are historic and reflect past circumstances and government policies at that time. In current circumstances, we would prefer a more even spread of repayment dates, and may use premature repayment to achieve this if possible. Another option is to repay using our cash balances.

8.3 Whilst we were able to prematurely repay £51M of market loans in 2018/19 on favourable terms, this is not the norm. Favourable terms are only likely to be offered when the lender no longer wishes to hold the investment.

8.4 We expect to pay a premium on any premature repayment of debt. This is because interest rates are lower now than when the loans were taken out. Accounting guidance specifies how this should be charged to revenue. Generally this will be spread over the residual life of the loan repaid. Premia may also be financed by capital receipts.

8.5 We would evaluate any other options that became available.

9. Management of Interest Rate Exposure

9.1 Whilst the treasury strategy is based on a view of future movements in interest rates, all interest rate forecasts carry uncertainty. This strategy seeks to manage that risk.

9.2 For the foreseeable future the main risk arises from uncertainty around the interest earned on investments rather than interest paid on borrowing. In practice we are mainly concerned about declines in interest earned on investments.

9.3 £21M of the loans recorded are “LOBO” loans where the lender has the periodic option to propose an interest rate increase which we have the option to decline, by repaying the loan. If such options were exercised by the lenders we would repay. This would only be viable for lenders if interest rates were higher than 5% (which is most unlikely).

9.4 In recent years, some countries have seen negative interest rates where the lender pays interest to borrowers as opposed to the normal situation where borrowers pay interest to lenders. The main protection available against this is to invest at fixed rates for longer periods, but that carries the risk that interest rates in fact rise and we earn less money than we would have done otherwise. At present most commentators do not see this as a major risk, but we will take account of it.

10. Allocation of Loans Between General Fund and Housing Revenue Account

10.1 All borrowing by the Council is for the purpose of financing capital expenditure (a bit like an individual will finance the acquisition of their house by a mortgage). Such borrowing can be for the purpose of General Fund Services or the Housing Revenue Account (HRA) and an appropriate determination has to be made to allocate external borrowing between the two.

10.2 The need to borrow external loans is reduced because the authority has cash balances. These balances mainly arise from General Fund activities. Consequently, at present, all external debt is held by the HRA.

11. Treasury Management Advisors

11.1 The Council employs Arlingclose as treasury advisors. Their performance has been good.

12. Leasing

12.1 The Council owns some properties on lease but other than this we do not use leasing as a method of financing, preferring instead to use our cash balances.

13. Financial and Legal Implications

13.1 The proposals are in accordance with the Council's statutory duties under the Local Government Act 2003 and statutory guidance, and comply with the CIPFA Code of Practice on Treasury Management. In accordance with the Council's constitution (Article 4.03), the strategy requires full Council approval.

14. Background Papers

14.1 CIPFA – "Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes 2017 Edition".

CIPFA – "Treasury Management in the Public Services, guidance notes for local authorities including police forces and fire and rescue authorities 2018 edition".

MHCLG – “Statutory Guidance on Local Authority Investments (3rd Edition) (2018)”.

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Appendix A

Treasury Limits for 2020/2021

1. The treasury strategy includes a number of prudential indicators required by CIPFA's Prudential Code for Capital Finance, the purpose of which are to ensure that treasury management decisions are affordable and prudent. The recommended indicators and limits are shown below. One of these indicators, the "authorised limit" (para 3 below), is a statutory limit under the Local Government Act 2003. We are not allowed to borrow more than this.

2. The first indicator is that over the medium-term net borrowing will only be for capital purposes – i.e. net borrowing should not, except in the short-term, exceed the underlying need to borrow for capital purposes (the "capital financing requirement").

3. The authorised limits recommended for 2020/21 and for the remainder of 2019/20 are:-

	New £m
Borrowing	300
Other forms of liability	175
Total	475

4. "Other forms of liability" relates to loan instruments in respect of PFI schemes and to pre-unitary status debt managed by the County Council (and charged to the Council). Virement is possible between the limits for "borrowing" and "other forms of liability" within the overall total of £475 million.

5. The Council is also required to set an "operational boundary" on borrowing which requires a subsequent report to scrutiny committee if exceeded. The approved limits recommended for 2020/21 and for the remainder of 2019/20 are:

	£m
Borrowing	245
Other forms of liability	145
Total	390

6. The boundary proposed is based on our general day to day situation and is not absolute as there may be good, usually temporary, reasons to breach it. Its purpose is to act as a warning signal to ensure appropriate scrutiny.

