

Neath Port Talbot County Borough Council

CABINET

Report of the Director of Finance and Corporate Services

20th February 2018

SECTION A – MATTERS FOR DECISION

WARDS AFFECTED: ALL

TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY

1. Purpose of Report

1.1 This report sets out the Council's Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2018/19.

1.2 Treasury Management is defined as:

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

2. Introduction

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

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially

the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses.

3. Reporting Requirements

3.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporates a variety of policies, estimates and actuals details of which are outlined below.

3.2 Prudential and Treasury Indicators and Treasury Strategy (this report)

The first and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organized) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

3.3 A Mid Year Treasury Management Report (prepared after 1st October)

This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

3.4 An Annual Treasury Report

This provides details of the actual performance for the previous financial year and provides a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This report must be considered by Members by 30th September of the following financial year.

3.5 Scrutiny Arrangements

The above reports are required to be scrutinised before being recommended to Council. These arrangements are detailed in the scheme of delegation as set out in Appendix 1 of this report.

4. **Capital Strategy**

4.1 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

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

The aim of that report will be to ensure that Members understand the overall strategy, governance procedures and risk appetite entailed by capital investment and spend.

5. **Treasury Management Strategy for 2018/19**

5.1 The strategy for 2018/19 covers two main areas

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;

- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Welsh Government MRP Guidance, the CIPFA Treasury Management Code and Welsh Government Investment Guidance

6. **Capital Prudential Indicators**

6.1 **Capital Expenditure**

This prudential indicator is a summary of the Council's capital expenditure plans. The table below summarises these plans and how they are being financed:

	2016/17 Actual £'000	2017/18 Revised Estimate £'000	2018/19 Original Estimate £'000	2019/20 Original Estimate £'000	2020/21 Original Estimate £'000
Capital expenditure	53,758	75,513	43,608	13,579	11,515
<u>Resourced by:</u>					
Capital receipts	1,412	531	2,069	1,300	1,300
Grants & contributions	19,870	29,511	14,933	2,695	2,695
Reserves + DRF *	2,441	4,140	2,709	3,119	
Borrowing	30,035	41,331	23,897	6,465	7,520

NB * DRF means Direct Revenue Funding

6.2 **The Capital Financing Requirement (CFR)**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness. The table below shows the projected CFR movements:

CFR	2016/17 Actual £'000	2017/18 Revised Estimate £'000	2018/19 Original Estimate £'000	2019/20 Original Estimate £'000	2020/21 Original Estimate £'000
Opening Balance	270,244	292,826	325,978	341,000	337,648
Add: Expenditure funded by borrowing	30,035	41,331	23,897	6,465	7,520
Less: Minimum Revenue Provision (MRP)	(7,453)	(8,179)	(8,875)	(9,817)	(9,929)
Closing Balance	292,826	325,978	341,000	337,648	335,239

7. Treasury Management Prudential Indicators

7.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Council's capital strategy.

This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

7.2 The Council's treasury portfolio position at 31st March 2017 comprised:

Table 1	Principal	
<u>Borrowing</u>	£m	£m
Fixed rate funding	PWLB 174,713	
	Market 75,427	
	Other 0	
	250,140	
Variable rate funding	0	
	250,140	
Other long term liabilities		0
<u>Gross Debt</u>		250,140
<u>Total investments</u>		70,820

7.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the Capital Financing Requirement.

The Council has complied with this prudential indicator in the current year and there is no indication that it will not do so in future as detailed below:

	2016/17 Actual £'000	2017/18 Revised Estimate £'000	2018/19 Original Estimate £'000	2019/20 Original Estimate £'000	2020/21 Original Estimate £'000
Actual gross debt at 31 st March	250,140	267,155	281,970	279,003	274,797
Capital Financing Requirement (CFR)	292,826	325,978	341,000	337,648	335,239
Under / (over) borrowed	42,686	58,823	59,030	58,645	60,442

7.4 Treasury Indicators: Limits relating to borrowing

7.4.1 The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Operational Boundary	339,108	353,923	350,956	346,750

7.4.2 The Authorised Limit

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Authorised Limit	359,108	373,923	370,956	366,750

7.4.3 Upper limits on fixed and variable interest rate exposure

This identifies a maximum limit for fixed and variable interest rates based upon the total debt position

