Appendix E

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2020/21

1. INTRODUCTION

1.1 Background

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.

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, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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.

.
CIPFA 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."

1.2 Reporting Requirements

Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

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

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Treasury Management Reporting

The council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals:

a. **Prudential and treasury indicators and treasury strategy (this report) –** This will provide members with an outline of how investments and borrowings are to be organised in coming years, including an Investment Strategy and relevant indicators.

b. **A mid-year treasury management report –** This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

The above report is required to be adequately scrutinised before being recommended to the council. This role is undertaken by the Budget and Corporate Scrutiny Management Board.

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

Capital Issues

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

Treasury Management Issues

- the current treasury position;
- treasury indicators which will 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
- policy on use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. An overview of treasury management training was undertaken by the Budget and Corporate Scrutiny Management Board in December 2018 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

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

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

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.

2 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2023/24

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

2.1 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:

	2018/19 Actual £'m	2019/20 Estimate £'m	2020/21 Estimate £'m	2021/22 Estimate £'m	2022/23 Estimate £'m	2023/24 Estimate £'m
Capital Expenditure						
General Fund	40.870	60.925	93.869	17.153	12.714	12.414
HRA	37.813	62.257	83.919	47.286	45.612	45.612
Total	**78.683**	**123.182**	**177.788**	**64.439**	**58.326**	**58.026**

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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.

	2018/19 Actual £'m	2019/20 Estimate £'m	2020/21 Estimate £'m	2021/22 Estimate £'m	2022/23 Estimate £'m	2023/24 Estimate £'m
Resourced by:						
Capital Receipts	6.628	5.536	34.646	7.785	6.234	10.299
Capital Grants & Contributions	34.802	45.896	52.757	12.833	8.394	8.394
Revenue	17.385	15.713	13.641	13.979	13.979	13.979
Net financing need for the year	**19.868**	**56.037**	**76.744**	**29.842**	**29.719**	**25.354**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

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 its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

The CFR includes any other long-term liabilities such as PFI schemes and finance leases. Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of scheme include a borrowing facility and so the council is not required to separately borrow for these schemes. The council currently has £82.100m of such schemes within the CFR as at 31 March 2019.

The council is asked to approve the CFR projections below:

	2018/19 Actual £'m	2019/20 Estimate £'m	2020/21 Estimate £'m	2021/22 Estimate £'m	2022/23 Estimate £'m	2023/24 Estimate £'m
Capital Financing Requirement (CFR)						
General Fund	318.588	316.518	313.393	296.726	280.206	258.488
HRA	418.590	450.101	503.219	523.703	543.981	564.226
Total CFR @ 31 March	**737.178**	**766.619**	**816.612**	**820.429**	**824.187**	**822.714**
Movement in CFR		**29.441**	**49.993**	**3.817**	**3.758**	**-1.473**
Movement Represented by:						
Capital expenditure to be financed from borrowing		56.037	76.744	29.842	29.719	25.354
Less MRP/VRP and other financing movements *		-26.596	-26.751	-26.025	-25.961	-26.827
Movement in CFR		**29.441**	**49.993**	**3.817**	**3.758**	**-1.473**

* Includes PFI annual principal repayments

2.3 Core funds and expected investment balances

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.

	2018/19 Actual £'m	2019/20 Estimate £'m	2020/21 Estimate £'m	2021/22 Estimate £'m	2022/23 Estimate £'m	2023/24 Estimate £'m
Balances	131.323	120.000	120.000	120.000	120.000	120.000
Specific reserves	27.074	20.000	20.000	20.000	20.000	20.000
Capital Receipts Unapplied	16.220	10.000	10.000	9.000	7.000	7.000
Capital Grants Unapplied	26.548	15.000	15.000	15.000	15.000	15.000
Provision	19.080	22.000	13.000	14.000	14.000	14.000
Collection Fund	-3.876	0.000	0.000	0.000	0.000	0.000
Total Core Funds	**216.369**	**187.000**	**178.000**	**178.000**	**176.000**	**176.000**
Net Working capital *	19.829	25.000	25.000	25.000	25.000	25.000
Expected investments	42.626	40.000	25.000	25.000	25.000	25.000

* Working capital balances shown are estimated year-end; these may be lower or higher mid-year

2.4 Minimum Revenue Provision (MRP) Policy Statement

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).

MHCLG 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:

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

Average Asset Life method - MRP will be based on the total average estimated life of assets held by the authority.

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

Individual Asset Life Method - MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This provides for a reduction in the borrowing need over the assets' life.

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

Annual principal repayments included in PFI schemes or finance leases are applied as MRP.

