Tyne and Wear Fire and Rescue Authority

TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item No 7**

MEETING: 11TH MARCH 2024

SUBJECT: TREASURY MANAGEMENT POLICY AND STRATEGY 2024/2025, INCLUDING PRUDENTIAL 'TREASURY MANAGEMENT' INDICATORS FOR 2024/2025 TO 2027/2028

REPORT OF THE FINANCE DIRECTOR

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1. Purpose of the Report

1.1 To present members with the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2024/2025 for approval, to note the Prudential 'Treasury Management' Indicators for 2024/2025 to 2027/2028, and to note any comments provided by the Governance Committee who met on 26th February 2024 to review and scrutinise this document on behalf of the Authority.

2. Treasury Management

2.1 Treasury Management is defined as "the management of the 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."

2.2 The Treasury Management function is a specialist service that is carried out by Sunderland City Council as Lead Authority on behalf of the Authority

3. Statutory requirements

3.1 The Local Government Act 2003 (the Act) requires the Authority to:

- 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators including specific Treasury Management Indicators) for a minimum period of three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable. These are detailed at Appendix 1.
- adopt a Treasury Management Policy Statement (detailed in Appendix 2), and
- to set out its Treasury Management Strategy Statement comprising the Authority's strategy for borrowing and the Authority's policies for managing its investments and giving priority to the security and liquidity of those investments (set out in Appendix 3).

3.2 The Department for Levelling Up, Housing and Communities (DLUHC) 'Statutory Guidance on Local Government Investments' was updated in February 2018 and CIPFA updated its Treasury Management in the Public Services Code of Practice and Prudential Code in December 2021.

3.3 Changes to the investment guidance focused particularly on non-treasury investments which are reported within the Commercial Activity – Investment Strategy section of the Capital Strategy rather than in the Treasury Management Strategy. This ensures the separation of the core treasury function where investments are made under security, liquidity and yield principles, and non-treasury commercial and strategic investments. Code updates continue to reinforce that local authorities must not borrow to invest primarily for financial return.

4. CIPFA requirements

4.1 The Authority continues to fully adopt and to re-affirm annually its adherence to the updated CIPFA Code of Practice on Treasury Management.

The primary requirements of the Code include that:

1. The Authority will create and maintain, as the cornerstones for effective treasury management:

    - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and
    - suitable treasury management practices (TMP's), setting out the way the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
    - investment management practices (IMPs) for investments that are not for treasury management purpose.

    The content of the treasury management policy statement is detailed in Appendix 2 and the TMP's follow the recommendations contained in Sections 6 and 7 of the Code, subject only to minor variations where necessary to reflect the particular circumstances of the Authority, and these do not result in the Authority materially deviating from the Code's key principles.

2. The Authority will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan, in advance of the year ahead, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.

3. The Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to this Committee, and for the execution and administration of treasury management decisions to the Finance Director, who acts in

accordance with the Authorities Treasury Management Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The Authority has previously nominated the Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

5 Treasury Management Strategy Statement for 2024/2025

5.1 The Treasury Management Strategy Statement comprises a Borrowing and an Investment Strategy. These set out the Authority's policies for managing its borrowing and investments in 2024/2025.

5.2 There are no major changes proposed to the overall Treasury Management Strategy in 2024/2025, which maintains the careful and prudent approach adopted by the Authority in previous years. Areas that inform the strategy include the extent of potential borrowing included in the Capital Programme, the availability of borrowing and the current and forecast global and UK economic positions, in particular forecasts relating to interest rates and security of investments.

5.3 The proposed Treasury Management Strategy Statement for 2024/2025 is set out in Appendix 3 and is based upon the views of the Finance Director, supplemented with market data, market information and leading market forecasts and views provided by the Authority's treasury adviser, Link Asset Services.

5.4 The Authority's treasury management practices are subject to regular review to ensure compliance to the agreed treasury management strategy and that the strategy adapts to changing financial markets as appropriate so that the Lead Authority, on behalf of this Authority, can take a view on the optimum time to carry out further borrowing or debt rescheduling.

6. Recommendation

6.1 Members are is requested to approve the:

- Annual Treasury Management Policy and Strategy for 2024/2025 (including specifically the Annual Borrowing and Investment Strategies) and,
- The Prudential 'Treasury Management' Indicators 2024/2025 to 2027/2028.

Appendix 1

Prudential 'Treasury Management' Indicators 2024/2025 to 2027/2028

The indicators below relate to Treasury Management (all indicators relating to capital financing have been removed for clarity and can be found in the Capital Programme 2024/2025 including Prudential Indicators for 2024/2025 to 2027/2028 report presented to the Authority on 19th February 2024).

P5 In respect of its external debt, it is recommended that the Authority approves the following authorised limits for its total external debt (gross of investments) for the next four financial years. These limits must separately identify borrowing from other long-term liabilities such as PFI schemes and finance leases. The Authority is asked to approve these limits and to delegate authority to the Finance Director, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for the Authority. Any such changes made will be reported to the Authority at the next meeting following the change.

