NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

TREASURY MANAGEMENT STRATEGY 2019/20

Report of the Treasurer to the Fire Authority

Date: 15 February 2019

Purpose of Report:

To seek approval of the Authority’s Treasury Management Strategy for 2019/20.

To seek approval of the Authority’s Minimum Revenue Provision Policy for 2019/20.

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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.

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 2019/20, 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 report which will 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 Capital Strategy for 2019/20 was approved by Fire Authority on 14 December 2018.

1.7 This Treasury Management Strategy report is complementary to the Prudential Code report and the proposed prudential and treasury limits for 2019/20 are included in both reports for completeness.

1.8 This report also sets out the Authority's Minimum Revenue Provision policy for 2019/20 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 2019/20

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 2019/20 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 therefore 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 The first three quarters of 2018 has seen the UK economy grow modestly (0.1% in quarter 1, 0.4% in quarter 2 and 0.6% in quarter 3), although growth was sufficiently robust for the Monetary Policy Committee (MPC) to unanimously vote to increase bank rate on 2 August from 0.5% to 0.75%. However, growth in quarter 4 is expected to weaken significantly.

2.8 At their November meeting the MPC unanimously voted for the bank rate to remain unchanged at 0.75%. The MPC stated that future bank rate increases would be gradual and would rise to a much lower equilibrium rate (where monetary policy is neither expansionary nor contractionary) than before the financial crash of 2008. With so much uncertainty around Brexit the MPC warned that the next move in bank rate could be up or down, even if there was a disorderly Brexit. While it could be expected that bank rate might be cut in order to stimulate growth if there was a significant fall in GDP growth as a result of a disorderly Brexit, it is also possible that bank rate could be increased in order to combat rising inflation. It is possible that inflation could rise as a result of Brexit as a result of a devaluation of sterling, increases in import prices, and more expensive goods produced in the UK replacing cheaper goods that had previously been imported.

2.9 It is unlikely that the MPC will change the bank rate in February 2019 ahead of the March deadline for Brexit, however financial markets are currently pricing in a 30% chance of a rate increase in May or June 2019 and a 50% chance of an increase in August 2019. Further increases are then forecast for February and November 2020 before ending up at 2.0% in February 2022.

2.10 A more in depth analysis of the economic backdrop to this report 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 Brexit between the UK and the EU:

Link Asset Services Bank Rate Forecasts	
As at 31 March 2019	0.75%
As at 31 March 2020	1.25%
As at 31 March 2021	1.50%
As at 31 March 2022	2.00%

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 2019/20 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 2019/20, this figure is estimated at £30,098,000. 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 2018/19 and 2019/20.

2.19 The Authority's strategy in the past has been to borrow funds from the Public Works Loan Board (PWLB). 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. Its interest rates are generally favourable compared to those applicable to borrowings from other sources within the marketplace. In 2007/08, a £4m loan was borrowed from a bank, with a fixed interest rate which was lower than the equivalent PWLB rate. It is therefore proposed that the Authority continues to borrow primarily from the PWLB, but considers fixed rate market borrowing when market rates are lower than PWLB rates. In addition to this the Authority may also consider loans from the UK's Municipal Bond Agency, which could offer loans to local authorities in the near future.

2.20 The 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 interest rate was not changed on 7 March 2018, the next opportunity for a revision is 7 March 2023.

2.21 Over the next three years, it is anticipated that the Authority will need to borrow up to £9m 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 19	**Jun 19**	**Sep 19**	**Dec 19**	**Mar 20**	**Mar 21**	**Mar 22**
5 yr PWLB	2.10%	2.20%	2.20%	2.30%	2.30%	2.60%	2.80%
10 yr PWLB	2.50%	2.60%	2.60%	2.70%	2.80%	3.00%	3.20%
25 yr PWLB	2.90%	3.00%	3.10%	3.10%	3.20%	3.40%	3.60%
50 yr PWLB	2.70%	2.80%	2.90%	2.90%	3.00%	3.20%	3.40%

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.

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;
- Brexit;
- Geopolitical risks such as North Korea, Europe and the Middle East;
- European politics, e.g. vulnerable minority governments in Germany, Spain, Portugal, Ireland, the Netherlands and Belgium, and strong anti-

immigration governments in Austria, the Czech Republic, Hungary and Italy;
- A resurgence of the Eurozone debt crisis;
- Weak capitalisation of some European banks.
- The timing and extent of further interest rate increases in the US.