	2017/18 to 2020/21 £'000
Upper Limit on Fixed Interest Rate Exposure Lower Limit on Fixed Interest Rate Exposure	373,923
Upper Limit on Variable Interest Rate Exposure Lower Limit on Variable Interest rate Exposure	186,962

7.4.4 Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits

Maturity Structure of Fixed Rate Borrowing	2018/19 Estimate %	Upper Limit %	Lower Limit %
Under 12 months	2	15	0
12 months to 2 years	6	15	0
2 to 5 years	4	40	0
5 to 10 years	3	60	0
10 years +	85	100	15

8. Prospects for Interest Rates

8.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link's projected view.

	Dec17	Mar18	Jun18	Sep18	Dec18	Mar19	Mar20
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%
5 yr PWLB	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	2.10%
10 yr PWLB	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.70%
25 yr PWLB	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.40%
50 yr PWLB	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.20%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%.

9. Borrowing Strategy

- 9.1 The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However this strategy can only be used as a short term measure therefore consideration will be given to entering into external borrowing during 2018/19.
- 9.2 The following types of loan arrangement will be considered (in no particular order):
- Temporary borrowing from the money markets or other local authorities.
 - Short dated borrowing from the market or PWLB.
 - Long term fixed rate market or PWLB loans.

The general aim of this treasury management strategy is to ensure the affordability of capital investment within the ongoing revenue budget, to ensure that the credit risk is managed effectively when comparing borrowing costs and investment holdings and returns.

The Council will continue to examine the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since 20th October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has potentially meant that large premiums would be incurred by such action and such levels of premiums are unlikely to be justifiable on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

Members should note that during 2017/18 the Council has taken new borrowing of £30m from the PWLB taking advantage of

historically low interest rates. It should also be noted that during the year the Council repaid the outstanding balance of its loan from the Regional Investment Fund Wales (£12.927m) and made £1.5m of principal repayments to the PWLB.

- 9.3 Going forward it is not anticipated that the Council can meet its borrowing requirement from internal balances. It is proposed that Council Officers monitor the cost of external borrowing and if considered necessary externalise the 2018/19 borrowing requirement during the financial year if considered advantageous to do so.

10. Policy on Borrowing in Advance of Need

- 10.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

11. Debt Rescheduling

- 11.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

- 11.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings,
- helping to fulfil this Treasury Management Strategy, and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

- 11.3 Consideration will also be given to identify if there is any potential for making savings by running down investment balances to repay

debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

- 11.4 No rescheduling is anticipated in 2018/19. If rescheduling does take place it will be reported to the Policy and Resources Cabinet Board, at the earliest meeting following its action.

12. Annual Investment Strategy

- 12.1 The Council's investment policy has regard to the Welsh Government's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second, then return.
- 12.2 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using Link's ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
- 12.3 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.
- 12.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 12.5 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

- 12.6 The intention of the strategy is to provide security of investment and minimisation of risk.
- 12.7 Investment instruments identified for use in the financial year are listed in Appendix 2 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules.

13. Creditworthiness Policy

- 13.1 The Council receives creditworthiness information from Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies
 - Credit Default Swop (CDS) spreads to give early warning of likely changes in credit ratings
 - sovereign ratings to select counterparties from only the most creditworthy countries
- 13.2 All credit ratings are monitored on a daily basis. The Council is alerted to changes to ratings of money market organisations as announced by all three agencies through its use of the Link's creditworthiness service.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- 13.3 Council Officers are able to use this creditworthiness information to help support their decision making processes along with other market information and data available.
- 13.4 The approved investment criteria are detailed in Appendix 2 of this report and have not changed from those previously approved by Members.

14. Country Limits

14.1 The Council will only invest in Banks in countries where the sovereignty rating is AA+ or higher, with the exception of the UK which has a AA rating. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 2. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

15. Investment Strategy

15.1 **In-house funds:** The Council currently manages its surplus funds in-house. The core balance, available for strategic investment is estimated to be in the region of £40m. The remaining cash balances are mainly cash flow derived and available for short term investment only.

15.2 Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (up to 12 months). The Council policy will allow investments up to a maximum of £25m for periods of more than 1 year and up to 5 years, and this will be considered when decisions on investing surplus funds are made.

