Council

Treasury Management Strategy 2023/24

Decision to be taken by: Council

Overview Select Committee: 9th February 2023
Council: 22nd February 2023

Lead director: Amy Oliver,
Director of Finance

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 2023/24 and for the remainder of 2022/23. (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 been very low since the financial crisis of 2007/08, they have started to rise to what previously seemed to be more normal rates, with significant rises in 2022/23. As our loans are at fixed rates, rises in interest rates only affect the interest earned on our cash balances. As a result, the Council's treasury management budget position for 2022/23 and future years has improved. The expectation is that the Bank of England Monetary Policy Committee will continue to raise rates in 2023, although rates may potentially start to fall in 2024. Though it seems very unlikely that they would fall back to rates of 0.5% and below.

3. Recommendations

3.1 The Council is recommended to approve this Treasury Management 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 the Overview Select Committee are recommended to note the report and make any comments to the Director of Finance that they wish, prior to Council consideration.

4. Borrowing

4.1 As at 31st March 2022, 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 at the time of writing, and is not expected to increase 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 25 to 54 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 and very low interest rates made this prohibitively expensive for PWLB debt. However, as long term interest rates rise further, this may potentially become affordable for PWLB and other 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 long term in the foreseeable future. One important consideration is that the interest rate foregone when cash balances are used in lieu of borrowing is less than the interest rate that would be paid on new borrowing. Whilst the core assumption of this strategy is that no long-term borrowing will take place in 2023/24, it allows for the possibility that it does.

4.7 For many years the PWLB has been the dominant lender to local authorities, which seems likely to continue. The Authority has raised the majority of its borrowing in the past from the PWLB, but will consider long term loans from other sources such as banks, pension funds and other local authorities if that reduces costs. PWLB loans are no longer available to local authorities planning to buy investment properties primarily for yield, although the Council intends to avoid that activity. It is considered unlikely that the Council will need to borrow long-term in the near future. However, the Strategy still grants sufficient delegated power to the Director of Finance to access new lenders if required.

4.8 The Council manages funds on behalf of the Combined Fire Authority and the LLEP. It is general policy to pay interest based on the average return that the Council gets from its treasury investments, although an estimate is used.

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 generally held up well in the current financial year, though have started to fall back as expected recently. With the pressure on local government funding, and the use of reserves, we expect cash balances to decline somewhat in the next few years.

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 generally not usually able to actually 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 2023/24 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 10% at present with expectations that it may be about to peak. Whilst many commentators anticipate inflation to decline, in recent years it has proved more difficult to control than expected. There is therefore a dilemma for the Bank of England as to what extent interest rates should rise to control inflation, as against the fear that too high rates will deepen the recession.

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 <u>are</u> backed by the Government, or seek additional security for our money.

5.11 In respect of **<u>return</u>**, the Bank of England base rate rose to 4.0% in February, and our advisors expect it to rise further to 4.25% in the near future. However, the prospects for base rates in 2024 and beyond are much more uncertain, with a reasonable chance that they fall back somewhat if inflation falls and or the economy stalls. This is a marked change from a year ago when rates were below 1%.

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 <u>unsecured</u> 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 6 months. 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 <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 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); and

(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 broadly matches current interest rates. Current investments are valued at £8m. However, with such funds there is always a risk that values will decrease, though it is hoped that capital values will rise over the long term. Performance has been reasonably resilient.

5.15 We also 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 have produced an income of between 3% and 5%. Risk is higher than cash and we have not made any investments in this category to date. 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 that do not meet any investment criteria above.

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, being 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 outlook for the UK Government from stable to negative AA- in October 2022 as a fall out from the mini budget. The UK public finances position is currently under pressure though hopefully have stabilised somewhat recently.

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. The Director of Finance may present a report to the City Mayor for his approval recommending any revisions to the Treasury 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 2022/23 has continued to see increasing financial pressures on local authorities, with evidence that some may struggle to meet their minimum statutory obligations. The most prominent have included the situations of Slough, Croydon and Thurrock. In addition, some local authorities have been involved in very large investments 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. They believe that the credit worthiness of most local authorities remains very 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. Any capital premium (i.e. additional cost) usually has to be charged to the revenue account over the life of the old loan, the life of any replacement loan or any shorter period.