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments made by the General Fund account were £5.423m and the Housing Revenue Account were £93.332m.

2.5 West Midlands Combined Authority: Collective Investment Fund

The agreed Combined Authority Devolution Deal proposes the establishment of a Collective Investment Fund to support investment in the region. It is possible that some of this investment may be delivered by individual districts and funded from prudential borrowing.

MRP on capitalised loan advances to other organisations or individuals will not be required. Instead, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. However, revenue MRP contributions would still be required equal to the amount of any impairment of the loan advanced.

MRP on investments in Equities will be made on an annuity profile over 20 years, as recommended by Government guidance.

3 Borrowing

The capital expenditure plans set out in Section 2 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 and the council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31 March 2019 and for the positiion as 31 December 2019 are shown below for both borrowing and investments:

Treasury Portfolio				
	Actual 31/03/2019 £'000	Actual 31/03/2019 %	Current 31/12/2019 £'000	Current 31/12/2019 %
Treasury Investments				
Banks	596	1%	10,461	14%
Money Market Funds	31,000	72%	64,600	86%
Local Authorities	11,000	26%	0	0%
6 Towns Credit Union	250	1%	250	0%
Total Managed In House	**42,846**	**100%**	**75,311**	**100%**
Total Treasury Investments	**42,846**	**100%**	**75,311**	**100%**
Treasury External Borrowing				
Local Authorities	12,901	2%	11,542	2%
PWLB	344,823	67%	343,712	68%
LOBO's	82,000	16%	82,000	16%
Market Fixed Loan	10,000	2%	10,000	2%
Temporary Loans	67,251	13%	57,649	11%
Soft Loans	601	0%	1,574	0%
Total External Borrowing	**517,576**	**100%**	**506,476**	**100%**
Net Treasury Investments/(Borrowing)	**(474,730)**		**(431,165)**	

The council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	2018/19 Actual £'m	2019/20 Estimate £'m	2020/21 Estimate £'m	2021/22 Estimate £'m	2022/23 Estimate £'m	2023/24 Estimate £'m
External Debt as at 1 April	517.577	507.295	536.736	586.728	590.545	594.303
Expected change in Debt	0.000	29.441	49.993	3.817	3.758	0.000
Other Long Term Liabilities (OLTL)*	85.105	77.365	72.418	67.780	64.126	60.071
Expected change in OLTL	-7.740	-4.947	-4.638	-3.654	-4.055	0.000
External Debt as at 31 March	**594.942**	**609.154**	**654.509**	**654.671**	**654.374**	**654.374**
Capital Financing Requirement	**737.178**	**766.619**	**816.612**	**820.429**	**824.187**	**822.714**
Under / (Over) Borrowing	**142.236**	**157.465**	**162.103**	**165.758**	**169.813**	**168.340**

Within the range of prudential indicators, there are several 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 purposes or speculative purposes.

The Executive Director – Resources (Section 151 Officer) confirms that the council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

The Operational Boundary is the limit beyond which external debt would not normally be 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.

	2018/19 Actual £'m	2019/20 Estimate £'m	2020/21 Estimate £'m	2021/22 Estimate £'m	2022/23 Estimate £'m	2023/24 Estimate £'m
External Debt	517.577	536.736	586.729	590.545	594.303	594.303
Other Long Term Liabilities*	77.365	72.418	67.780	64.126	60.071	60.071
Operational Boundary	**594.942**	**609.154**	**654.509**	**654.671**	**654.374**	**654.374**

The Authorised Limit

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

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

The council is recommended to approve the following Authorised Limit:

	2018/19 Actual £'m	2019/20 Estimate £'m	2020/21 Estimate £'m	2021/22 Estimate £'m	2022/23 Estimate £'m	2023/24 Estimate £'m
External Debt	517.577	694.201	748.832	756.303	764.116	762.643
Other Long Term Liabilities*	77.365	72.418	67.780	64.126	60.071	60.071
Authorised Limit	**594.942**	**766.619**	**816.612**	**820.429**	**824.187**	**822.714**

The HRA CFR is built into the total reported Authorised Limit, this revised limit is currently £766.619m; the UK Government announced that there would be a policy change which led, in October 2018, to the HRA debt cap being abolished. The HRA therefore, are no longer restricted to a debt ceiling however, although the debt cap has now been lifted, the HRA will still follow the principals of the Prudential Code; (as a result will still use the CFR as their ultimate debt ceiling).

3.3 Prospects for Interest Rates

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 their central view on interest rates over the next few years.

