Nottinghamshire and City of Nottingham
Fire and Rescue Authority

TREASURY MANAGEMENT STRATEGY 2020/21

Report of the Treasurer to the Fire Authority

Date: 28 February 2020

Purpose of Report:

To seek the approval of Members for the proposed Treasury Management Strategy for 2020/21, and to seek approval of the Authority's Minimum Revenue Provision Policy for 2020/21.

Recommendations:

- That Members approve the Treasury Management Strategy for 2020/21
- That Members approve the Minimum Revenue Provision Policy for 2020/21
- That Members approve a treasury management training session at the rising of the full Fire Authority on 25 September 2020.

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1. BACKGROUND

1.1 The Local Government Act 2003 requires the Authority to set out its treasury strategy for borrowing and to prepare an annual investment strategy; this sets out the Authority's policies for borrowing, for managing its investments and for giving priority to the security and liquidity of those investments.

1.2 The Authority 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 needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk appetite, ensuring adequate security and liquidity before considering investment return.

1.3 The second main function of the treasury management operation is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Authority can meet its capital spending obligations. The management of longer term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses.

1.4 Treasury management is defined by CIPFA as *"the management of the local authority's borrowing, 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*." The treasury management function makes an important contribution to the Authority, as the balance of debt and investment operations ensures the ability to meet spending commitments as they fall due, either on day-to-day revenue or on larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure the adequate security of sums invested, as the loss of principal will in effect result in a loss to the General Fund Balance.

1.5 The Authority adopted the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2009 (the Code) on 9 April 2010. The Treasury Management Code of Practice was updated in December 2017 and it now reflects developments arising from the Localism Act 2011, namely the use of non-treasury related investments. It also includes some minor changes around risk management practices. The primary requirements of the Code are as follows:

1. The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities (see Appendix A).

2. The creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.

3. Receipt by the Fire Authority of an annual Treasury Management Strategy Statement for the year ahead, a mid-year review report and an annual report covering activities during the previous year.

4. Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. This Authority delegates the role of scrutinising the treasury management strategy and policies to the Finance and Resources Committee.

1.6 A report on the Prudential Code for Capital Accounting is also on this agenda. This report sets out the prudential indicators for 2020/21, which are designed to ensure that the Authority's capital investment plans are affordable, prudent and sustainable and are in accordance with CIPFA's Prudential Code. The Prudential Code was revised in 2017, and now includes the requirement to prepare a Capital Strategy – this was approved as part of the Medium Term Financial Strategy by Fire Authority on 20 December 2019.

1.7 This Treasury Management Strategy report is complementary to the Prudential Code report and the proposed prudential and treasury limits for 2020/21 are included in both reports for completeness.

1.8 This report also sets out the Authority's Minimum Revenue Provision policy for 2020/21 for approval by Members in paragraphs 2.52 to 2.55.

1.9 The Authority has appointed Link Asset Services as its external treasury management adviser. Link Asset Services has provided the Authority with its view on the economic outlook and on anticipated interest rates for the forthcoming year.

2. REPORT

TREASURY MANAGEMENT STRATEGY FOR 2020/21

2.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

2.2 The Act therefore requires the Authority to set out its treasury strategy for borrowing and to prepare an annual investment strategy: this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.3 The suggested strategy for 2020/21 in respect of the following aspects of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury adviser, Link Asset Services.

2.4 The strategy covers:

- Prudential and treasury indicators;
- The borrowing requirement;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy;
- Policy on use of external service providers;
- The Minimum Revenue Provision policy;
- Training of Officers and Members.

2.5 The Authority recognises that whilst there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, responsibility for treasury management decisions remains with the organisation at all times. The Authority will therefore ensure that undue reliance is not placed upon external service providers.

BALANCED BUDGET REQUIREMENT

2.6 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Authority to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This includes a statutory requirement to make a prudent provision for an annual contribution from its revenue budget towards the reduction in its overall borrowing requirement. This charge is known as the Minimum Revenue Provision (MRP). This means that increases in capital expenditure must be limited to a level whereby increases in the following charges to revenue are limited to a level which is affordable within the projected income of the Authority for the foreseeable future:

- Increases in interest charges caused by increased borrowing to finance additional capital expenditure;

- Any increases in running costs from new capital projects, and

- Any increases in the Minimum Revenue Provision.

ECONOMIC BACKGROUND

2.7 GDP growth has been low during 2019 due to Brexit uncertainty. Quarter 3 growth was a little higher than expected at +0.4% quarter on quarter (+1.1% year on year), but uncertainty during the final quarter appears to have suppressed GDP quarter on quarter growth to around 0.1%. Growth in 2020 is likely to be slow at around 1% year on year until there is more certainty about the UK's future relationship with the European Union.