7. A change in accounting policies in 2020/21 in relation to operating leases means that these items will be coming onto the balance sheet and count as capital expenditure. Therefore, they will show as borrowing on our balance sheet. The Council is yet to fully model the impact of this and therefore has included a £26m provision in our borrowing to allow for this accounting change.

8. The Council has also to set upper and lower limits for the remaining length of outstanding loans that are fixed rate. This table also excludes other forms of liability. Recommended limits are:

Upper Limit

	£M
Under 12 months	50
12 months and within 24 months	80
24 months and within 5 years	140
5 years and within 10 years	140
10 years and within 25 years	180
25 years and over	180

We would not normally borrow new loans for periods in excess of 50 years. In practice we don't expect to borrow at all.

Lower Limit

	£M
Less than 5 years	0
Over 5 years	100

9. The Council has also to set upper limits on the periods for which principal sums are invested. Recommended upper limits are:

	Up to 1 year £M	**Over 1 years £M**	**Over 2 Years £M**
Upper limit on maturity of principal invested	All investments	170	100

10. We will review the exposure of the Council to changes in interest rates. These could have a significant budgetary impact. The benchmark is that a 1% fall in interest rates should not cost in excess of £2M (an increase in interest rates would benefit the authority).

11. The central assumption of this treasury strategy is that the value of external borrowing will be as shown below (these figures include £12m debt managed on behalf of the fire authority).

	31/03/2019 Actual £M	2020/21 Estimated Average £M	2021/22 Estimated Average £M	2022/23 Estimated Average £M	2023/24 Estimated Average £M
External debt	192	192	192	194	194

Appendix B

Treasury Investment Strategy 2020/21

1. Introduction

1.1 This Treasury Investment strategy complies with the MHCLG's Guidance on Local Government Investments and CIPFA's Code of Practice.

1.2 It states which investments the Council may use for the prudent management of its treasury balances. It also identifies other measures to ensure the prudent management of investments.

1.3 Appendix A (above) limits the periods for which principal sums can be invested. This is to be assessed on our intentions with regard to each investment rather than its legal form.

2. Investment Objectives & Authorised Investments

2.1 All investments will be in sterling.

2.2 The Council's investment priorities are:

(a) The **security** of capital; and

(b) **Liquidity** of its investments; and

(c) The **yield** (the return on investments)

2.3 The Council will aim to achieve the **optimum return** on its investments commensurate with the proper levels of security and liquidity. Liquidity is assessed from the perspective of the overall investment portfolio and will take account of the Council's ability to borrow for cashflow purposes.

2.4 The following part of this appendix specifies how the Council may invest, with whom and the credit worthiness requirements to be applied.

3. Approved Investments

3.1 UK Banking Sector: Credit Rated Institutions			
Type	**Description**	**Investment Period**	**Controls**
General	Covers the largest UK banks and building societies. Covers non-UK banks operating in the UK and regulated in the UK.		No more that £100M will be invested in total with these institutions. Other than our bankers (Barclays) no more than £20m will be invested with one institution of which no more than £10m will be unsecured. £25m may be lent to Barclays, of which no more than £15m will be unsecured. The Director of Finance may authorise new investments in advance to replace maturing investments. Transactions entered into up 10 days in advance require no authorisation. A list of approved counterparties will be maintained, based on credit ratings. Principally, we use Fitch. New bodies will not be added to the list without the written approval of the Director of Finance. Minimum ratings as below. Other market intelligence will also be considered.
Unsecured deposits	Banks and building societies regulated within the UK Covers non-UK banks operating in the UK and regulated in the UK.	Maximum 366 days.	
		Up to 366 days.	Long-term rating of A & short term rating of F1
		Up to 6 months.	Long-term rating of A- & short term rating of F2
		100 days or less.	Long-term rating of BBB+ & short term rating of F2
Covered	This is a deposit with a bank or building	Maximum 5	Bond is regulated under UK law and majority of assets given as security