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 2019/20 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 2019/20 to 2021/22 will be in the region of £9m.

- Link Asset Services' view is that PWLB 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.

- 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.

- Consideration will also be given to borrowing fixed rate market loans at 0.25% – 0.50% below the PWLB target rate and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

- PWLB 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 The Authority is currently maintaining an under-borrowed position. This means that the capital financing requirement has not been fully funded with loan debt; instead the cash supporting the Authority's reserves and balances is being used as a temporary measure. 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, the Authority recognises that internal borrowing itself poses 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, it is recommended in the 2019/20 Prudential Code Report that the Authority adopts a new local indicator that will limit the level of internal borrowing to 20% of the underlying borrowing requirement. The Authority will aim to build cash levels up again in the future in order to ensure that reserves and balances are “cash-backed” to an appropriate level, however the timing of this will very much depend on the prevailing economic conditions and the Authority’s ability to ensure the security of funds.

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 start date and 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 will be in the next few years.

2.27 The Authority’s gross debt position is projected to be £24.1m by the end of 2018/19, but investments of approximately £7m are expected to be in place at 31 March 2019, giving a net debt position of around £17.1m. Currently, investment interest rates are substantially lower than debt interest rates so the use of reserves rather than borrowing to finance capital expenditure over the past three years has resulted in better value for money in the short term (see paragraph 2.25 for more details). However, the Authority recognises that there will be requirement to borrow in the medium term when the cash from surplus reserves has been exhausted. 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 2019/20 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, 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.

   The Authority will not invest in financial instruments that are categorised as “non-specified”, nor will it purchase non-financial investments. The Authority’s criteria for specified investments can be found in appendix F, 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 F

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:

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days

Institutions with no colour band will not be used. The credit list provided by Link as at 16 January is attached at appendix E. This will be updated for changes on a daily basis.

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 D. 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 steadily but slowly over the next few years to reach 2.00% by quarter 1 of 2022. There is also a considerable amount of economic uncertainty at present due to plans for the UK's withdrawal from the European Union. 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 the Chair of the Finance and Resources Committee. 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 it is recommended that the limit be increased to a maximum of £4m per counterparty. 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, however it is recommended that officers are given 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. The Authority's counterparty relationship would be with the financial institution rather than with Link, and the investments are securely ringfenced in a client account. This arrangement will enable the Authority to easily access counterparties with whom it does not have an existing relationship, and thus could expedite the process of making an investment. The Agency Treasury Service also frequently offers preferential rates due to the fact that Link is able to pool its clients' investments and therefore offer larger amounts to the counterparty which can attract higher rates.

2.46 A summary of the criteria for specified investments is shown in appendix F.

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.

It is suggested that the Authority adopt a maximum security risk benchmark of **0.08%** historic risk of default when compared to the whole portfolio. The Authority's current historic of default is **0.015%.**

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 3 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 2019/20

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 2019/20 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 2019/20 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 was last held for Members of the Fire Authority in January 2017. Further training will be planned following the local elections in May 2019.

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 approve:

10.1 The Treasury Management Strategy 2019/20 as set out in this report.

10.2 The proposed increase to the counterparty limit as set out in paragraph 2.44. to 2.55.

10.3 The use of Link's Agency Treasury Service as set out in paragraph 2.45.

10.4 The proposed investment risk benchmarks as set out in paragraphs 2.48 to 2.51.

10.5 The Minimum Revenue Provision policy 2019/20 as set out in paragraphs 2.52.

10.6 That Members attend Treasury Management training to be organised after the May elections as detailed in paragraph 2.57.

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**

GLOBAL OUTLOOK: World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall world growth is likely to weaken.

INFLATION: Inflation has been relatively weak during 2018, but falling unemployment levels in the US and the UK has led to an acceleration of wage inflation. The US Federal Reserve has therefore increased rates nine times and the Bank of England twice. However, the European Central Bank is unlikely to start raising rates until late in 2019 at the earliest.

UK: The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November 2018. In the November Bank of England Quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead (at around 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellors' announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

October's labour market figures showed that unemployment was at 4.1%, which is marginally above a 43 low of 4%. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having difficulties filling vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3% (3-month average regular pay, excluding bonuses). This meant that in real terms (i.e. wage rates less CPI inflation) earnings are currently growing by around 1.0%, the highest level since 2009. This 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. This tends to confirm that the Bank of England's Monetary Policy Committee was right to start on a cautious increase in the bank rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the economy.