2.8 At their January 2020 meeting the Monetary Policy Committee (MPC) voted for the bank rate to remain unchanged at 0.75%. Their key view was that there was currently "no evidence about the extent to which policy uncertainties among companies and households had declined", i.e. that they would wait and see how the economy performed during the next few months. Two of the nine members of the MPC were sufficiently concerned about the weak global economic growth, and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery, that they voted for a rate cut to 0.5%. The MPC has warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and the EU and by how much global growth rates pick up. The Bank of England revised its inflation forecasts down to 1.25% in 2019, 1.5% in 2020 and 2.0% in 2021. The MPC therefore clearly views inflation as causing little concern in the near future.

2.9 If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with rate cuts, as the current rate is only 0.75%. It would therefore probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost, e.g. by tax cuts, increases in the annual expenditure budgets of government departments, and expenditure on infrastructure projects. The Government has already indicated that it intends to move in this direction by making significant spending promises in its election manifesto that would increase government spending by up to £20 billion per annum. This would add around 1% to GDP growth rates. Details are likely to be announced in the next budget in March. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

2.10 The Authority's treasury adviser has provided a more in depth analysis of the economic backdrop to this report, which can be found at Appendix B.

2.11 Link Asset Services has provided a forecast on the bank interest rate, which draws on current City forecasts and is predicated on an assumption of an agreement being reached on the terms of trade between the UK and the EU:

Link Asset Services Bank Rate Forecasts	
As at 31 March 2020	0.75%
As at 31 March 2021	1.00%
As at 31 March 2022	1.00%
As at 31 March 2023	1.25%

2.12 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecast (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

MANAGEMENT OF CASH RESOURCES

2.13 The Authority uses a main current account, an investment account and a number of local petty cash accounts. All of these accounts are held with Barclays Bank PLC and are managed online. This system allows the Authority to make transfers to and from accounts in real time and thus allows the current account balance to be maintained at a minimum level. All surplus funds are held either in the investment account for short periods or are lent to institutional borrowers over longer periods.

2.14 The bank overdraft level is £200,000 and this is usually sufficient. There are occasions when the overdraft exceeds £200,000 and temporary arrangements are made with the bank to increase the limit to £500,000. The Prudential Code report included an overdraft limit of £500,000 within the authorised limit to allow for such instances. It is proposed that the day to day overdraft facility remains at a level of £200,000.

2.15 Part of the treasury management operation is to ensure that cash flows are adequately planned, with cash being available when it is needed. A 3-year cash flow projection is prepared together with a 3 month rolling cash flow forecast. The 3-month forecast is updated regularly and this process reveals when cash surpluses or shortages are likely to arise.

2.16 Cash management processes have been examined by internal auditors and have been shown to be robust.

BORROWING STRATEGY

2.17 The prudential indicators for borrowing are set out in Appendix C. Background information relating to these indicators is contained within the Prudential Code for Capital Finance 2020/21 report which is elsewhere on this agenda.

2.18 The capital financing requirement is the sum of money required from external sources to fund capital expenditure i.e. the Authority's underlying need to borrow or lease. For 2020/21 this figure is estimated at £29,073,000. This figure is comprised of capital expenditure incurred historically by the Authority that has yet to be financed by capital receipts, grants, or contributions from revenue including MRP charges, plus estimated capital expenditure and capital financing for 2019/20 and 2020/21.

2.19 The Authority's strategy in the past has been to borrow funds from the Public Works Loan Board (with the exception of a £4m bank loan which was taken in 2007/08). The PWLB is an agent of HM Treasury and its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies. In October 2019 the PWLB announced an increase in the margin over gilt yields of 100 basis points on top of the current margin of 80 basis points which this authority has paid prior to this date for new borrowing from the PWLB. There was no prior warning that this would happen and it now means that every local authority must reassess how to finance their external borrowing needs. Whereas the Authority has previously relied on the PWLB as its main source of funding, alternative cheaper sources of borrowing may now be considered. It is likely that various financial institutions will enter the market or make products available to local authorities in response to the sudden increase in PWLB rates. Officers will work with treasury advisors to carefully consider all funding options before undertaking any further long term borrowing. The Authority will consider fixed rate market borrowing when rates are lower than PWLB rates. The Authority may also consider loans from the UK's Municipal Bond Agency.

2.20 The bank loan of £4m referred to in paragraph 2.19 is structured as a "Lender Option Borrower Option (LOBO)" loan. This means that on 7 March 2013 and on that anniversary every five years, the lender may revise the interest rate, which is currently 4.13%. The Authority may choose to repay the loan without penalty if the amended interest rate is not advantageous. If the lender does exercise the option to revise the interest rate, the strategy will be to either agree to continue the loan with the revised interest rate or to repay the loan and replace it with new, long term debt at a lower rate depending on which is the most advantageous option for the Authority. The next opportunity for a revision of the interest rate is 7 March 2023.

