Crawley Borough Council

Report to Overview and Scrutiny Commission
3 February 2020

Report to Cabinet
5 February 2020

Treasury Management Strategy 2020/2021

Report of the Head of Corporate Finance – **FIN/493**

---

1. Purpose

1.1 The Strategy for 2020/2021 covers two main areas:

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

Treasury Management Issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

1.2 There are no material changes to the Investment Strategy in section 7 and Appendix 3 compared with the approved 2019/2020 Strategy apart from an amendment made to the ethical investment policy which was approved in the Mid-Year Review by Full Council on 16th December 2019.

2. Recommendations

2.1 To the Overview and Scrutiny Commission:

That the Commission considers the report and decides what comments, if any, it wishes to submit to the Cabinet.

2.2 To the Cabinet

The Cabinet is requested to recommend to Full Council the approval of:-

a) the Treasury Prudential Indicators and the Minimum Revenue Provision (MRP) Statement contained within Section 5;
b) the Treasury Management Strategy contained within Section 6;
c) the Investment Strategy contained within Section 7, and the detailed criteria included in Appendix 3;

3. Reasons for the Recommendations

3.1 The Council's financial regulations, in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management, requires a Treasury Management Strategy to be approved for the forthcoming financial year. The Local Government Act 2003 and supporting regulations requires Council to have regard to the Prudential Code and to set prudential indicators to ensure that the Council's capital investment plans are affordable, prudent and sustainable. This report complies with these requirements.

4. Background

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

4.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

4.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for 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 adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

4.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

4.5 CIPFA Code of Practice defines treasury management 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."

4.6 This report takes into account the revenue and capital implications arising in the 2020/21 Budget and Council Tax report (FIN/491).

5. The Capital Prudential Indicators 2020/21 – 2022/23

5.1 The Capital Expenditure Plans

5.1.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.1.2 **Capital expenditure.** This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
New Town Hall – joint responsibility	0	3,020	23,400	13,000	0
Cabinet	2,120	0	0	0	0
Resources	94	0	0	0	0
Environment Services & Sustainability	825	1,382	3,404	399	60
Planning & Economic Development	1,267	2,572	16,720	7,299	418
Public Protection & Community Engagement	0	0	0	0	0
Housing Services	1,870	6,025	4,973	3,183	2,274
Wellbeing	1,472	924	1,548	245	0
General Fund	**7,648**	**13,923**	**50,045**	**24,126**	**2,752**
HRA	**37,562**	**32,196**	**28,771**	**24,265**	**12,166**
Non-financial investments *	0	7,500	0	0	0
Total	**45,210**	**53,619**	**78,816**	**48,391**	**14,918**

* Non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties, etc.

5.1.3 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure £'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital receipts	1,792	14,511	26,930	2,500	1,195
Capital reserves	2,240	115	5,000	0	0
1-4-1 receipts	7,478	8,403	6,636	3,882	0
Replacement funds	902	670	345	0	0
Capital grants	2,751	2,812	9,069	6,870	1,609
Major Repairs Reserve	30,047	27,108	25,015	16,482	9,752
Net financing need for the year	**0**	**0**	**5,821**	**18,657**	**2,362**

5.2 The Council's borrowing need (the Capital Financing Requirement).

5.2.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

5.2.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

5.2.3 The Council is asked to approve the CFR projections below:

£'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
CFR – General Fund	0	0	5,821	19,008	18,942
CFR - HRA	260,325	260,325	260,325	265,795	268,157
CFR – Non-financial investments	0	0	0	0	0
Total CFR	**260,325**	**260,325**	**266,146**	**284,803**	**287,099**
Movement in CFR	**0**	**0**	**5,821**	**18,657**	**2,296**

Movement in CFR represented by					
Net financing need for the year (above)	0	0	5,821	18,657	2,362
Less MRP/VRP and other financing movements	0	0	0	0	(66)
Movement in CFR	**0**	**0**	**5,821**	**18,657**	**2,296**

5.2.4 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the Council's overall financial position. The capital expenditure figures shown in 5.1.2 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

5.3 Core funds and expected investment balances

5.3.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances. This is taken from the Budget report and Capital Strategy elsewhere on this agenda.