Brexit continues to cause a great deal of political uncertainty, which in turn is causing economic uncertainty. The current forecasts provided by Link Asset Services are based on the assumption that Prime Minister May's government will endure, and that some sort of orderly Brexit agreement will be reached before March 2019. If, however, the UK faces a general election in the next 12 months this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA: In the USA, President Trump's easing of fiscal policy is fuelling a boost in consumption which has generated an upturn in the rate of strong growth, which rose from 2.2% (annualised rate) in quarter 1, to 4.2% in quarter 2 and 3.5% in quarter 3. However, it has also fuelled inflationary pressures. The reduction in the unemployment rate has led to an upturn in wage inflation which hit 3.2% in

November. However, CPI inflation overall fell to 2.2% in November, and it appears to be on a falling trend. The Federal Reserve has continued on its series of increases in interest rates with another 0.25% increase in December, this being the fifth increase in 2018. However, they did also reduce their forecast for further rate increases from three to two. The latest increase compounded investor fears that the Federal Reserve is overdoing the rate and level of increases in rates, and that this might cause a recession in the US economy. Consequently, global stock markets have fallen under the weight of fears about a potential US recession, in addition to the impact that the trade war between China and the US could have on the global economy should it escalate further.

EUROZONE: Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3. Data suggests that the German economy could be negatively impacted by US tariffs on a significant part of manufacturing exports, e.g. cars. Having halved its quantitative easing purchases of debts in October 2018 to €15bn per month, the European Central Bank (ECB) ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% upper limit through the next three years so it may find it difficult to justify rate increases towards the end of 2019 if the growth rate in the European economy is on a weakening trend.

CHINA: Economic growth has been weakening over successive years despite repeated rounds of central bank stimulus, and 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 credit systems.

CENTRAL BANK MONETARY POLICY MEASURES: Ten years on from the financial crash of 2008, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures were a combination of lowering central interest rates, and flooding financial markets with liquidity through means such as quantitative easing (QE). The key issue now is that the period of stimulating economic recovery is coming to a close, and a new period has begun during which monetary policy is refocusing on countering the threat of rising inflationary pressures as stronger growth becomes more firmly established. The time has therefore come to begin reversing the previous monetary policy measures of low interest rates and QE, and this must be carefully managed in order to avoid shocks to the world economy. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for higher yields and therefore into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This makes both asset categories vulnerable to a sharp correction. It is important therefore that central banks gradually unwind their holdings of bonds in order to prevent destabilising financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. The timing of this must be balanced, as taking action that is too rapid or too strong could squash economic recovery, whilst taking action that is too weak or too slow could cause inflation to get out of control.

Source – Link Asset Management.

APPENDIX C

PRUDENTIAL AND TREASURY INDICATORS FOR 2019/20

Estimate of Ratio of Financing Costs to Net Revenue Stream	5.5%
Estimate of Total Capital Expenditure to be Incurred	£5,448,000
Estimate of Capital Financing Requirement	£30,098,000
Operational Boundary	£30,600,000
Authorised Limit	£33,660,000
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

APPENDIX D

APPROVED COUNTRIES FOR INVESTMENTS

AAA	AA+	AA
Australia	Finland	France
Canada	USA	United Arab Emirates
Denmark		United Kingdom
Germany		Hong Kong
Netherlands		
Singapore		
Sweden		
Switzerland		
Luxembourg		
Norway		