2.21 Over the next three years, it is anticipated that the Authority will need to borrow up to £11m to finance the capital programme and to replace £1.5m of maturing loans.

2.22 Link Asset Services' view on future PWLB interest rates is:

	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Mar 22	Mar 23
5 yr PWLB	2.40%	2.40%	2.50%	2.50%	2.60%	2.90%	3.20%
10 yr PWLB	2.70%	2.70%	2.70%	2.80%	2.90%	3.20%	3.50%
25 yr PWLB	3.30%	3.40%	3.40%	3.50%	3.60%	3.90%	4.10%
50 yr PWLB	3.20%	3.30%	3.30%	3.40%	3.50%	3.80%	4.00%

The table above has been adjusted for the PWLB certainty rate, which is a 20 basis points reduction in the interest rate for Authorities such as this one which have applied for it. These forecasts have been based on the assumption that a Brexit deal will be agreed, including an agreement on the terms of trade between the UK and the EU.

2.23 As stated in paragraph 2.12, economic forecasting is particularly difficult at this time. Gilt yields, and therefore PWLB rates, are influenced by geopolitical developments as well as developments in financial markets. These include:

- Timings of Bank of England base rate changes which could impact on the economy if incorrect;
- Inflation levels;
- Post-Brexit trade negotiations;
- Geopolitical risks such as North Korea, Europe and the Middle East;
- European politics, e.g. vulnerable minority governments in Germany, Spain, Portugal, the Netherlands, Finland, Sweden and Belgium, and strong anti-immigration governments in Austria, the Czech Republic, Hungary and Poland;
- A resurgence of the Eurozone debt crisis;
- Weak capitalisation of some European banks;
- A potential financial crisis caused by high levels of corporate debt in major western economies, should world economic growth slow too much.

2.24 In view of the above forecast the Authority's borrowing strategy will be based upon the following information.

- A combination of capital receipts, internal funds and borrowing will be used to finance capital expenditure in 2020/21 and beyond.

- One PWLB loan will mature in the medium term (£1.5m in 2020/21). This will need to be refinanced. It is estimated that total new borrowing in the period 2020/21 to 2022/23 will be in the region of £10.1m.

- Link Asset Services' view is that interest rates are likely to rise over the next three years. It may therefore be advantageous to take out new loans earlier in the period, as this will have a lesser impact on the revenue budget for the periods of the loans. However, if this is in advance of the need to spend, there will be a cost of capital impact as referred to in paragraph 2.28 below.

- Following the decision by the PWLB to increase their margin over gilt yields by 100 basis points to 180 basis points on loans to local authorities, consideration will also be given to sourcing funding at cheaper rates from local authorities, financial institutions and the Municipal Bonds.

- PWLB rates on loans of less than ten years duration are expected to be lower than longer term PWLB rates. However, the existing debt maturity profile of the Authority will also be taken into account when decisions are made regarding the duration of new borrowing. The Authority will strive to

seek a balance between securing the most advantageous rate whilst ensuring that it is not unduly exposed to re-financing risk.

- Maturity loans will continue to be taken if the overall cost of such loans is less than the equivalent Annuity or EIP (equal instalments of principal) loans. If this strategy results in a short term breach of the Gross Borrowing and Capital Financing Requirement indicator, then the reasons for this will be explained to members of the Authority.

2.25 As at 31 March 2019 the Authority was maintaining an over-borrowed position. This means that external borrowing exceeded the capital financing requirement (CFR). This position arose because of short term borrowing taken to cover cash flow shortfalls caused by the timing of the pension grant. Ordinarily the Authority would seek to keep its level of external borrowing in line with its CFR, or to maintain an under-borrowed position where the CFR has not been fully funded by external debt. In an under-borrowed position the Authority uses the cash supporting its reserves and balances to temporarily finance capital expenditure. The use of cash balances in this way is known as “internal borrowing”, and this strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. However, it is recognised that internal borrowing brings a different kind of risk, as there is a chance that balances may need to be replenished at a time when interest rates are higher. In this respect, internal borrowing is effectively variable rate debt. For this reason, the Authority has a local indicator that limits the level of internal borrowing to 20% of the underlying borrowing requirement.

2.26 Officers, in conjunction with treasury advisors, will continually monitor both the prevailing interest rates and market forecasts, adopting the following responses to a change in position:

- if it were felt that there was a significant risk of a sharp **fall** in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it were felt that there was a significant risk of a much sharper **rise** in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they are projected to be in the next few years.