Year End Resources £'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Fund balances / reserves	51,069	44,423	36,408	41,926	54,174
Capital receipts*	41,714	26,500	0	0	0
Total core funds	**92,783**	**70,923**	**36,408**	**41,926**	**54,174**
Working capital**	19,961	18,000	15,000	15,000	15,000
Under/over borrowing	0	0	(5,821)	(24,478)	(26,774)
Expected investments	**112,744**	**88,923**	**45,587**	**32,448**	**42,400**

* includes 1-4-1 receipts & Affordable Housing Receipts
** Working capital balances shown are estimated year-end; these may be higher mid-year

5.4 Minimum revenue provision (MRP) policy statement

5.4.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

5.4.2 Government regulations have been issued which require the Full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

5.4.3 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former MHCLG regulations (option 1)

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

5.4.4 From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3)

This option provides for a reduction in the borrowing need over approximately the asset's life.

5.4.5 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

5.5 Affordability prudential indicators

5.5.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

5.5.2 **Ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	-3.92	-3.23	-5.66
HRA	16.06	15.50	14.69

The estimates of financing costs include current commitments and the proposals in this budget report.

5.5.3 **HRA ratios**

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
HRA debt £'000	260,325	260,325	260,325	265,795	268,157
HRA revenues £'000	47,057	48,165	50,818	52,828	54,862
Ratio of debt to revenues %	553%	540%	512%	503%	489%

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
HRA debt £'000	260,325	260,325	260,325	265,795	268,157
Number of HRA dwellings	7,862	7,977	8,195	8,255	8,315
Debt per dwelling £	33,112	32,634	31,766	32,198	32,250

6. Borrowing

6.1 The capital expenditure plans set out in Section 5 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

6.2 Current portfolio position

6.2.1 The Council's treasury portfolio position at 31 March 2019, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
Debt at 1 April	260,325	260,325	260,325	260,325	260,325
Expected change in Debt	0	0	0	0	0
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	**260,325**	**260,325**	**260,325**	**260,325**	**260,325**
The Capital Financing Requirement	260,325	260,325	266,146	284,803	287,099
(Under) / over borrowing	0	0	(5,821)	(24,478)	(26,774)

6.2.2 Within the above figures the level of debt relating to commercial activities / non-financial investment is:

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt for commercial activities / non-financial investments					
Actual debt at 31 March £m	0	0	0	0	0
Percentage of total external debt %	0	0	0	0	0

6.2.3 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

6.2.4 The Head of Corporate Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

6.3 Treasury Indicators: Limits to Borrowing Activity

6.3.1 **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £'000	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	260,325	266,146	284,803	287,099
Other long term liabilities	0	0	0	0
Total	260,325	266,146	284,803	287,099

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

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

6.3.4 The Council is asked to approve the following Authorised Limit:

Authorised limit £'000	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	270,325	276,146	294,803	297,099
Other long term liabilities	0	0	0	0
Total	270,325	276,146	294,803	297,099

6.3.5 **Maturity structure of borrowing**
These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Maturity Structure of fixed interest rate borrowing 2019/20		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	20%
5 years to 10 years	0%	40%
10 years to 20 years	0%	55%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

6.4 Prospects for Interest Rates

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

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

6.4.2 Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

6.4.3 Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is unlikely that this Council will do any longer term borrowing for the next three years, or until such time as the extra 100 bps margin is removed.

6.4.4 There will remain a cost of carry (the difference between higher borrowing costs and lower investment returns) to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

6.5 Borrowing Strategy

6.5.1 The Council borrowed £260.325m in 2011/12 for the HRA self-financing settlement. The General Fund remains debt free, but does expect to be in an under-borrowed position during 2020/21. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

6.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Head of Corporate Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing 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. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to Cabinet at the next available opportunity.

