Treasury Management Strategy 2024/25

Decision to be taken by: Council

Date of meeting: 21 February 2024

Lead director: Amy Oliver, Director of Finance

Useful information:

- Ward(s) affected
- Report authors: Kirsty Cowell
  Nick Booth
- Author contact details: Kirsty.cowell@leicester.gov.uk
  nick.booth@leicester.gov.uk
- Report version number

1. Purpose of Report

1.1 This report proposes a strategy for managing the Council's borrowing and cash balances during 2024/25 and for the remainder of 2023/24. (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. Historically we have used our cash balances to reduce to need to undertake new borrowing. However, as our earmarked capital resources for the capital programme are spent and reserves are used up, our cashflow analysis suggests the need for new borrowing is likely.

2.4 Interest rates had been very low since the financial crisis of 2007/08, though during the last 2 years they have risen with an increase in bank base rate from 0.1% in December 2021 to 5.25% and remain at 5.25% in February 2024. As our loans are at fixed rates, rises in interest rates only affect the interest earned on our cash balances or future loans. As a result, the Council's treasury management budget position for 2023/24 has improved. The expectation is that the Bank of England Monetary Policy Committee will not raise rates and rates may start to fall back slowly in the second half of 2024. It seems very unlikely that rates would fall back to 0.5% and below.

3. Recommendations

3.1 Members of the Overview Select Committee are recommended to note the report and make comments to the Director of Finance that they wish, prior to Council consideration.

3.2 The Council is recommended to approve the Treasury Management 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 The Council currently has £154m of long-term debt. Comprising of £134m borrowed from the Public Works Loans Board (PWLB) (a Government quango), and £20m from the financial markets.

4.2 This position has changed from March 2023 where the long-term debt was £180m. This is due to the Council repaying a £25m loan (plus a premium cost of £2.2m) in April 2023, from Barclays at 4.4% previously due for repayment in 2077.

4.3 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.

4.4 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 have been largely static (until the Barclays repayment) for 15 years. All of our current debt is long term, with repayments due 24 to 32 years from now.

4.5 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 have risen this has become an option to consider.

4.6 The Council has 2 LOBO (Lender Option Borrower Option) loans with Dexia totalling £20m at 4.6% p.a. These loans allow the lender at periodic 3 year dates the option to propose a higher interest rate for the rest of the term. With interest rates being so low for the last 15 years this option has previously only been theoretical. However, with the rise in interest rates since the last review, it is currently considered possible that Dexia will ask for a higher interest rate at its next option date of January 2025. If that option is exercised, it is currently the Council's intention to repay the LOBO loan.

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

4.8 Given our high cash balances in the past the Council has not needed to borrow long term for many years. However, as earmarked capital resources for the capital programme are spent and reserves are used up, our cashflow analysis suggests this is likely to change over the next couple of years.

4.9 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. The Council will also consider borrowing from the UK Infrastructure Bank which can offer loans at 0.4% p.a. cheaper than the usual PWLB rate for certain approved schemes. 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. The Strategy also grants sufficient delegated power to the Director of Finance to access new lenders if required.

4.10 The PWLB allows borrowing for HRA capital expenditure at 0.4% cheaper than usual rates. The government has announced that this concessionary rate will be extended until June 2025, and as much of our capital expenditure undertaken through borrowing is HRA related, we may wish to use this facility if we need to borrow.

4.11 The Council manages funds on behalf of the Combined Fire Authority and the Leicester and Leicestershire Enterprise Partnership (LLEP). It is general policy to pay interest based on the average return that the Council gets from its treasury investments.

4.12 The LLEP is due to be disbanded at the end of March 2024, following the Government's decision that its functions should transfer to the City and County Councils as part of national reforms. At this point some of the funds managed on behalf of the LLEP could need to be transferred to the County Council, but this will depend on the financial position of the LLEP.

5. **Investments**

5.1 The effort involved in treasury management has previously revolved mainly around management of our cash balances. These fluctuate during the course of a year, and previously generally ranged from £250m to £350m dependent on circumstances (e.g. closeness to employees' pay day). However, these balances have been falling recently and were just over £200m at the beginning of December. With the pressure on local government funding, and the use of reserves, we expect cash balances to decline further. We have recently only been lending out cash balances to other Local Authorities over short timescales of no more than 6 months to ensure that we have enough liquidity with our balances.

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, technically known as the Minimum Revenue Provision or MRP. Because of the extra costs of repaying PWLB debt, 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 (as they are required to balance both the 2023/24 and 2024/25 budgets, 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 had peaked at 11.1% in October 2022 though it had reduced to 4.6% by October 2023. Whilst many commentators anticipate inflation to decline further, 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 need to stay high to control inflation, as against the fear that too high rates will cause a recession. Most commentators expect interest rates to fall in 2024 but only slowly.

5.7 Following the financial crisis of 2008, banks if they got into trouble could be subject to “bail in” whereby large investors could lose some or (even in extremis all) of their capital. The Council has accordingly been very cautious regarding lending unsecured to banks.