Bonds	society, which is secured on assets such as mortgages. These assets are not immediately saleable but the value of the assets exceeds loans secured upon them. If the deposit is not repaid the assets are sold and the proceeds used to repay the loan.	years.	are UK based. Minimum long-term rating bond rating of AA-
Reverse REPOs	This is a deposit with a bank or other financial institution, which is secured on bonds and other readily saleable investments and which will be sold if the deposit it not repaid.	Maximum 1 year.	Judgement that the security is equivalent, or better than the credit worthiness of unsecured deposits. REPO/Reverse REPO is accepted as a form of collateralised lending. One acceptable basis is the GMRA 2000 (Global Master REPO Agreement) but other documentation may be accepted. Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:- • Index linked Gilts (including delivery by value) • Conventional Gilts (including delivery by value) • UK Treasury bills • Corporate bonds (subject to additional due diligence)

3.2 UK Public Sector & Quasi Public Sector			
Type	**Description**	**Investment Period**	**Controls**
General	The UK Government and UK local authorities, including Transport for London (TFL), and bonds issued by the UK Municipal Bonds Agency. It also includes bodies that are very closely linked to the UK Government or to local government such as Cross Rail.		No more than £300M to be lent to local authorities (as defined in the first column). No more than £20M to be lent to any one local authority. No more than £40M to be lent to bodies very closely linked to the UK Government and no more than £20M to be lent to any one body. No limit on amounts lent to the UK Government. The Director of Finance may authorise new investments in advance to replace maturing investments. Transactions entered into up 4 months in advance require no authorisation. In practice, we will be guided by our treasury advisors' views on appropriate investment periods.
Deposits	Deposits with Local Authorities and the UK Government.	Up to 6 years.	Our judgement is that most local authorities are of high credit worthiness and that the law provides a robust framework to ensure that all treasury loans are repaid. However, should the occasion arise, we would have regard to adverse news or other intelligence regarding the financial standing of a local authority, including information which is provided by the Council's Treasury Advisors.
Bonds – Local Authority	Bonds issued by local authorities.	Up to 6 years.	
Bonds – UK Municipal Bond Agency	Bonds issued by local authorities collectively through the UK Municipal Bonds Agency.	Up to 6 years.	Minimum AA- credit rating. The agency is new and until established the number of underlying borrowing local authorities will be low. When investing with the agency we will look at the underlying exposure to individual authorities when these are material and take into account existing exposures to those authorities.
Bonds –		Up to 6	Minimum AA- credit rating.

Bodies Closely Linked to UK Government		years.	A list of approved counterparties will be maintained. Approval by Director of Finance to the body being added to the lending list on the basis of a written case, including advice from the Council's treasury advisors.

3.3 International Development Banks			
Type	**Description**	**Investment Period**	**Controls**
Bonds	International Development Banks which are backed by the governments of the world's largest and strongest economies. The funding obligations are established by treaties or other binding legal agreements. Examples are the European Investment Bank and the World Bank.	Up to 6 years.	No more than £40M to be lent in total and no more than £10M to be lent to any one bank. A list of approved counterparties will be maintained. Approval by the Director of Finance, in consultation with the City Mayor, to the body being added to the lending list on the basis of a written case, including advice from the Council's treasury advisors. A minimum credit rating of AA- plus backing of one or more G7 country.

3.4 All Pooled Investments (General)			
Type	**Description**	**Investment Period**	**Controls**
General	A structure where a wide base of investors share a common pool of investments. The most common legal form involves an intermediate company. The company has legal title to a pool of investments. The underlying investors own the company with a claim to their share of the assets proportional to their investment in the company.		We will only invest in funds where there is evidence of a high level of competence in the management of the investments, and which are regulated. A list of approved counterparties will be maintained. Approval by Director of Finance to the body being added to the lending list on the basis of a written case, including advice from the Council's treasury advisors. The investment period will reflect advice from our Treasury Advisors on a fund by fund basis. We will be alert to "red flags" and especially investments that appear to promise excessive returns. We look for diversification away from the banks permitted elsewhere in this lending list (though some overlap is unavoidable). No more than £180M to be invested in all type of pooled investments.
3.4.1 Pooled Investments – Shorter Dated Investments			
Money market funds	The underlying pool of investments consists of interest paying investments, for example deposits. The underlying borrowers include banks, other financial institutions and non-financial institutions of good credit worthiness. Banks may be UK or overseas.	Must have immediate access to funds.	Fitch rating of AAAmmf (or equivalent). No more than £20M in any one fund.
Short Dated	Similar to money market funds but mainly	Must have	Whilst these are very safe the interest returned is very low. We may use

Government Bond Funds	concentrated in highly credit rated government bonds.	immediate access to funds.	these in times of market turmoil. Fitch rating of AAAf (or equivalent). No more than £20M in any one fund.
Money market plus funds / cash plus funds / Short dated bond funds	Similar to money market funds but the underlying investments have a longer repayment maturity. We would use these to secure higher returns.	Must have access with one month's notice but normally would wish to hold for 12-18 months.	Fitch rating of AAf (or equivalent). No more than £20M in any one fund. We will “drip feed” money that we invest rather than investing it all at once.