6.6 Policy on borrowing in advance of need

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

6.6.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

6.7 Debt rescheduling

6.7.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

6.7.2 If rescheduling was done, it will be reported to the Cabinet at the earliest meeting following its action.

6.8 New financial institutions as a source of borrowing and / or types of borrowing

6.8.1 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

6.8.2 The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

6.9 Approved Sources of Long and Short Term Borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

7. Annual Investment Strategy

7.1 Investment Policy – management of risk

7.1.1 The government and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

7.1.2 The Council's investment policy has regard to the Government's Guidance on Local Government Investments ("the Guidance"); the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code"); and the CIPFA Treasury Management Guidance Notes 2018. The Council's investment priorities will be security first, portfolio liquidity second and then yield (return).

7.1.3 The above guidance from the government and CIPFA place a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

7.1.4 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 counterparties are the short-term and long-term ratings.

7.1.5 **Other information**: ratings will not be 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 Council 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.

7.1.6 **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.

7.1.7 This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 3 under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

7.1.8 **Non Specified investment limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 70% of the total investment portfolio (see paragraph 7.4).

7.1.9 **Lending limits** (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 7.2.

7.1.10 **Transaction limits** are set for each type of investment in 7.2.

7.1.11 The Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 7.5.5).

7.1.12 Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 7.4.3).

7.1.13 The Council has engaged **external consultants**, (see paragraph 7.6) to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.

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

7.1.15 However, the Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see paragraph 7.5). Regular monitoring of investment performance will be carried out during the year.

7.2 Creditworthiness policy

7.2.1 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

7.2.2 This 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 for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	**Money Limit**	**Time Limit**
Banks *	yellow	unlimited	5 yrs
Banks	purple	£15m	2 yrs
Banks – part nationalised	blue	£15m	1 yr
Banks	orange	£10m	1 yr
Banks	red	£10m	6 mths
Banks	green	£10m	100 days
Banks	No colour	Not to be used	
Limit 3 category – Council's banker (not meeting Banks 1)	n/a	£1m	1 day
Corporate Bonds	AA- A-	£5m £2m	2 yrs 1 yr
Repurchase agreements	AA	£5m	5 yrs
DMADF	AAA	unlimited	6 months
Local authorities	n/a	£15m	5 yrs
Housing Associations	AA-	£2m	1 yr
Money market funds	AAA	£15m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£10m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	Light pink / AAA	£10m	liquid

** Please note: the yellow colour category is for UK Government debt, or its equivalent, constant NAV money market funds and collateralised deposits where the collateral is UK Government debt.*

7.2.3 Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

7.2.4 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating 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 market information, to support their use.

7.2.5 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

7.2.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

7.2.7 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

7.2.8 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

7.2.9 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

7.3 Ethical Investment Policy

7.3.1 The Council will not undertake direct investment or borrowing activities with organisations whose core activities include:

- Armaments – weapon systems
- Gambling
- Pornography
- Tobacco
- Pay-day loans
- Companies that generate more than 10% of their revenue from the extraction of coal, oil or gas.

7.3.2 In order to comply with treasury management guidance, the Council's investments will prioritise security, liquidity and yield in that order. The Ethical Investment Policy thereby becomes a fourth consideration in the decision making process.

7.3.3 The core activities in the Ethical Investment Policy above has been chosen after careful consideration of the Policy direction of the administration, the officer time in implementing the policy, the cost of external resources, and the timeliness of investment decisions.

7.4 Other limits

7.4.1 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

7.4.2 **Non-specified investment limit**. The Council has determined that it will limit the maximum exposure to non-specified investments as being 70% of the total investment portfolio.

7.4.3 **Country limit**. The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

7.4.4 **Other limits**. In addition:

- No more than 20% will be placed with any non-UK country at any time;
- Limits in place above will apply to a group of companies;
- Sector limits will be monitored regularly for appropriateness.

7.5 Investment strategy

7.5.1 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements 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 the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that 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 variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

7.5.2 **Investment returns expectations.** On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

7.5.3 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 6 months during each financial year are as follows:

2019/20	0.75%
2020/21	0.75%

2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

7.5.4 The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

7.5.5 The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

7.5.6 In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

7.5.7 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 365 days			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested > 365 days	£30m	£30m	£30m

7.5.8 **Investment Risk Benchmarking**. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

7.5.9 Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- **0.15% historic risk of default when compared to the whole portfolio.**

7.5.10 Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £nil
- Liquid short term deposits of at least £2m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.7 years, with a maximum of 1.20 years.