	Bank Rate	PWLB Borrowing Rates % (including certainty rate adjustment)		
	%	5 year	25 year	50 year
Mar-20	0.75	2.40	3.30	3.20
Jun-20	0.75	2.40	3.40	3.30
Sep-20	0.75	2.50	3.40	3.30
Dec-20	0.75	2.50	3.50	3.40
Mar-21	1.00	2.60	3.60	3.50
Jun-21	1.00	2.70	3.70	3.60
Sep-21	1.00	2.80	3.70	3.60
Dec-21	1.00	2.90	3.80	3.70
Mar-22	1.00	2.90	3.90	3.80
Jun-22	1.25	3.00	4.00	3.90
Sep-22	1.25	3.10	4.00	3.90
Dec-22	1.25	3.20	4.10	4.00
Mar-23	1.25	3.20	4.10	4.00

A more comprehensive list of these rates is detailed in Appendix 1.

Link Asset Services have also provided a detailed analysis of the economic background for the UK and the rest of the world which is given as Appendix 3 to this report. However, their general comments are as follows:

- 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.

- Borrowing interest rates were on a major falling trend during the first half of 2019/20 but jumped up by 100 bps on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served the council well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a rethink of local authority treasury management strategy and risk management, it is unlikely that this authority will do any further long term borrowing for the next three years or until such time at the extra 100 bps margin is removed.

- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and any rundown on reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing Strategy

The council is currently maintaining an under-borrowed position. 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.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Executive Director – Resources (Section 151 Officer) 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 long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- 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 the appropriate decision making body at the next available opportunity.

3.5 Policy on Borrowing In Advance of Need

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 Finance 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.

Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 20% of the expected increase in borrowing need (CFR) over a three-year planning period

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.

3.6 Debt Rescheduling

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.

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

3.7 New Financial Institutions (as a source of borrowing or types of borrowing)

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

- Local authorites (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 insurance at present but there is potential)

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The council's investment priorities will be security first, portfolio liquidity second and then yield (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This 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 counterparties are the short term and long-term ratings.

2. **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.

3. **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.

4. 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 4 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 more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

5. **Non-specified investments limit**. The council has determined that it will limit the maximum total exposure to non-specified investments as being 30% of the total investment portfolio.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in section 4.2.

7. Transaction limits are set for each type of investment in section 4.2.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties form countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

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

12. As a result of the change in accounting standards for 2018/19 under **IFRS 9,** this 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. (In November 2018, the Ministry of Housing, Communities and Local Government [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from1 April 2018.

13. If considering 'Property Funds' or other 'Diversified Income Funds' in the future, the council may look to use externally appointed fund managers.

However, this authority 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 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.

The above criteria are unchanged from last year.

4.2 Creditworthiness policy

The primary principle governing the council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the council's prudential indicators covering the maximum principal sums invested.

  The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either Specified or Non-Specified as it provides an overall pool of counterparties considered high quality which the council may use, rather than defining what types of investment instruments are to be used.

  Credit rating information is supplied by Link Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible long-term change) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum council criteria will be suspended from use, with all others being reviewed in light of market conditions.

  The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- Banks 1 - good credit quality – the council will only use banks which:
  i. are UK banks and/or
  ii. are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AA

  and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

  i. Short term - F1, P-1, A-1 respectively
  ii. Long term – A-, A1 and A- respectively

- Banks 2 – Part nationalised UK banks – Royal Bank of Scotland ringfenced operations. These banks can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.

- Banks 3 – The council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

- Bank subsidiary and treasury operation. The council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building societies - The council will use all societies which meet the above criteria.

- Money Market Funds (MMFs) CNAV – AAA rated money market funds.

- Money Market Funds (MMFs) LVNAV – AAA rated money market funds.

- Money Market Funds (MMFs) VNAV – AAA rated money market funds.

- Ultra-Short Dated Bond Funds with a credit rating of at least 1.25 – AAA

- UK Government (including gilts, Treasury Bills and the DMADF)

- Local authorities, parish councils etc

- Supranational institutions

- Property Funds.

- Building Schools for the Future Local Education Partnership

- Sandwell Inspired Partnership Services

- Sandwell Children's Trust

- West Midlands Fire & Rescue Authority

A limit will be applied to the use of Non-Specified investments, further details can be found at Appendix 4.

Use of additional information other than credit ratings

Additional requirements under the Code require the council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments

The time and monetary limits for institutions on the council's counterparty list are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 category high quality	AA-	£30m	3yrs
Banks 1 category medium quality	A-	£10m	364 days
Limit 3 category – council's banker (not meeting Banks 1)	-	£15m	1 day
Other institutions limit	-	£10m	364 days
DMADF	AAA	unlimited	6 months
Money market Funds (CNAV, LVNAV & VNAV)	AAA	£10m	Liquid
Ultra-Short Dated Bond Funds	-	£10m	6 months
Local authorities	-	£10m	364 days
Property Funds	-	£10m	10yrs plus

The proposed criteria for Specified and Non-Specified investments are shown in Appendix 4 for approval.