2.27 The Authority’s gross debt position is projected to be £26.5m by the end of 2019/20, whilst investments of approximately £6m are expected to be in place at 31 March 2020, giving a net debt position of around £20.5m. This projected level of external debt is broadly in line with the projected capital financing requirement, meaning that capital expenditure is expected to be fully funded by the end of the financial year. However, the Authority recognises that there will be a requirement to borrow in the medium term in

order to fund new capital expenditure. Interest rates are forecast to rise slowly over the next three years, and the Authority will monitor rate changes closely when determining when the time is right to borrow.

2.28 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed, although this scenario is unlikely anyway given that current borrowing rates are higher than current investment interest rates, creating a cost of capital impact. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of funds invested. In determining whether borrowing will be undertaken in advance of need the Authority will:

- Ensure that borrowing is only undertaken to finance the capital programme approved within the current Medium Term Financial Strategy;
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

2.29 Where the Authority has made a decision to defer long term borrowing either in order to benefit from a forecasted reduction in interest rates or to avoid unnecessary carrying costs, it may undertake short term borrowing to alleviate temporary cash shortages caused by internally borrowing cash balances to support capital expenditure.

2.30 The rescheduling of debt involves the early repayment of existing borrowings and their replacement with new loans. As short term borrowing rates will be cheaper than longer term fixed interest rates, this would indicate a potential to generate savings by switching from long to short term debt. However, a premium would be payable which may negate the savings, and the loan maturity profile of the Authority indicates that this would increase exposure to interest rate risk. It is therefore unlikely that rescheduling of debt will take place in 2020/21 although this will be kept under review should circumstances change. Rescheduling will be considered for the following reasons:

- The generation of cash savings and / or discounted cash flow savings;
- Enhancing the balance of the portfolio by amending the maturity profile.

Any rescheduling of debt will be reported to Members at the earliest meeting following its action.

ANNUAL INVESTMENT STRATEGY

Investment Policy – Management of Risk

2.31 The Authority will have regard to MHCLG's Guidance on Local Government Investments, the Audit Commission's report on Icelandic investments and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Authority's investment priorities are:

(a) the security of capital and
(b) the liquidity of its investments.

The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Authority is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

2.32 The guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor the counterparties are the short term and long term ratings.

2. **Other information**: ratings are not the sole determinant of the quality of an institution; 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. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. 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.

3. MHCLG's Guidance on Local Government Investments groups investments into one of four categories:

   - **Specified investments** are those with a high level of credit quality and are subject to a maturity limit of one year.
   - **Loans** are made to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategic goal. Such loans might not be seen as prudent if adopting a narrow definition of

prioritising security or liquidity, but may be acceptable in the wider context of the Authority’s strategic aims.

- **Non-specified investments** are those with a relatively lower level of credit quality, or may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by officers and members before being authorised for use.
- **Non-financial investments** are assets that an organisation holds primarily or partially to generate a profit. Where an organisation holds a non-financial investment, it will normally have a physical asset that can be realised to recoup the capital invested.

This Authority will not invest in financial instruments that are categorised as “non-specified”, with the exception of instruments with a maturity of more than one year that would otherwise meet the criteria of a “specified” investment. The Authority will not purchase non-financial investments. The Authority’s criteria for specified investments can be found in Appendix D, and the policy regarding loans is detailed in paragraph 2.47.

4. **Lending limits** (amounts and maturity) for each counterparty will be set in accordance with the guidelines detailed in Appendix D.

5. The Authority will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 2.41).

6. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 2.39).

7. The Authority has engaged **external consultants** (see paragraph 1.9) to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield in the context of the expected level of cash balances and the need through liquidity throughout the year, given the Authority’s risk appetite.

8. All investments will be denominated in **sterling.**

9. As a result of the change in accounting standards for 2018/19 under **International Financial Reporting Standard 9**, the Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the general fund (the government has introduced a five-year statutory override to accounting changes to pooled investments commencing 01/04/18).

2.33 The Authority will pursue value for money in its treasury management activity and will monitor yield from investment income against appropriate benchmarks for investment performance (see paragraphs 2.48 to 2.51). Regular monitoring of investment performance will be carried out during the year.

Creditworthiness Policy

2.34 The Authority applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors forming the core element. It is recognised that ratings should not be the sole determinant of the quality of an institution, and Link's creditworthiness service does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries;

2.35 The modelling approach combines credit ratings, credit watches, and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour code bands which indicate the relative creditworthiness of counterparties and enable diversification in investments. These colour codes are used by the Authority to determine both the credit-worthiness of institutions and the duration for investments. It is regarded as an essential tool, which the Authority would not be able to replicate using in-house resources.