7.5.11 Yield - local measures of yield benchmarks are:

- Investments – internal returns 0.2% above the 7 day LIBID rate

7.5.12 And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	**0.03%**	**0.22%**	**0.40%**	**0.56%**	**0.74%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

7.5.13 A the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

7.6 Treasury management consultants

7.6.1 The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

7.6.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

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

8. Implications

8.1 There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the public services, the Local Government Investment Guidance provides that the council's investments are and will continue to be, within its legal powers conferred under the Local Government Act 2003 and supporting regulations.

9. Background Papers

Treasury Management Strategy for 2019/2020 – Cabinet, 6 February 2019 [report FIN/464 refers].
Treasury Management Mid-Year Review 2019/2020 – Cabinet, 27 November 2019 [report FIN/484 refers].
2020/2021 Budget and Council Tax – Cabinet, 5 February 2020 [report FIN/491 refers].
"Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes", 2017 Edition – Chartered Institute of Public Finance and Accountancy.
"The Prudential Code for Capital Finance in Local Authorities", 2017 Edition – Chartered Institute of Public Finance and Accountancy.

Report author and contact officer:
Paul Windust, Chief Accountant
01293 438693 – paul.windust@crawley.gov.uk

Appendix 1: Interest Rate Forecasts 2020 – 2023

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Bank Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**0.75%**	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	**0.75%**	0.75%	0.75%	0.75%	0.75%	-	-	-	1.00%	-	-	-	-	-

5yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.34%**	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	**2.34%**	2.40%	2.50%	2.50%	2.60%	-	-	-	2.80%	-	-	-	-	-

10yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.55%**	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	**2.55%**	2.60%	2.70%	2.80%	2.80%	-	-	-	3.10%	-	-	-	-	-

25yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**3.07%**	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	**3.07%**	3.00%	3.10%	3.20%	3.20%	-	-	-	3.40%	-	-	-	-	-

50yr PWLB Rate	NOW	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.90%**	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	**2.90%**	3.00%	3.10%	3.20%	3.20%	-	-	-	3.50%	-	-	-	-	-

APPENDIX 2: Economic Background

UK. Brexit. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the general election on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a 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 two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from 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 economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC 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 EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The MPC meeting of 19 December repeated the previous month's vote of 7-2 to keep Bank Rate on hold. 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. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 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 by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

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%. 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, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (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 2.0%. 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.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. Growth in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

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' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (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%.. At its September meeting it also said it was going to start buying Treasuries again, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been unnerved by the increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China. However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this disagreement.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2

and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. 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 into 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 meeting it said that it expected to leave interest rates at their present levels “at least through 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 will 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 were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

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, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors.

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 exaggerated. 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. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

APPENDIX 3: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 70% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified investments	Minimum credit criteria / colour band	£ limit per institution	Max. maturity period
DMADF – UK Government	N/A	unlimited	6 months
UK Government gilts	UK sovereign rating	unlimited	1 year
UK Government Treasury bills	UK sovereign rating	unlimited	1 year
Bonds issued by multilateral development banks	AA	unlimited	1 year
Money market funds	AAA	£15m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	£10m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£10m	Liquid
Local authorities	N/A	£15m	1 year
CDs or term deposits with banks and building societies	Yellow Purple Blue Orange	£15m £15m £15m £10m	1 year

Non-specified investments	Minimum credit criteria / colour band	£ limit per institution	Max. maturity period
UK Government gilts	UK sovereign rating	unlimited	5 years

Bonds issued by multilateral development banks	UK sovereign rating	unlimited	5 years
Local authorities	N/A	£15m	5 years
Housing Associations	AA-	£2m	1 year
CDs or Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	unlimited £15m £15m £10m £10m £10m	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
Corporate bonds	AA- A-	£5m £2m	1 year
Repurchase agreements	AA	£5m	5 years

APPENDIX 4: Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher and also have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

APPENDIX 5: Treasury Management Scheme of Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Overview and Scrutiny Commission

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX 6: The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees.
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following *:-*
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in*

relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*