City Council Decision

Treasury Management Strategy 2022/23

Decision to be taken by: City Council

Overview Select Committee: 10th February 2022
Council: 23rd February 2022

Lead director: Alison Greenhill,
Chief Operating Officer

Useful information:

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1. Purpose of Report

1.1 This report proposes a strategy for managing the Council's borrowing and cash balances during 2022/23 and for the remainder of 2021/22. (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) although some form our reserves. 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 without incurring excessive cost. Thus, they are held in investments.

2.4 Interest rates having reduced substantially during the previous year have stayed very low in 2021/22, though there was a small rise in December 2021. As our loans are at fixed rates, falls in interest rates only affect the interest earned on our cash balances. The Council's budget position up to 2021/22 however was protected due to investments being made for periods of two years with other local authorities prior to these reductions. The expectation though is that the Bank of England Monetary Policy Committee will raise rates in 2022 which would be beneficial for the Council's treasury management budget.

3. Recommendations

3.1 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.

3.2 Members of Overview Select Committee are recommended to note the report and make any comments to the Chief Operating Officer that they wish, prior to Council consideration.

4. **Borrowing**

4.1 As at 31st March 2021, the Council had a total long-term debt of £180m. comprising £135m borrowed from the Public Works Loans Board (PWLB) (a Government quango), and £45m from the financial markets. This position had not changed by 12th January 2022 and is not expected to change during the next year either.

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 26 to 55 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.

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

4.6 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 is 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 2022/23, it allows for the possibility that it does. It should be noted that the recent acquisition of the Haymarket Shopping Centre for £10 million was funded from resources set aside for this purpose and required no borrowing.

4.7 For many years the PWLB has been the dominant lender to local authorities, and this seems likely to continue. However, the Treasury Policy still grants sufficient delegated power to the Director of Finance to access new lenders if required.

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 generally range from £250m to £350m dependent on circumstances (e.g.

closeness to employees' pay day). Cash balances have held up well in the current financial year.

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 (some are required to balance the 2022/23 budget, as reported elsewhere on your agenda).

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;

(b) The economic environment in which all financial institutions operate;

(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. Many commentators see a possibility that the position could deteriorate.

5.6 Inflation has increased significantly to over 5% at present with expectations that in the short term at least it will go higher. Whilst many commentators still regard the rise in inflation to be "transitory", at least to some extent, there does seem to be a developing problem and therefore central banks are more likely to raise interest rates to try and counter it.

5.7 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".

5.8 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.

5.9 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.

5.10 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 are backed by the Government, or seek additional security for our money.

5.11 In respect of **return**, bank base rates have recently risen to 0.25%, and our advisors expect them to rise further to 0.50% early in the new year. However, they still believe that they will remain extremely low for three years at least, though they do believe there is a possibility that they could rise to 1% by December. This is a marked change from a year ago when the prospect of negative interest rates was being discussed.

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

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

(a) We will lend on an unsecured basis to the largest UK banks and building societies for periods not exceeding one year, subject to our treasury advisors' advice, though currently our advisors have recommended that we should limit our lending to a maximum of 100 days. Bail-in rules mean lending for long periods 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 secured (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 to 3 years, enabling us to secure greater returns. We will seek advice from our advisors for any loan in excess of 24 months.

(d) We will place 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.

5.14 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 approximately 3.0% which exceeds current cash returns of around 0.1%. Current investments are valued at £8M. However, with such funds there is always a risk that values will decrease. Performance has recently improved and been reasonably resilient despite the impact of Covid on the economy.

5.15 In addition to the above, we are also proposing to allow investment of up to £20M in diversified asset investment funds. These funds invest in a mixture of shares, property and government investments and are pooled with other investors funds. These investment funds are professionally managed and typically produce an income of between 3% and 5%. Risk is higher than cash and we can manage this by offsetting any short-term losses against other investment income. In the longer term they normally provide a better return than cash. The Council has a smaller proportion of its treasury investments in non-cash deposits than most other authorities.

5.16 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.

5.17 A maximum of £20M would be invested in all such environmental and socially responsible investments.

6. **Commercial Investments**

6.1 As part of the Government's response to concerns about some authorities' property investments, separate commercial investment strategies are now required. Our proposed strategy is elsewhere on your agenda.

6.2 The Treasury Strategy does not deal with matters covered by this separate report, though there is a relationship between the strategies. Members are asked to note that the property funds discussed above (which are covered by the Treasury Strategy) are pooled funds in which risks and rewards of owning a large portfolio of properties is shared between many investors. The commercial strategy covers specific investments.

7. **Credit Rating Requirements for Investments**

7.1 Credit ratings are a 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. Fitch did downgrade the UK government to AA- from AA in March 2020 as a result of the significant weakening of the UK public finances caused by the impact of Covid

19. This UK public finances position are currently seen to be stable and no further downgrades are anticipated at this time.

7.3 However, if the UK government is downgraded further 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 investment strategy 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.