2.36 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link's weekly credit list of potential counterparties. The Authority will therefore use counterparties within the following durational bands:

- 24 months
- 12 months
- 6 months
- 100 days

2.37 The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just once agency's ratings. Typically, the minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalent) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical information, to support their use.

2.38 The Authority is alerted to changes to ratings of all three agencies through its use of the Link Assets Services' creditworthiness service. If a downgrade results in the counterparty or investment scheme no longer meeting the

Authority's minimum criteria, its further use as a new investment will be withdrawn immediately and consideration will be given to withdrawing any amounts held in notice accounts. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Country Limits

2.39 The Authority has previously determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to or deducted from by Officers should ratings change in accordance with this policy. An exception to this policy will be made for the UK in the event that its sovereign credit rating is downgraded to AA-. If such an event were to occur the Authority would continue to use counterparties from the UK, subject to the creditworthiness criteria outlined in paragraph 2.36.

Investment Strategy

2.40 Investments will be made with reference to the core balance and cash flow requirements of the Authority, and the outlook for short term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage fluctuations in cash flow, it may sometimes be possible to identify cash sums that could be invested for longer periods. Should this be the case, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or at variable rates.
- Conversely, if it is thought that the Bank Rate is likely to fall within that time period, consideration will be given to locking in the higher rates currently obtainable, for longer periods.

2.41 Bank Rate is forecast to increase slowly over the next few years to reach 1.25% by quarter 1 of 2023. There is also a considerable amount of economic uncertainty at present as details of the UK's future trade deal with the European Union are still unknown. In the current financial climate no term deposit investments will be made for more a period greater than one year without the prior approval of the Treasurer and Head of Finance. The Authority will avoid locking into longer term deals while investment rates are at such low levels unless exceptionally attractive rates are available which make longer terms deals worthwhile. The proposed upper limit for principal sums invested for periods longer than 365 days is £2m (see the Prudential and Treasury Indicators in appendix C).

2.42 The Markets in Financial Instruments Directive ("MIFID I") came into force in 2007. "MIFID II" is a revision of the Directive which is effective from 3 January 2018. Under the revised regulations, Local Authorities are categorised as "retail clients". This categorisation limits both the financial instruments and providers available to authorities for treasury management purposes. However, authorities can opt up to become "elective professional clients" if certain criteria are satisfied. This Authority was able to satisfy the criteria, and so has opted up to elective professional status, and has therefore retained its access to a wider range of financial products.

2.43 In accordance with its low risk appetite, the Authority may undertake the following types of "specified" investments:

- Deposits with the Debt Management Office (Government);
- Term deposits with Banks and Building Societies;
- Call deposits with Banks and Building Societies;
- Term Deposits with uncapped English and Welsh local authority bodies;
- Triple-A rated Money Market Funds (CNAV and LVNAV);
- UK Treasury Bills;
- Certificates of Deposit.

2.44 The risks associated with investing will be reduced if investments are spread e.g. over counterparties or over countries. The Authority will therefore aim to limit its investment with any single counterparty to £2m where possible. However, where a lack of suitable counterparties renders this £2m limit unworkable a maximum of £4m per counterparty is permitted. Despite this Officers will, wherever possible, avoid the concentration of investments with one counterparty or group.

2.45 The Authority currently accesses counterparties directly or via a broker, and officers also have the option to access counterparties via Link's Agency Treasury Service. The Agency Treasury Service pools investments from Link's clients and places them with counterparties.

2.46 A summary of the criteria for specified investments is shown in appendix D. The same criteria shall apply to non-specified investments with the exception of the maximum maturity period, which may exceed 12 months.

2.47 In addition to specified investments, the Authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures if doing so would contribute to its wider strategic goals. Before making such a loan the Authority would seek approval from the Finance and Resources Committee, having demonstrated the following:

- The total financial exposure to the loan is proportionate;
- An allowed “expected credit loss” model for loans and receivables as set out in International Financial Reporting Standard 9 can be applied to measure the credit risk of the loan portfolio; and
- Appropriate credit control arrangements are in place to recover overdue payments.

Investment risk benchmarking

2.48 It is proposed that the Authority adopts benchmarks to assess the security, liquidity and yield of its investments. These benchmarks are simple guides to maximum risk, so may be breached from time to time depending on movements in interest rates and counterparty criteria. Any breach will be reported with supporting reasons in the Treasury Management Mid-year or Annual Report.

2.49 **Security -** security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of the creditworthiness service provided by Link Asset Services. Typically, the minimum credit criteria used by the Authority equates to a long-term rating of A- (Fitch or equivalent). This means that the average expectation of default is around 0.08% of the total investment (e.g. for a £1m investment the average loss would be £800). This is only an average, and any specific counterparty loss is likely to be higher, however these figures can be used as a benchmark for the security of the investment portfolio.