APPENDIX E

NFRS Approved Counterparty Lending List as at 16 January 2019

Counterparty			Long Term	Short Term		Long Term	Short Term		Long Term	Short Term	Suggested Duration	(Watch/ Outlook Adjusted)	CDS Price	CDS Status	(CDS Adjusted with manual override)	Monetary Limit	Duration	Notes
Australia		SB	AAA		SB	Aaa		SB	AAA				23.83					
Banks	Australia and New Zealand Banking Group Ltd.	SB	AA-	F1+	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths	68.16	●	O - 12 mths			
	Commonwealth Bank of Australia	NO	AA-	F1+	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths	70.47	●	O - 12 mths			
	Macquarie Bank Ltd.	SB	A	F1	SB	A2	P-1	EO	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths			
	National Australia Bank Ltd.	SB	AA-	F1+	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths	70.47	●	O - 12 mths			
	Westpac Banking Corp.	SB	AA-	F1+	SB	Aa3	P-1	NO	AA-	A-1+	O - 12 mths	O - 12 mths	70.50	●	O - 12 mths			
Belgium		SB	AA-		SB	Aa3		SB	AA				20.28					
Banks	BNP Paribas Fortis	SB	A+	F1	SB	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths			
	KBC Bank N.V.	SB	A+	F1	PO	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths			
Canada		SB	AAA		SB	Aaa		SB	AAA				35.59					
Banks	Bank of Montreal	SB	AA-	F1+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths			
	Bank of Nova Scotia	SB	AA-	F1+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths			
	Canadian Imperial Bank of Commerce	SB	AA-	F1+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths			
	National Bank of Canada	SB	A+	F1	SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths			
	Royal Bank of Canada	SB	AA	F1+	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
	Toronto-Dominion Bank	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
Denmark		SB	AAA		SB	Aaa		SB	AAA				9.81					
Banks	Danske A/S	NO	A	F1	NO	A2	P-1	NO	A	A-1	R - 6 mths	R - 6 mths	65.17	●	R - 6 mths			
Finland		PO	AA+		SB	Aa1		SB	AA+				10.84					
Banks	Nordea Bank Abp	SB	AA-	F1+	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
	OP Corporate Bank plc		WD	WD	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
France		SB	AA		PO	Aa2		SB	AA				23.78					

Counterparty		Fitch Ratings				Moodys Ratings				S&P Ratings				Suggested Duration	(Watch/ Outlook Adjusted)	CDS Price	CDS Status	(CDS Adjusted with manual override)	Monetary Limit	Duration	Notes
			Long Term		Short Term		Long Term		Short Term		Long Term		Short Term								
Banks	BNP Paribas	SB	A+		F1	SB	Aa3		P-1	PO	A		A-1	R - 6 mths	O - 12 mths	67.72		O - 12 mths			
	Credit Agricole Corporate and Investment Bank	SB	A+		F1	PO	A1		P-1	SB	A+		A-1	R - 6 mths	O - 12 mths	50.33		O - 12 mths			
	Credit Agricole S.A.	SB	A+		F1	PO	A1		P-1	SB	A+		A-1	R - 6 mths	O - 12 mths	61.06		O - 12 mths			
	Credit Industriel et Commercial	SB	A+		F1	SB	Aa3		P-1	SB	A		A-1	R - 6 mths	R - 6 mths			R - 6 mths			
	Societe Generale	SB	A		F1	SB	A1		P-1	PO	A		A-1	R - 6 mths	R - 6 mths	69.54		R - 6 mths			
Germany		SB	AAA			SB	Aaa			SB	AAA					10.96					
Banks	Bayerische Landesbank	SB	A-		F1	SB	Aa3		P-1		NR		NR	R - 6 mths	R - 6 mths			R - 6 mths			
	Commerzbank AG	SB	BBB+		F2	SB	A1		P-1	NO	A-		A-2	G - 100 days	G - 100 days	122.12		N/C - 0 mths			
	Deutsche Bank AG	NO	BBB+		F2	NO	A3		P-2	SB	BBB+		A-2	N/C - 0 mths	N/C - 0 mths	206.47		N/C - 0 mths			
	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	SB	AA-		F1+	SB	Aa1		P-1	SB	AA-		A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
	Landesbank Baden-Wuerttemberg	SB	A-		F1	SB	Aa3		P-1		NR		NR	R - 6 mths	R - 6 mths			R - 6 mths			
	Landesbank Berlin AG					SB	Aa2		P-1					O - 12 mths	O - 12 mths			O - 12 mths			
	Landesbank Hessen-Thueringen Girozentrale	SB	A+		F1+	SB	Aa3		P-1	PO	A		A-1	O - 12 mths	O - 12 mths	40.49		O - 12 mths			
	Landwirtschaftliche Rentenbank	SB	AAA		F1+	SB	Aaa		P-1	SB	AAA		A-1+	P - 24 mths	P - 24 mths			P - 24 mths			
	Norddeutsche Landesbank Girozentrale	NW	A-	NW	F1	EW	Baa2	NW	P-2		NR		NR	N/C - 0 mths	N/C - 0 mths			N/C - 0 mths			
	NRW.BANK	SB	AAA		F1+	SB	Aa1		P-1	PO	AA-		A-1+	P - 24 mths	P - 24 mths			P - 24 mths			
Netherlands		SB	AAA			SB	Aaa			SB	AAA					10.47					
Banks	ABN AMRO Bank N.V.	SB	A+		F1	SB	A1		P-1	PO	A		A-1	R - 6 mths	R - 6 mths			R - 6 mths			
	Bank Nederlandse Gemeenten N.V.	SB	AA+		F1+	SB	Aaa		P-1	SB	AAA		A-1+	P - 24 mths	P - 24 mths			P - 24 mths			
	Cooperatieve Rabobank U.A.	SB	AA-		F1+	SB	Aa3		P-1	PO	A+		A-1	O - 12 mths	O - 12 mths	40.61		O - 12 mths			
	ING Bank N.V.	PO	A+		F1	SB	Aa3		P-1	SB	A+		A-1	O - 12 mths	O - 12 mths	41.27		O - 12 mths			
	Nederlandse Waterschapsbank N.V.					SB	Aaa		P-1	SB	AAA		A-1+	P - 24 mths	P - 24 mths			P - 24 mths			
Qatar		SB	AA-			SB	Aa3			SB	AA-					82.29					
Banks	Qatar National Bank	SB	A+		F1	SB	Aa3		P-1	SB	A		A-1	R - 6 mths	R - 6 mths	107.26		G - 100 days			
Singapore		SB	AAA			SB	Aaa			SB	AAA										
Banks	DBS Bank Ltd.	SB	AA-		F1+	SB	Aa1		P-1	SB	AA-		A-1+	O - 12 mths	O - 12 mths			O - 12 mths			