7.4 2021/22 has seen increasing financial pressure on local authorities, with evidence that some may struggle to meet their minimum statutory obligations. The most prominent have been the situations of Slough and Croydon. In addition, some local authorities have been involved in very large investments in order to achieve income.

7.5 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 its loans. In practice, this has never happened.

7.6 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 for PWLB loans. We will take such opportunities if they present themselves at a sensible cost.

8.2 The reasons why our debt has 26 to 55 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 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.

8.4 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).

10. Treasury Management Advisors

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

11. Leasing

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

12. Financial and Legal Implications

12.1 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. The strategy requires full Council approval.

13. Background Papers

13.1 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)”.

Treasury Policy. Report to Council 19th February 2020.

14. **Author**

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Appendix A

Treasury Limits for 2022/2023

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 2022/23 and for the remainder of 2021/22 are:-

	£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 City Council).

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 2022/23 and for the remainder of 2021/22 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 that comes into effect in 2022/23 in relation to operating leases means that these items come onto the balance sheet and count as capital expenditure. The impact of this has been included in our borrowing limits 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 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	250

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
All maturities	0

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. 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).

	31/03/2021 Actual £M	2021/22 Estimated Average £M	2022/23 Estimated Average £M	2023/24 Estimated Average £M	2024/25 Estimated Average £M
External debt	192	192	192	192	192

Appendix B

Treasury Investment Strategy 2021/22

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 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. New investments may be agreed up to 4 months advance. 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.	Up to 366 days or such lesser period our advisors recommend	Our advisors have currently recommended a maximum of 100 days for unsecured deposits. This is thus the current maximum period for all unsecured bank deposits.
		100 days or less.	Long-term rating of BBB+ & short term rating of F2
		101 days to 6 months	Long-term rating of A- & short term rating of F2

		6 months to 366 days.	Long term rating of A and short term rating of F1.
Covered Bonds	This is a deposit with a bank or building 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.	Maximum 5 years.	Bond is regulated under UK law and majority of assets given as security are UK based. Minimum long-term bond rating of AA-
REPOs/ 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 to, 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. UK local authorities, including Transport for London (TFL), and bonds issued by the UK Municipal Bonds Agency. 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. New investments may be agreed up to 4 months in advance. 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 for the UK Govt. and up to 3 years for LA's.	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 an individual local authority, including information which is provided by the Council's Treasury Advisors. Maximum periods for loans to local authorities will not exceed limits recommended by our treasury advisors.
Bonds – Local Authority	Bonds issued by local authorities.	Up to 3 years.	
Bonds – UK Municipal Bond Agency	Bonds issued by local authorities collectively through the UK Municipal Bonds Agency.	Up to 6 years.	Minimum A+ credit rating. The agency has had very limited success in lending though that may change in the future 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 – Bodies Closely Linked to UK Government		Up to 6 years.	Minimum A+ credit rating. 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.
Bonds and Deposits to UK Housing Associations		Up to 3 years.	No more than £20M in total may be lent to UK Housing Associations. All lending to require approval by the Director of Finance in consultation with the City Mayor 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 Environmentally and Socially Responsible Investments			
Type	**Description**	**Investment Period**	**Controls**
	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.	Up to 10 years.	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 the 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 need not be rated. Where the legal structure of the investment is not a widely used one appropriate due diligence will be undertaken.

3.5 Other 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 aggregate in all type of pooled investments (short term, long term, property and diversified investment funds).
3.5.1 Pooled Investments – Shorter Dated Investments			
General	Investments of up to eighteen months.		There is no upper limit on shorter dated investments, other than the global limit for pooled investments above (£180m).
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 AAf (or equivalent). No more than £25M in any one fund except where our advisors recommend a lower figure. No more than £130M to be held in money market funds in total, this excludes money market plus funds.

Short Dated Government Bond Funds	Similar to money market funds but mainly concentrated in highly credit rated government bonds.	Must have immediate access to funds.	Whilst these are very safe the interest returned is very low. We may use these in times of market turmoil. Fitch rating of AAf (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. No more than £50M in total in money market plus/cash plus funds/short dated bond funds. We will "drip feed" money that we invest rather than investing it all at once.

3.5.2 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.		No more than £50m to be invested in all fund types listed in this table section 3.5.2. This limit applies within the global limit for pooled investments (£180m). Investment amounts and timing to be approved by the Director of Finance, in consultation with the City Mayor.
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. The investment we would make would be in a pooled investment containing a number of such securitised investments. They are normally issued by banks (UK or overseas).	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.

Property Funds	The underlying investments are mainly direct holdings in property, but our investment is in a pool of properties. Whilst the funds normally have a small cash balance from which to fund redemptions the bulk of the funds are 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 at least five years.	No more than £30M to be invested in property funds in total.
Diversified Investment Funds	The underlying investments are a mixture of mainly equities, government gilts, corporate bonds and property which are also diversified geographically. Whilst the funds normally have a small cash balance from which to fund redemptions.	Generally have access with three months' notice but normally would wish to hold for at least five years.	No more than £20M to be invested in diversified investment funds in total.

4. Business Models

4.1 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.