The Authority has adopted a maximum security risk benchmark of **0.08%** historic risk of default when compared to the whole portfolio (as part of the Prudential Limits approved in the Prudential Code for Capital Finance 2020/21 report elsewhere on this agenda). The Authority’s current historic of default is **0.014%.**

2.50 **Liquidity -** this is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts and standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives” (CIPFA Treasury Management Code of Practice). In respect of this area the Authority seeks to maintain:

- A bank overdraft of £500k;
- Adequate liquid short term deposits available at a week’s notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio. A shorter WAL would generally embody less risk. The current WAL of the Authority’s investments is approximately 2.5 months.

The WAL benchmark is expected to be **approximately 3 months**, with a recommended maximum limit of **0.40 years.**

2.51 **Yield -** the recommended local measure of yield benchmark is:

Investments – internal returns **above the 3 month LIBID rate**.

MINIMUM REVENUE PROVISION POLICY 2020/21

2.52 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. These regulations were an amendment to the 2003 regulations and introduced several changes to the capital finance regime for local authorities (including fire authorities) in England. The most significant of these were provisions dealing with the calculation of Minimum Revenue Provision (MRP), which is the amount an authority charges to its revenue account in respect of the financing of capital expenditure.

2.53 Under the regulations, Authorities must make a "prudent provision" for MRP and guidance is given on the interpretation of this: "provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service". This guidance translates into the asset life method. Authorities are permitted to continue charging MRP calculated using the old method for borrowing and credit arrangements which funded capital expenditure incurred before 1 April 2007. This method calculates a charge of 4% of the capital financing requirement each year to revenue.

2.54 The following policy on MRP is therefore recommended to members and budgetary provision for MRP has been made on this basis:

- For all borrowing and credit arrangements to fund capital expenditure incurred before or during 2006/07, the minimum revenue provision applied in 2020/21 will continue to be calculated on the basis of the 4% CFR (capital financing requirement) method. This method will continue to be used in future years for capital expenditure incurred during or before 2006/07.

- For all borrowing and credit arrangements to fund capital expenditure incurred from 2007/08 onwards, the minimum revenue provision applied in 2020/21 will be calculated on the basis of the Asset Life method.

2.55 The regulations also allow for Voluntary Revenue Provision (VRP) charges to be made. A VRP charge would be in addition to the MRP charge, and would have the effect of reducing MRP charges in future years, resulting in revenue budget savings. If the situation arises in the year whereby Officers feel that a VRP charge would be advantageous (e.g. if there are revenue budget underspends), then a recommendation will be made to Finance and Resources Committee to approve a VRP charge during the year.

TRAINING OF OFFICERS AND MEMBERS

2.56 Under the Code, good practice is defined as ensuring that all staff involved in treasury management are appropriately trained and experienced to

undertake their duties. Employees within the Finance Department who carry out treasury management activities are suitably trained and experienced and routinely attend at least one treasury management update event each year to ensure that their knowledge keeps pace with changes.

2.57 It is also suggested that those tasked with treasury management scrutiny responsibilities also have access to suitable training. A treasury management training seminar has not been held for some years. It is therefore recommended that treasury management is included in the next Member training day.

3. FINANCIAL IMPLICATIONS

The financial implications of this report are set out in full within the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising directly from this report.

5. EQUALITIES IMPLICATIONS

There are no equalities issues arising directly from this report.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising directly from this report.

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report, other than the requirement to act within the Authority's powers when undertaking treasury management borrowings and investments.

8. RISK MANAGEMENT IMPLICATIONS

The investment of local authority funds cannot be achieved without some element of risk. Careful choice of borrowers using creditworthiness indices will minimise this risk. This prudent approach will undoubtedly result in some interest rate loss but the principles of security and liquidity are paramount.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

It is recommended that Members:

10.1 Approve the Treasury Management Strategy 2020/21 as set out in this report.

10.2 Approve the Minimum Revenue Provision policy 2020/21 as set out in paragraphs 2.52 to 2.55

10.3 Approve a treasury management training session at the rising of the full Fire Authority on 25 September 2020.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Charlotte Radford
TREASURER TO THE FIRE AUTHORITY

APPENDIX A

TREASURY MANAGEMENT POLICY STATEMENT

1. The Authority defines its treasury management activities as: “The management of the 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. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

ECONOMIC BACKGROUND **APPENDIX B**

UK. Brexit. 2019 was a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. The Conservative Government gained a large overall majority in the **general election** on 12 December; this ensured that the UK left the EU on 31 January. However, there will still be much uncertainty as the detail of a comprehensive trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open three possibilities; a partial agreement on many areas of agreement and then continuing negotiations to deal with the residual areas, the need for the target date to be put back, probably two years, or, a no deal Brexit in December 2020.