15.3 Investment returns expectations.

Bank Rate is forecast to stay flat at 0.50% until quarter 4 of 2018 and not to rise above 1.25% by quarter 1 of 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

- 2017/18 0.40%
- 2018/19 0.65%
- 2019/20 0.90%
- 2020/21 1.25%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

15.4. Investments greater than 365 days

The Council is required to set a limit on the total value of investments with a duration greater than 365 days. This limit is set with regard to the Council's liquidity requirements. The proposed limit is set out below:

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Limit on investments over 365 days	£25m	£25m	£25m	£25m

Members should note that the updated Treasury Management Code of Practice now requires Local Authorities to report on investments over 365 days as opposed to the previous practice of over 364 days.

16 End of Year Investment Report

16.1 Members will receive a report on 2017/18 investment activity as part of the Annual Treasury Report by 30th September 2018.

17. Policy on the Use of External Service Providers

17.1 The Council uses Link Asset Services as its external treasury management advisers. The Council's previous contract was with Capita Asset Services but this business was purchased by Link Asset Services during 2017/18.

17.2 The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

17.3 However it is recognised that responsibility for treasury management decisions remains with the Council.

18. Role of the Section 151 Officer

18.1 The Director of Finance and Corporate Services is the designated Section 151 Officer for the Council. The specific responsibilities of the S151 Officer are set out below:

- to recommend treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommend the appointment of external service providers.

19. Minimum Revenue Provision

19.1 Introduction

19.1.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision.

19.1.2 The council is required to approve its MRP policy for the forthcoming financial year ensuring that “prudent provision” is made.

20. Minimum Revenue Provision Policy Statement 2018/19

20.1 The Council’s MRP policy for 2018/19 is detailed below:

MRP Policy – Supported Borrowing

- 20.2 The Council is required to make arrangements for the repayment of debt which it considers to be a 'prudent provision for the repayment of debt'. In relation to capital expenditure funded by supported borrowing the MRP policy will be to write down the debt over a 50 year period on a straight line basis, this is broadly consistent with the lives of assets funded and maintained by supported borrowing.

MRP Policy – Prudential Borrowing

- 20.3 Expenditure will be subject to MRP on the basis of asset life and using the equal annual instalment or annuity methods as appropriate.
- 20.4 Estimated life periods will be determined by the Director of Finance and Corporate Services under delegated powers. To the extent that expenditure is not on the creation of an asset e.g. computer software and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.
- 20.5 Where some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure, as determined by the Director of Finance.
- 20.6 Where the Council provides capital funding to a third party the MRP charge will be calculated as if the Council incurred the capital expenditure itself i.e. over the expected life of the asset.
- 20.7 The Council will apply the Minimum Revenue Provision to the accounts in the financial year following which the asset becomes operational.

21. Affordability Prudential Indicators

- 21.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework a prudential indicator is required to assess the affordability of the

capital investment plans. This indicator shows the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

	2017/18 Revised Estimate	2018/19 Original Estimate	2019/20 Original Estimate	2020/21 Original Estimate
Financing Cost / Net Revenue	6.76%	6.96%	7.31%	7.33%

22. Capital Financing Budget

22.1 Included at Appendix 3 of this report is a breakdown of the capital financing budget which totals £18.573m for 2018/19.

23. Financial Impact

All financial impacts are detailed within the body of the report.

24. Equality impact assessment

There is no requirement for an equality impact assessment for this report.

25. Workforce impacts

There are no workforce impacts resulting from this report.

26. Legal impacts

The report deals with the Council's legal requirements as set out in Local Government Act 2003.

27. Risk management

Compliance with the strategies outlined in this report should be sufficient in terms of managing risks in this area.

28. Recommendation

It is recommended that Cabinet commend to Council the approval of the Treasury Management Strategy, Annual Investment, Minimum Revenue Provision and Prudential Indicators as set out in this report.

29. Reasons for proposed decision

To approve the Authority's Treasury Management Strategy, Annual Investment Strategy and MRP Policy as required by the Local Government Act 2003.

30. Implementation of decision

The decision is proposed for implementation immediately after consultation with the Cabinet Scrutiny Committee and determination by Council.