Counterparty			Fitch Ratings			Moodys Ratings			S&P Ratings								
			Long Term	Short Term		Long Term	Short Term		Long Term	Short Term	Suggested Duration	(Watch/ Outlook Adjusted)	CDS Price	CDS Status	(CDS Adjusted with manual override)	Monetary Limit	Duration	Notes
Banks	Oversea-Chinese Banking Corp. Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
	United Overseas Bank Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
Sweden		SB	AAA		SB	Aaa		SB	AAA				10.50					
Banks	Skandinaviska Enskilda Banken AB	SB	AA-	F1+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths			
	Svenska Handelsbanken AB	SB	AA	F1+	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
	Swedbank AB	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
Switzerland		SB	AAA		SB	Aaa		SB	AAA				19.00					
Banks	Credit Suisse AG	PO	A	F1	SB	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths	102.23		G - 100 days			
	UBS AG	SB	AA-	F1+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	45.39		O - 12 mths			
United Arab Emirates		SB	AA		SB	Aa2		SB	AA				69.38					
Banks	First Abu Dhabi Bank PJSC	SB	AA-	F1+	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
United Kingdom		NO	AA		SB	Aa2		NO	AA				35.15					
AAA rated and Government backed securities	Collateralised LA Deposit*										Y - 60 mths	Y - 60 mths			Y - 60 mths			(M)
	Debt Management Office										Y - 60 mths	Y - 60 mths			Y - 60 mths			(M)
	Multilateral Development Banks										Y - 60 mths	Y - 60 mths			Y - 60 mths			(M)
	Supranationals										Y - 60 mths	Y - 60 mths			Y - 60 mths			(M)
	UK Gilts										Y - 60 mths	Y - 60 mths			Y - 60 mths			(M)
Banks	Abbey National Treasury Services PLC	SB	A	F1	SB	Aa3	P-1				R - 6 mths	R - 6 mths			R - 6 mths			
	Bank of Scotland PLC (RFB)	SB	A+	F1	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	70.54		O - 12 mths			
	Barclays Bank PLC (NRFB)	SB	A+	F1	SB	A2	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	88.12		R - 6 mths			
	Barclays Bank UK PLC (RFB)	SB	A+	F1	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths			
	Close Brothers Ltd	SB	A	F1	SB	Aa3	P-1				R - 6 mths	R - 6 mths			R - 6 mths			
	Clydesdale Bank PLC	SB	BBB+	F2	PO	Baa1	P-2	SB	BBB+	A-2	N/C - 0 mths	N/C - 0 mths			N/C - 0 mths			
	Co-operative Bank PLC (The)	SB	B	B	SB	Caa1	NP				N/C - 0 mths	N/C - 0 mths			N/C - 0 mths			
	Goldman Sachs International Bank	SB	A	F1	NO	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	110.58		G - 100 days			
	Handelsbanken Plc	SB	AA	F1+				SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
	HSBC Bank PLC (NRFB)	SB	AA-	F1+	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	44.16		O - 12 mths			