GDP growth took a big hit from both political and Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The forward-looking surveys in January have indicated that there could be a significant recovery of growth now that much uncertainty has gone. Nevertheless, economic growth may only come in at about 1% in 2020, pending the outcome of negotiations on a trade deal. Provided there is a satisfactory resolution of those negotiations, which are in both the EU's and UK's interest, then growth should strengthen further in 2021.

At its 30 January meeting, the Monetary Policy Committee held Bank Rate unchanged at 0.75%. The vote was again split 7-2, with two votes for a cut to 0.50%. The financial markets had been predicting a 50:50 chance of a rate cut at the time of the meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after the election, had depressed economic growth in quarter 4. In addition, three members of the MPC had made speeches in January which were distinctly on the dovish side, flagging up their concerns over weak growth and low inflation; as there were two other members of the MPC who voted for a rate cut in November, five would be a majority at the January MPC meeting if those three followed through on their concerns.
However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, have all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and immediate Brexit uncertainty. In addition, the September spending round increases in expenditure will start kicking in from April 2020, while the Budget in March is widely expected to include a substantial fiscal boost by further increases in expenditure, especially on infrastructure. The Bank of England cut its forecasts for growth from 1.2% to 0.8% for 2020, and from 1.8% to 1.4% for 2021. However, these forecasts could not include any allowance for the predicted fiscal boost in the March Budget. Overall, the MPC clearly decided to focus on the more recent forward-looking news than the earlier downbeat news.
The quarterly Monetary Policy Report did, though, flag up that there was still a risk of a Bank Rate cut; "Policy may need to reinforce the expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak." Obviously, if trade negotiations with the EU failed to make satisfactory progress, this could dampen confidence and growth. On the other hand, there was also a warning in the other direction, that if growth were to pick up strongly, as suggested by recent business surveys, then "some modest tightening" of policy might be needed further ahead. It was therefore notable

that the Bank had dropped its phrase that tightening would be "limited and gradual", a long-standing piece of forward guidance; this gives the MPC more room to raise Bank Rate more quickly if growth was to surge and, in turn, lead to a surge in inflation above the 2% target rate.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5% and then even further to 1.3% in December. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September, where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000 and then a stunning increase of 208,000 in the three months to November. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.4% in November (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

Coronavirus. The recent Coronavirus outbreak could cause disruption to the economies of affected nations. The Chinese economy is now very much bigger than it was at the time of the SARS outbreak in 2003 and far more integrated into world supply chains. However, a temporary dip in Chinese growth could lead to a catch up of lost production in following quarters with minimal net overall effect over a period of a year. However, no one knows quite how big an impact this virus will have around the world; hopefully, the efforts of the WHO and the Chinese authorities will ensure that the current level of infection does not multiply greatly.

USA. After growth of 2.9% y/y in 2018 fuelled by President Trump's massive easing of fiscal policy, growth has weakened in 2019. After a strong start in quarter 1 at 3.1%, (annualised rate), it fell to 2.0% in quarter 2 and then 2.1% in quarters 3 and 4. This left the rate for 2019 as a whole at 2.3%, a slowdown from 2018 but not the precursor of a recession which financial markets had been fearing earlier in the year. Forward indicators are currently indicating that growth is likely to strengthen somewhat moving forward into 2020.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment'. It also ended its programme of quantitative tightening in August 2019, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. It left rates unchanged at its December meeting. Rates were again left unchanged at its end of January meeting although it had been thought that as the yield curve on Treasuries had been close to inverting again, (with 10 year yields nearly falling below 2 year yields - this is often viewed as being a potential indicator of impending recession), that the Fed could have cut rates, especially in view of the threat posed by the coronavirus. However, it acknowledged that coronavirus was a threat of economic disruption but was not serious at the current time for the USA. In addition, the phase 1 trade deal with China is supportive of growth. The Fed though, does have an issue that despite reasonably strong growth rates, its inflation rate has stubbornly refused to rise to its preferred core inflation target of 2%; it came in at 1.6% in December. It is therefore unlikely to be raising rates in

the near term. It is also committed to reviewing its approach to monetary policy by midyear 2020; this may include a move to inflation targeting becoming an average figure of 2% so as to allow more flexibility for inflation to under and over shoot.