UK banks – ring fencing

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.

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, 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.

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.

4.3 Other limits

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

a) **Non-specified investment limit.** The council has determined that it will limit the maximum total exposure to non-specified investments as being 30% of the total investment portfolio.

b) **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, will be added to or deducted from, by officers should ratings change in accordance with this policy.

c) **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;

4.4 Investment Strategy

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 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 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.

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 1.25% 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%

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

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%

The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11th March).

The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also broadly even.

WM Combined Authority

The council will be prepared to lend to the Combined Authority. Such lending may be as part of arrangements agreed with the Combined Authority and other constituent authorities.

Investment treasury indicator and limit

These are the total principal funds invested for greater than 364 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 > 364 days			
	2019/20	**2020/21**	**2021/22**
Principal sums invested > 364 days	£30m	£30m	£30m

For its cash flow generated balances, the council will seek to utilise its business reserve instant access accounts and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 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 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.

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

- 0.03% historic risk of default when compared to the whole portfolio.

Liquidity – the council seeks to maintain:
- Bank overdraft - £2m
- Liquid short-term deposits of at least £21m available with a week's notice.

Yield - Local measures of yield benchmarks are:
- Investments – internal returns above the 7-day LIBID rate

The current LIBID benchmarks are reported below; please note that these rates are variable and change daily. They are linked to current market conditions and may go up or down as those conditions change.

% Benchmarks	7 Day	1 Month	3 Month	6 Month	12 Month
Benchmark Return (LIBID Uncompounded)	0.57%	0.58%	0.67%	0.75%	0.86%

4.6 End of year investment report

At the end of the financial year, the council will report on its investment activity as part of its Annual Treasury Report.

5 TREASURY INDICATORS 2020/21 – 2023/24

5.1 Affordability Prudential Indicators

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 indicator:

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.

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Fund	6.65%	4.95%	5.15%	4.59%	4.13%	3.64%
HRA	26.22%	23.63%	23.67%	23.77%	24.37%	24.51%

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

5.2 IFRS 16 Leases

This standard replaces the current guidance in IAS 17 on leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting remaining substantially unchanged from the IAS 17 approach.

In December 2018, CIPFA/LASAAC announced its plans to delay implementation of IFRS 16 in the Code until 1 April 2020. The Authority will therefore adopt IFRS 16 from 1 April 2020. The impact of adopting IFRS 16 will be disclosed in the financial statements for the year ending 31 March 2021." The introduction of this standard may also have an impact upon the Councils MRP policy. This is currently being reviewed and any amendments will be presented as part of the Mid-Year Treasury Management report later in the year.

APPENDIX 1: Interest Rate Forecasts

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	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	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	0.80	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	0.90	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	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	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	2.70	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	3.30	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	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

After the August 2018 increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has put any further action on hold, probably until such time as the fog of Brexit might clear. While the general election in December 2019 has provided political certainty leading to implementation of the UK leaving the EU on 31.1.20, there is still much uncertainty on what sort of trade deal may be agreed by the end of 2020 and its likely impact on the UK economy. ***The above forecast, and other comments in this report, are based on a central assumption that there will be some form of muddle through agreement on a reasonable form of Brexit trade deal.*** Bank Rate forecasts will have to change if this assumption does not materialise e.g. a no deal Brexit could prompt the MPC to do an immediate cut of Bank Rate. All other forecasts for investment and borrowing rates would also have to change.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- 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.

BOND YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued;

these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen over the last year, many bond yields up to 10 years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at record high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first 10 months of 2019 we therefore saw a sharp fall in longer term PWLB rates to completely unprecedented historic low levels - until the Treasury unexpectedly added 1% to all PWLB rates from 9th October 2019. Since then, those fears have partially subsided and gilt yields and PWLB rates have been rising. The potential danger that may be lurking in investor minds is that Japan has become mired in a 20 year malaise of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that many major western economies could be heading into a similar scenario.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop, (see appendix 4 Eurozone downside risk). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

APPENDIX 2: Maturity Structure of Borrowing

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%	20%
10 years to 20 years	0%	20%
20 years to 30 years	0%	20%
30 years to 40 years	0%	40%
40 years to 50 years	0%	50%
50 years plus	0%	90%

Maturity Structure of Variable Interest Rate Borrowing 2019/20		
	Lower %	**Upper %**
Under 12 months	0%	5%
12 months to 2 years	0%	5%
2 years to 5 years	0%	5%
5 years to 10 years	0%	5%
10 years to 20 years	0%	5%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%
50 years plus	0%	10%

APPENDIX 3: Economic Background

UK. Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 back up to +0.4% and quarter 4 expected to come in around zero. Political and Brexit uncertainty have dampened growth in 2019.