Counterparty		Fitch Ratings	Long Term	Short Term	Moodys Ratings	Long Term	Short Term	S&P Ratings	Long Term	Short Term	Suggested Duration	(Watch/ Outlook Adjusted)	CDS Price	CDS Status	(CDS Adjusted with manual override)	Monetary Limit	Duration	Notes
Banks	HSBC UK Bank Plc (RFB)	SB	AA-	F1+				SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths			
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A	F1	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths			
	Lloyds Bank Plc (RFB)	SB	A+	F1	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	67.48	●	O - 12 mths			
	NatWest Markets Plc (NRFB)	SB	A	F1	PO	Baa2	P-2	PO	BBB+	A-2	G - 100 days	G - 100 days	124.76	●	N/C - 0 mths			
	Santander UK PLC	SB	A+	F1	PO	Aa3	P-1	SB	A	A-1	R - 6 mths	O - 12 mths			O - 12 mths			
	Standard Chartered Bank	SB	A+	F1	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	58.81	●	R - 6 mths			
	Sumitomo Mitsui Banking Corporation Europe Ltd	SB	A	F1	SB	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths	60.30	●	R - 6 mths			
	UBS Ltd.	SB	AA-	F1+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	45.39	●	O - 12 mths			
Building Society	Coventry Building Society	SB	A	F1	SB	A2	P-1				R - 6 mths	R - 6 mths			R - 6 mths			
	Leeds Building Society	SB	A-	F1	SB	A3	P-2				G - 100 days	G - 100 days			G - 100 days			
	Nationwide Building Society	SB	A	F1	NO	Aa3	P-1	PO	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths			
	Nottingham Building Society				SB	Baa1	P-2				N/C - 0 mths	N/C - 0 mths			N/C - 0 mths			
	Principality Building Society	SB	BBB+	F2	SB	Baa2	P-2				N/C - 0 mths	N/C - 0 mths			N/C - 0 mths			
	Skipton Building Society	SB	A-	F1	PO	Baa1	P-2				G - 100 days	G - 100 days			G - 100 days			
	West Bromwich Building Society				PO	Ba3	NP				N/C - 0 mths	N/C - 0 mths			N/C - 0 mths			
	Yorkshire Building Society	SB	A-	F1	SB	A3	P-2				G - 100 days	G - 100 days			G - 100 days			
Nationalised and Part Nationalised Banks	National Westminster Bank PLC (RFB)	SB	A+	F1	PO	A1	P-1	PO	A-	A-2	B - 12 mths	B - 12 mths			B - 12 mths			(M)
	The Royal Bank of Scotland Plc (RFB)	SB	A+	F1	PO	A1	P-1	PO	A-	A-2	B - 12 mths	B - 12 mths			B - 12 mths			(M)
United States		SB	AAA		SB	Aaa		SB	AA+				19.40					
Banks	Bank of America N.A.	SB	AA-	F1+	PW	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths			
	Bank of New York Mellon, The	SB	AA	F1+	SB	Aa1	P-1	SB	AA-	A-1+	P - 24 mths	P - 24 mths			P - 24 mths			
	Citibank N.A.	SB	A+	F1	PW	A1	P-1	SB	A+	A-1	R - 6 mths	O - 12 mths	84.66	●	O - 12 mths			
	JPMorgan Chase Bank N.A.	SB	AA	F1+	SB	Aa1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths			
	Wells Fargo Bank, NA	SB	AA-	F1+	NO	Aa1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	71.59	●	O - 12 mths			

Advisory notes: (M) = Manually added counterparty. If a rating changes for this institution it will not alter its status on the counterparty list, or limits assigned to it.

APPENDIX F

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 <u>total</u> amount that may be invested in the institution at any point in time (excluding any amounts invested in that institution by money market funds).*