"The NEW NORMAL." The Fed chairman has given an overview of the current big picture of the economy by summing it up as **A NEW NORMAL OF LOW INTEREST RATES, LOW INFLATION AND PROBABLY LOWER GROWTH.** This is indeed an affliction that has mired Japan for the last two decades despite strenuous efforts to stimulate growth and inflation by copious amounts of fiscal stimulus and cutting rates to zero. China and the EU are currently facing the same difficulty to trying to get inflation and growth up. Our own MPC may well have growing concerns and one MPC member specifically warned on the potential for a low inflation trap in January.
It is also worth noting that no less than a quarter of total world sovereign debt is now yielding negative returns.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to nearly half of that in 2019. Growth was +0.4% q/q in quarter 1, +0.2% q/q in quarters 2 and 3; it then fell to +0.1% in quarter 4 for a total overall growth rate of only 1.0% in 2019. Recovery from quarter 4 is expected to be slow and gradual. German GDP growth has been struggling to stay in positive territory in 2019 and grew by only 0.6% in 2019, with quarter 4 potentially being a negative number. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and in 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting, it said that it expected to leave interest rates at their present levels "at least through to the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they would have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy. There have been no changes in rates or monetary policy since October. In January, the ECB warned that the economic outlook was 'tilted to the downside' and repeated previous requests for governments to do more to stimulate growth by increasing national spending. The new President of the ECB, Christine Lagarde who took over in December, also stated that a year long review of monetary policy, including the price stability target, would be conducted by the ECB
On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The most recent results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries.

Source – Link Asset Management.

APPENDIX C

PRUDENTIAL AND TREASURY INDICATORS FOR 2020/21

Maximum Ratio of Financing Costs to Net Revenue Stream	8%
Estimate of Ratio of Financing Costs to Net Revenue Stream	5.3%
Estimate of Total Capital Expenditure to be Incurred	£5,576,000
Estimate of Capital Financing Requirement	£29,073,000
Operational Boundary	£31,850,000
Authorised Limit	£35,035,000
Upper limit for fixed rate interest exposures	100%
Upper limit for variable rate interest exposures	30%
Loan Maturity:	Limits:
Under 12 months	Upper 20% Lower 0%
12 months to 5 years	Upper 30% Lower 0%
5 years to 10 years	Upper 75% Lower 0%
Over 10 years	Upper 100% Lower 0%
Over 20 years	Upper 100% Lower 30%
Upper Limit for Principal Sums Invested for Periods Longer than 365 Days	£2,000,000

LOCAL INDICATORS FOR 2020/21

Upper limit for internal borrowing as a % of the Capital Financing Requirement	20%
Lower limit for proportion of net debt to gross debt	50%
Upper limit for proportion of net debt to gross debt	85%
Investment security benchmark: maximum historic default risk of investment portfolio	0.08%

Investment liquidity benchmark: maximum weighted average life of investment portfolio	0.40 years
Investment yield benchmark	Internal returns to be above 3 month LIBID rate

APPENDIX D

SPECIFIED INVESTMENTS: CREDIT AND COUNTERPARTY RISK

Investment category	Minimum credit criteria / colour band	Sovereign credit rating	Category as a % of total investments	Total limit per institution* / fund	Max. maturity period
Term deposits with banks and building societies	Blue (1 year – only applies to nationalised or semi nationalised UK banks) Orange (1 year) Red (6 months) Green (100 days)	Fitch AA or equivalent	100%	£4m per institution	As per durational banding, subject to limit of 12 months
Notice accounts with banks and building societies	Blue (1 year – only applies to nationalised or semi nationalised UK banks) Orange (1 year) Red (6 months) Green (100 days)	Fitch AA or equivalent	100%	£4m per institution	Minimum notice period to be as per durational banding (subject to limit of 12 months). The total period of investment may be greater than 12 months
Local authorities	N/A	N/A	100%	£4m per institution	12 months
Money Market Funds CNAV (government debt)	AAA	N/A	50%	£4m per fund	Liquid
Money Market Funds LVNAV	AAA	N/A	50%	£4m per fund	Liquid
UK Government Treasury Bills	UK sovereign rating	N/A	100%	N/A	12 months
Certificates of Deposit with banks and building societies	Blue (1 year – only applies to nationalised or semi nationalised UK banks) Orange (1 year) Red (6 months) Green (100 days)	Fitch AA or equivalent	50%	£4m per institution	As per durational banding, subject to limit of 12 months
Debt Management Account Deposit Facility (DMADF) – UK Government	N/A	N/A	100%	N/A	6 months

** The institution limit applies across all categories, i.e. it is the total amount that may be invested in the institution at any point in time (excluding any amounts invested in that institution by money market funds).*

APPENDIX E

APPROVED COUNTRIES FOR INVESTMENTS

AAA	AA+	AA
Australia	Finland	France
Canada		United Arab Emirates
Denmark		United Kingdom
Germany		
Netherlands		
Singapore		
Sweden		
Switzerland		
United States		