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-ringfenced” banks for larger businesses (including most councils) and for other non-core banking activities, such as those involving financial institutions.

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 Treasury 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**, the Bank of England base rate rose to 5.25% in August, and our advisors expect it to have peaked or at most rise to 5.5%. in the current cycle. 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.

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

5.13 The details of our Investment Management 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 35 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 Treasury Investment Strategy, and this will continue. No local authority has ever defaulted on a loan. We are able to 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 though in practice we are unlikely to lend so long next year;

(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 have a limit to allow investment of up to £30m in commercial property funds. These investments will only occur if economic circumstances and the Council's financial position allows, as these funds increase and decrease dependent upon market conditions in a similar way to share prices. Whilst invested, income is received usually on a quarterly basis. It is highly unlikely that we will invest further in these funds in the next year.

5.15 One of our property funds, Lothbury has suffered a large number of redemption requests which has resulted in withdrawals from the fund being suspended. The position regarding the fund is subject to ongoing negotiations but there are 2 likely outcomes, either the fund is terminated, and the investors get back their money when the properties are sold over 18 months to 2 years, or a merger with the fund run by UBS is agreed. If the merger goes ahead with the UBS fund, we will be able to redeem our funds at the point of the merger or a later date.

5.16 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 and do not expect to make any such investments of this type in the next year. The Council has a smaller proportion of its treasury investments in non-cash deposits than most other authorities.

5.17 There is a market 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 5 years at most.

5.18 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 has in December 2023 maintained the outlook for the UK Government as AA-.

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 2023/24 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, Birmingham, Nottingham and Thurrock. Whist some authorities have made large investments to achieve income leading to their financial pressures, there is strong indication of underfunding in local government rather than financial mismanagement, with several authorities forecasting to be unable to balance budgets over the next couple of financial issues.

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) has until recently been 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 24 to 32 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 though as reserves are expected to be depleted this option has become less likely.

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 much lower than in recent years as the gap in the rates has decreased.

8.4 In practice, we are unlikely to repay any PWLB loans this year or in 2024/25. If the interest rate on the LOBO loan is raised at review in January 2025 (see para 4.6 above) we would repay the £20m to avoid having to pay higher interest until 2054 on these loans. Any premium becoming due on repayment on the loan would be spread over the life of the original loan (i.e. up to 2054) and is offset with the savings on the interest that is no longer being paid. 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 existing borrowing. If we need to borrow in the medium term though, there will be an interest rate risk depending on the timing of such borrowing. Unlike recent years, interest earned on investments have risen significantly.

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, legal, equalities, climate emergency and other implications

12.1 Financial Implications

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.

12.2 Legal Implications

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.

Kamal Adatia

12.3 Equalities Implications

There are no direct equality implications arising from this report. However, there might be implications associated with how we invest and spend our money and the equality implications should be considered individually at that point.

Kalvaran Sandhu, Equalities Manager

12.4 Climate Emergency Implications

Finance and investment can have significant climate-related impacts, depending on where funds are held and how they are used. As such, the council should consider opportunities to ensure that its' investments are not contributing to negative climate and environmental impacts, as relevant and appropriate. In addition, opportunities for investments that provide positive benefits should also be considered, as noted within the section of this report on investments with environmental and socially responsible objectives.

Aidan Davis, Sustainability Officer, Ext 37 2284

12.5 Other Implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

n/a.

13. **Background information and other papers**

13.1 The Council's Treasury Management Strategy - "Treasury Strategy 2023/24" (Council 22 February 2023).

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

Appendix A

Treasury Limits for 2024/2025

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 2024/25 and for the remainder of 2023/24 are:-

	£m
Borrowing	320
Other forms of liability	175
Total	**495**

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 2024/25 and for the remainder of 2023/24 are:

	£m
Borrowing	250
Other forms of liability	145
Total	**395**

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	200
25 years and over	250

We would not normally borrow new loans for periods in excess of 50 years.