8.2 The reasons why our debt has 25 to 54 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 would currently 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, although rates are now higher and therefore premiums lower than in recent years.

8.4 We would evaluate any other options that became available.

9. **Management of Interest Rate Exposure**

9.1 Whilst the Treasury Management 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. Unlike recent years, interest earned on investments has started to rise to reflect increased interest rates.

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 probably only be viable for lenders if long term interest rates were higher than 5% (which is 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 2021 Edition".

CIPFA – "Treasury Management in the Public Services, guidance notes for local authorities including police forces and fire and rescue authorities 2021 edition".

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

Treasury Policy. Report to Council 19th February 2020.

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Appendix A

Treasury Limits for 2023/2024

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 2023/24 and for the remainder of 2022/23 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 2023/24 and for the remainder of 2022/23 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. 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

8. 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

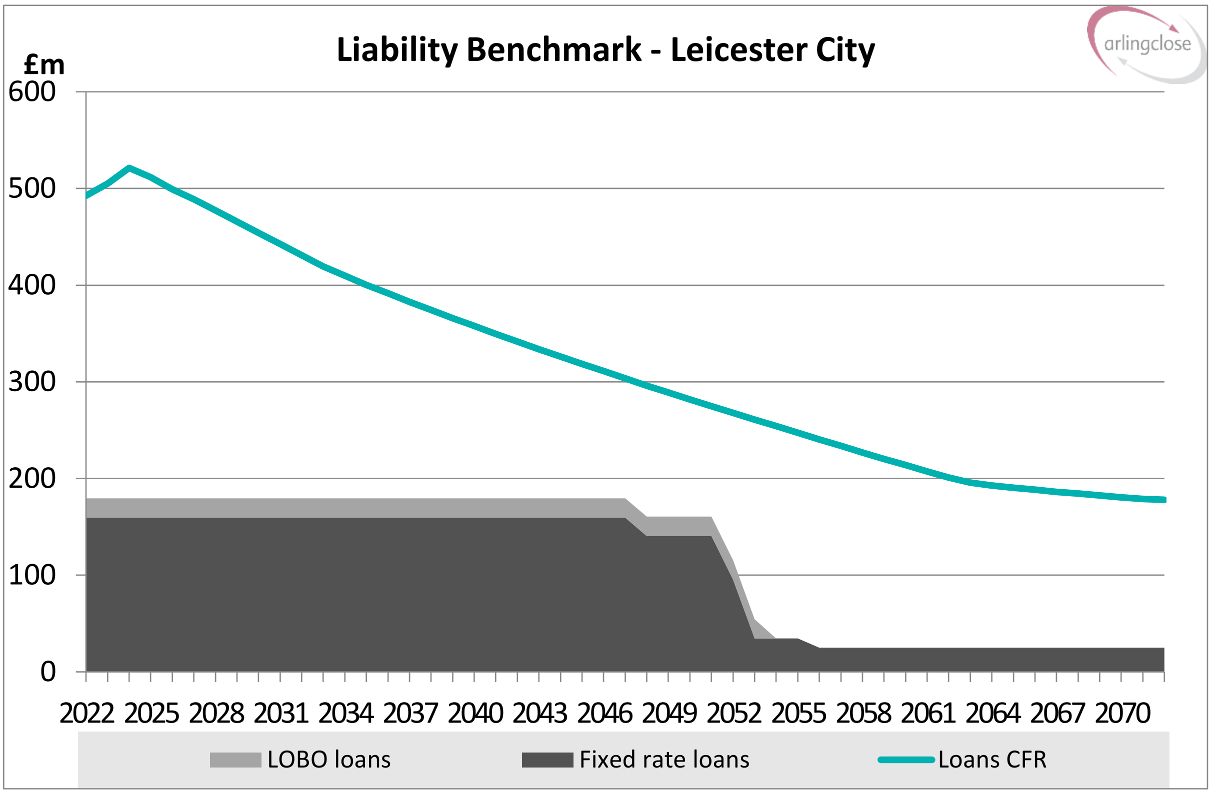
9. The central assumption of this treasury strategy is that the value of external borrowing will be as shown below (these figures include £12m debt managed on behalf of the fire authority).