Despite political uncertainty ending with a decisive overall majority for the Conservative government in the December general election which clears the way for the UK to leave the EU on 31 January 2020, we still have much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020.

After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until these remaining uncertainties over the likely type of Brexit become clear. If there was a no deal exit, it is likely that Bank Rate would be cut in order to support growth. However, if growth was to flag significantly in any event, the MPC could also cut Bank Rate in 2020. The Government has announced some major spending increases and is expected to make further commitments in the spring budget; these will provide some support to growth and will take some pressure off the MPC to act to stimulate growth by either cutting Bank Rate or implementing other monetary policy measures.

The MPC did have some concerns over the trend in wage inflation, which was on a rising trend, and peaked at a new post financial crisis high of 3.9% in June. Since then, however, it has been falling steadily back to 3.5% in October, (3-month average figure, excluding bonuses). Growth in employment picked up again to 24,000 in the three months to October, after a fall in the previous month's figures. However, this is still well below the 2018 average, although the unemployment rate remained at 3.8 percent, its lowest rate since 1975.

As for **CPI inflation** itself, this fell to 1.5% in October and November and is likely to remain between 1.5% and 2% over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

The strong wage inflation figure and the fall in CPI inflation is good news for **consumers** as their spending power is improving in this scenario as the difference between the two figures is now around 2.0%, i.e. a real term increase. Given 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.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the rate of growth to 2.9% for 2018, just below his target of 3%. Growth in quarter 1 of 2019 was a strong 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarter 3. The strong growth in employment numbers during 2018 has subsided into a weaker trend of growth during 2019, indicating that the economy is cooling, while inflationary pressures have also been weakening. After the Fed increased rates by 0.25% in December 2018 to between 2.25% and 2.50%, it has taken decisive action to reverse monetary policy by cutting rates by 0.25% in each of July, September and October in order to counter the downturn in the outlook for US and world growth. The Fed is now likely to pause to see how the economy responds during 2020.

EUROZONE. The annual rate of growth has been steadily falling, from 1.8% in 2018 to only 1.1% y/y in quarter 3 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which 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 purchases of debt. However, the downturn in EZ growth, 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 which means that, although they will have only a two-year maturity, the Bank is 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 so 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 to start in November at €20bn per month, a relatively small amount. 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 will need to help stimulate growth by fiscal policy.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. The trade war with the US does not currently appear to be having a particularly significant impact on growth. Major progress still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

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. The trade war between the US and China on tariffs is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during the first ten months of 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), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been weak which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during 2020 is expected to be weak.

Appendix 4: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The MHCLG issued Investment Guidance in 2018 and this forms the structure of the council's policy below. These guidelines do not apply to either trust funds or pension funds that operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently and that priority is given to security and liquidity before yield. To facilitate this objective, the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with the Code, the Section 151 Officer has produced its Treasury Management Practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the council will use. These are high security (i.e. high credit rating, although this is defined by the council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.

4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.
5. A body that is considered of a high credit quality such as a bank or building society. This covers bodies with a minimum short-term rating of A (or equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies; this criteria is as per the Investment Counter Party and Liquidity Framework.

Non-Specified Investments – are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

	Non-Specified Investment Category	Limit (£ or %)
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail, the Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. However, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	30%
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	30%
c.	**The council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£15m
d.	Any **bank or building society** that has a minimum long-term credit rating of AA-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	3 Years and £30m

e.	**Building Schools for the Future Local Education Partnership.** Whilst this is not a usual investment counter party, the council is likely to invest a small amount as part of the wider Building Schools for the Future project. As this institution is not credit rated it falls under the Non-specified criteria.	£1m
f.	**Sandwell Inspired Partnership Services.** Whilst this is not a usual investment counter party, the council is likely to invest a small amount for the organisation to be use as working capital in its infancy. As this institution is not credit rated it falls under the Non-specified criteria.	£1.2m
g.	**Bond funds** this Authority will seek further advice on the appropriateness and associated risks with investments in these categories.	£10.0m
h.	**Property funds** the use of these instruments can be deemed to be capital expenditure and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	£10.0m (10 years plus)

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer and if required new counterparties which meet the criteria will be added to the list.