3.4.2 Pooled Investments – Longer Dated Investments			
Type	**Description**	**Investment Period**	**Controls**
General	Longer dated investments expose us to the risk of a decline in value, but also provide an opportunity to achieve higher returns. Consequently, controls involve both the personal authorisation of the Director of Finance and consultation with the City Mayor.		No more than £50m to be invested in all fund types listed in this table section 3.4.2.
Longer-dated Bond Funds.	Similar to money market funds but the underlying investments are now mainly bonds, typically, with an upper average maturity of up to 8 years.	Must have access with one month's notice but normally would wish to hold for two to three years.	Fitch rating of AAf (or equivalent). We may consider unrated funds on the recommendation of our Treasury Advisors. No more than £10M to be invested in any one fund.
Asset Based Securities	The base investments are "securitised investments" which pool consumer debt (mortgages, car loans and credit cards) and loans to small businesses. The base investments are loans to borrowers of good credit worthiness. They are a world away from the "sub-prime" investments that led to the 2008 crash. The investment we would make would be in a pooled investment containing a number of such securitised investments.	Must have access with one month's notice but normally would wish to hold for two to three years.	Fitch rating of AAf (or equivalent). We look for particularly strong evidence of expertise both from the organisations that issue the securitised investments and also from the managers of the pooled fund. We look for clear evidence of financial and operational independence between the fund managers and the banks that made the consumer loans in the first place. No more than £10M to be invested in any one fund.

	They are normally issued by banks (UK or overseas).		
3.4.3 Pooled Investments – Property Funds			
Property Funds	The underlying investments are mainly direct holdings in property, but our investment is in a pool of properties. Whilst the fund normally has a small cash balance from which to fund redemptions the bulk of the fund is held in direct property investments. On occasions redemptions will not be possible until a property has been sold. Funds may have the power to borrow.	Generally have access with three months' notice but normally would wish to hold for five years.	No more than £30M to be invested in property funds. Investment amounts and timing to be approved by the Director of Finance, in consultation with the City Mayor.

<table>
<tr><th colspan="4">3.5 Environmentally and Socially Responsible Investments</th></tr>
<tr><th>Type</th><th>Description</th><th>Investment Period</th><th>Controls</th></tr>
<tr><td></td><td>Investments which facilitate environmental and social objectives. Encompasses a range of legal structures including:

• Company shares (equity)
• Loans and other interest bearing investments
• Trust structure including the above and including ownership of land, buildings, plant, equipment and contractual rights (for example the right to sell electricity)
• Pooled investments
• Specialist Real Estate Investment Trusts (REITS) such as those investing in supported housing.
• Other investment types

Where an investment is better described elsewhere in this appendix (for example a regular money market fund that only contained ethical investments) that section of this appendix shall govern that investment.</td><td>Up to 10 years.</td><td>No more than £20M in all such investments.

For investments which can be sold to others in a financial market or which can be redeemed by the fund manager - approval by Director of Finance, in consultation with the City Mayor, to the investment being added to the lending list of approved counterparties based on a written case, including specialist advice.

For other investments approval by the Director of Finance in consultation with the City Mayor to the individual investment, on the basis of a written case, including specialist advice.

Investments will only be made when it is assessed that there is a reasonable prospect that after 10 years the Council would be able to have its initial investment returned plus the return that it would have gained on a cash investment.

We will look for strong evidence of expertise from those who manage the pooled fund or who are otherwise involved in the management of the investment.

Such investments may not be rated.

Where the legal structure of the investment is not a widely used one appropriate due diligence will be undertaken.</td></tr>
</table>

3. Business Models

3.1 The Council has a “buy and hold” strategy for its investments that are bought and sold in financial markets. I.e. seeks to achieve value for money from its investments by collecting the sums contractually due. It does not aim to achieve additional value by selling them on although there may be occasions when investments may be sold for the purposes of managing or mitigating risk.