	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

10. Liability Benchmark

The Treasury Management Strategy is required to include the Liability Benchmark. This compares the underlying need to borrow for capital purposes with the external loans profile over the next 50 years, for existing and approved future expenditure.

The underlying need to borrow for capital purposes is called the Capital Financing Requirement (CFR). The CFR will fall over time as loans are gradually repaid, except for historic Housing Revenue Account debt which does not have to be repaid. In practice of course, new spend to be financed by borrowing may be approved, which would lead to a slower reduction in the CFR, or even an increase.



After revenue and other balances have been taken into account, the liability benchmark (the underlying need to borrow for <u>all</u> purposes), is significantly less than the CFR (and technically below zero). This demonstrates that the Council does not have a need to borrow externally in the near future, even for any new capital expenditure financed by borrowing; and in fact, could repay some or all its external borrowing using treasury investments, if there was not such a large cost to make early repayments. The table also confirms that borrowing is well below the CFR, this being the maximum amount that can be borrowed except for very short term cashflow requirements.

In terms of risks, the Council is not exposed to rising interest rates increasing the cost of borrowing, as no new borrowing is expected to be required. However, there is an exposure to falling interest rates, which would reduce the return received on investments. The Council is also exposed to credit risk on its investments, that is the risk that loans or investments are not repaid.

11. Potential Effect of interest rate changes

Interest rates are subject to change and although the Bank of England rarely changes base rates other than after its monthly meetings, rates in the markets change daily. In recent years rates have been very low and remarkably stable, but this has changed in 2022. The approximate effect (which could be either a rise or reduction of income) of a rise or fall in interest rates of 1% more than anticipated would be.

	Effect of 1% change in interest rates	Effect of 1% change in interest rates as percentage of Net Revenue Budget
2023/24	£1.7m	0.5%
2024/25	£1.8m	0.5%
2025/26	£2.0m	0.5%

As our borrowings are mostly fixed, we do not anticipate any changes on our borrowing costs in the event of interest rate changes.

12. MIFID 11 Professional Client Status.

The Council has Professional Client Status under MIFID 11 (a European regulatory framework for investor protection) and expects to maintain that status including keeping a minimum of £10 million invested.

13. Use of Derivatives

A derivative is a financial instrument which in the context of the Council would usually be used to mitigate the risk of future interest rate changes.

In line with the CIPFA prudential code, the Council will seek external advice and consider that advice before entering into any derivatives to ensure that the implications are fully understood.

Our use of derivatives is expected to be limited to fixing the interest rate for:

a) borrowing that may be required at a future date, for example to finance a significant development; or
b) lending to another organisation such as a council at a defined future date (usually no more than four months ahead).

The Council will only use financial derivatives where they can clearly be demonstrated to reduce the overall level of financial risks to which we are exposed.

Embedded risks such as those present in pooled funds and forward starting positions will not be subject to this policy.

Appendix B

Treasury Investment Strategy 2023/24

1. **Introduction**

1.1 This Treasury Investment strategy complies with the DLUHC'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 6 months for unsecured deposits. This is thus the current maximum period for all unsecured bank deposits.
		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 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 A+
Secured Deposits	These are deposits with a bank which are then secured on other assets which can be reclaimed if the bank fails.	Maximum 3 years	Any form of security (even if low grade) is better than none as secured deposits are much less likely to be subject to any bank bail in. The Council would look to use high grade security such as government gilts. We may use a third party to facilitate these transactions, but the underlying assets would be owned by the Council and not the third party.
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 (these may be classed as derivatives). 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 access to funds within one week.	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 access to funds within one week.	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. 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 3.5.2. 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. This applies to all the longer dated investments in this section.
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	We may consider unrated funds on the recommendation of our Treasury Advisors. No more than £10M to be invested in any one fund.

		to hold for two to three years.	
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.	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. This limit applies within the global limit for pooled investments (£180M).

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. This limit applies within the global limit for pooled investments (£180M). .

4. **Business Models**

4.1 The Council has a "buy and hold" strategy for its investments that are bought and sold in financial markets. That is, it 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.