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

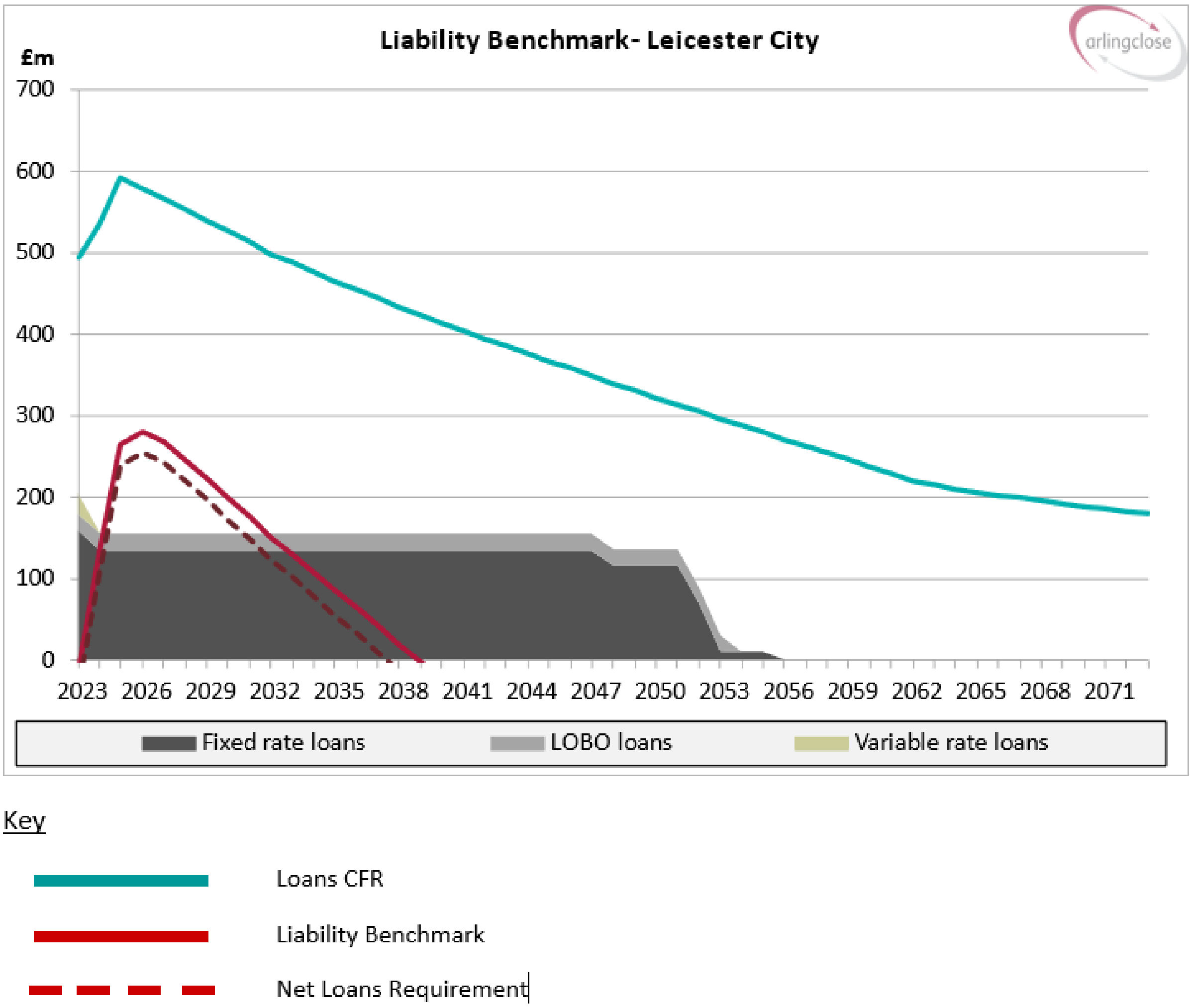
9. The central assumption of this Treasury Strategy is that the value of external borrowing will be as shown below (these figures include £12m debt managed on behalf of the fire authority).

	31/03/2022 Actual £m	2022/23 Estimated Average £m	2023/24 Estimated Average £m	2024/25 Estimated Average £m	2025/26 Estimated Average £m
External debt	192	192	169	190	250

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 falls over time as loans are gradually repaid and rises with new borrowing. The historic Housing Revenue Account debt does not have to be repaid and will therefore remain in the CFR.



After revenue and other balances have been considered, the liability benchmark (the underlying need to borrow for all purposes), is less than the CFR which is the maximum amount that can be borrowed except for very short term cashflow requirements.

In terms of risks, the Council is exposed to rising interest rates increasing the cost of future borrowing, but this is offset by 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 although the great majority of its treasury balances are in low-risk investments.

Statutory guidance is that debt should remain below the capital finance requirement, except in the short term. The authority has complied and expects to continue to comply with this requirement. The total debt including PFI and finance leases (excluding money we hold on behalf of the Fire Authority) is £245m whereas our capital finance requirement was £591m.

11. Potential Effect of interest rate changes

Interest rates are subject to change and although the Bank of England used to rarely change base rates, with rates being very low and remarkably stable, but this has changed since 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
2024/25	£1.5m	0.4%
2025/26	£1.0m	0.2%
2026/27	£0.5m	0.1%

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 £10m 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 2024/25

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. The security of capital is the most important priority.

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 35 days 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

Type	Description	Investment Period	Controls
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.	Up to 6 years for the UK Govt. and up to 3 years for LA's	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	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. 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.

Type	Description	Investment Period	Controls
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			
Type	**Description**	**Investment Period**	**Controls**
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.

Type	Description	Investment Period	Controls
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 to hold for two to three years	We may consider unrated funds on the recommendation of our Treasury Advisors. No more than £10m to be invested in any one fund.

Type	Description	Investment Period	Controls
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.