31. Appendices

Appendix 1 – Scheme of Delegation

Appendix 2 - Investment Criteria

Appendix 3 – Capital Financing Budget

32. List of Background Papers

CIPFA – Treasury Management in the Public Sector Code of Practice

Treasury Management Working Papers

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Scheme of Delegation

Area of Responsibility	Council/ Committee	Frequency
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet for approval by Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Cabinet	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet for approval by Full Council	Periodically
Annual Treasury Outturn Report	Policy and Resources Cabinet Board	Annually by 30 th September after the end of the year
Treasury Management Monitoring and Performance Reports	Policy and Resources Cabinet Board and Scrutiny and Audit Committee	6 Weekly Quarterly
Treasury Management Practices	Cabinet for approval by Full Council	Amendments to be reported annually
Scrutiny of Treasury Management Strategy	Policy and Resources Scrutiny and Audit Committee	Annually

Specified Investments

	Minimum 'High' Credit Criteria	Funds Managed	Max Amount	Max Duration
Term deposits				
Term deposits - Debt Management Office	N/A	In-house	Unlimited	1 year
Term deposits – local, police and fire authorities	N/A	In-house	£10m	1 year
Term deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1	In-house	£15m	6 months or 185 days
Callable deposits				
Callable deposits – Debt Management Agency deposit facility	N/A	In-house	Unlimited	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F2	In-house	£10m	
Callable deposits - UK banks/Building Societies	Fitch short-term rating F1+ or F1	In-house	£15m *	
Term deposits – non UK banks	Fitch short-term rating F1+	In-house	£5m	6 months or 185 days

* Where necessary this limit may be temporarily exceeded with the Authority's bankers only.

Other specified investments are as follows:

1. The UK Government – in addition to the Debt Management Account facility, there are UK Treasury Bills or Gilts with less than 1 year to maturity.
2. Supranational Bonds of less than 1 year duration – there are two categories:
 - (a) multilateral development bank bonds such as European Investment Bank Bonds
 - (b) a financial institution that is guaranteed by the UK Government such as The Guaranteed Export Finance Company.
3. Pooled Investment Vehicles (such as Money Market funds) that have been awarded a high credit rating agency.

Specified investments are considered low risk assets where the possibility of loss of principal or investment income is small.

The Council has not utilised these types of investments in the past but is currently investigating the merits for doing so.

Non-Specified Investments:

A maximum of £25m will be held in aggregate in non-specified investments. All non-specified investments will be sterling denominated, as reflected below:

Maturities in excess of 1 year

	Minimum Credit Criteria	Funds Managed	Max. Investment	Max. Maturity Period
Fixed term deposits with fixed rate and fixed maturity				
Debt Management Agency Deposit Facility	N/A	In-house	Unlimited	5 years
Term deposits – local authorities	NA	In-house	£10m	5 years
Term deposits – UK banks/Building Societies	Fitch long-term rating A	In-house	£10m	5 years
Term deposits – Non UK banks	Fitch long-term rating A	In-house	£3m	5 years
Term deposits – building societies	Fitch long-term rating A	In-house	£3m	5 years
Fixed term deposits with variable rate and variable maturities				
Callable deposits	Fitch long-term rating A	In-house	Criteria as above	

Approved Countries for Investments

At present the Council has the ability to invest in the countries as set out below; the Council will take account of all information if making investments in Non-UK banks.

The Council will only invest in Banks where the sovereignty is AA+ or higher, with the exception of the UK which has a AA Sovereign Rating. Should the UK sovereignty rating reduce further the Council will immediately review its investments but will continue to invest in UK institutions in line with the agreed strategy and a report will be forwarded to Members for consideration.

Based on latest available rating:

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- USA

AA

- UK

Capital Financing Budget

2016/17 Outturn Position £'000		2017/18 Original Budget £'000	2018/19 Original Budget £'000
16,798	Principal and Interest charges	18,434	19,143
	Investment Income		
(727)	- Total	(504)	(390)
153	- less allocated to other funds *	250	160
(574)	Subtotal Income	(254)	(230)
(360)	Contribution from General Reserve	(350)	(340)
655	Contribution to Treasury Management Equalisation Reserve.		
16.519	Net General Fund	17,830	18,573

NB * Allocated to other Funds include interest paid out to Trust Funds, Social Services Funds, Schools Reserves, Bonds etc.