Authorised Limit for External Debt

	2023/2024 £'000	**2024/2025 £'000**	**2025/2026 £'000**	**2026/2027 £'000**	**2027/2028 £'000**
Borrowing	17,348	**22,253**	21,959	21,606	21,714
Other long-term liabilities	13,032	**11,297**	9,468	7,620	5,305
Total	30,380	**33,550**	31,427	29,226	27,019

The above authorised limits are consistent with the Authority's current commitments, existing plans within the recently approved Capital Programme 2024/2025 to 2027/2028 which set out its agreed capital expenditure and financing, and with its proposed treasury management policy statement and practices. They are based on the estimate of most likely, prudent, but not worst-case scenario, with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cash flow requirements for all purposes.

In taking its decisions on the Revenue Budget and Capital Programme for 2024/2025, the Authority has already agreed the authorised limit determined for 2024/2025 (see P5 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

P6 The Authority has also agreed to the following operational boundary for external debt for the same time period as part of the Capital programme 2024/2025 to 2027/2028 report. The operational boundary for external debt is based on the same estimates as the authorised limit, but reflects directly the estimate of the most likely, prudent but not worst-case scenario level, without the additional headroom included within the authorised limit to allow, for example, for unusual cash flow movements. It equates to the projected maximum external debt and represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The Authority is also requested to delegate authority to the Finance Director, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities, similar to the authorised limit set out in P5.

The operational boundary limit will be closely monitored and a report will be made to the Authority if it is exceeded at any point in the financial year ahead. It is generally only expected that the actual debt outstanding will approach the operational boundary when all of the long-term borrowing has been undertaken for that particular year and will only be exceeded temporarily as a result of the timing of debt rescheduling.

	Operational Boundary for External Debt				
	2023/2024 £'000	**2024/2025 £'000**	**2025/2026 £'000**	**2026/2027 £'000**	**2027/2028 £'000**
Borrowing	12,348	**17,253**	16,959	16,606	16,714
Other long term liabilities	13,032	**11,297**	9,468	7,620	5,305
Total	25,380	**28,550**	26,427	24,226	22,019

P7 The Authority's actual external debt at 31st March 2023 was £24.943 million (calculated on the basis that all Authority debt is classed as external) and was made up of actual borrowing of £10.346 million and £14.597 million in respect of other long-term liabilities.

The Authority includes an element for long-term liabilities relating to PFI schemes and leases in its calculation of the operational and authorised boundaries to allow further flexibility over future financing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at any one point in time and allowance needs to be made for borrowing and cash flow variations.

P8 Sunderland City Council, on the Authority's behalf, is no longer required to formally indicate if it has adopted the CIPFA Code of Practice on Treasury Management. However, the revised Code was fully adopted in 2017 and is re-affirmed annually.

The objective of the Prudential Code is to provide a clear framework for local authority capital finance that will ensure for individual local authorities that:

(a) capital expenditure plans are affordable;

(b) all external borrowing and other long-term liabilities are within prudent and sustainable levels;
(c) treasury management and investment decisions are taken in accordance with professional good practice and in full understanding of the risks involved;

and that in taking decisions in relation to (a) to (c) above the local authority is: accountable, by providing a clear and transparent framework.

Further, the framework established by the Code should be consistent with and support:

(d) local strategic planning;
(e) local asset management planning;
(f) proper option appraisal.

In exceptional circumstances the objective of the Code is to provide a framework that will demonstrate that where there is a danger of not ensuring the above, the Authority can take timely remedial action.

CIPFA Treasury Management in the Public Services Code of Practice - Indicators 2024/2025 to 2027/2028

P9 It is recommended that the Authority sets upper and lower limits for the maturity structure of its borrowings, consistent with the Lead Authority's policy, as follows:

Amount of projected borrowing maturing in each period expressed as a percentage of total projected borrowing at the start of the period:

	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	100%	0%
10 years and over	100%	0%

P10 A maximum maturity limit of £75 million is set for each financial year (2024/2025, 2025/2026, 2026/2027 and 2027/2028) for long-term investments (those over 365 days). This gives additional flexibility to the Authority in undertaking its Treasury Management function. It is proposed that Authority funds may be invested within the limits set by the Lead Authority as set out in the Annual Investment Strategy (Appendix 3).

Appendix 2

1. Treasury Management Policy Statement

1.1 In line with CIPFA recommendations, the Authority adopts the following Treasury Management Policy Statement, which defines the policies and objectives of its treasury management activities:

- The Authority defines its treasury management activities as: “The management of the Authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.2 These principles are intended to provide a working document that forms a detailed framework for treasury management activities. The policy fully encompasses CIPFA’s Code of Practice. In addition, the policy fully takes account of the requirements of the Prudential Code for Capital Finance in Local Authorities and the guidance issue by the DLUHC supporting Part 1 of the Local Government Act 2003 in respect of local authority investments.

1.3 The Authority re-affirms its commitment to the Treasury Management Policy and Strategy Statement in 2024/2025 as it does every year.

Appendix 3

1. Treasury Management Strategy Statement for 2024/2025

1.1 Introduction

1.2 The Local Government Act 2003 and subsequent guidance requires the Authority to set out its Treasury Management Strategy for Borrowing and to prepare an Annual Investment Strategy. This sets out the Authority's policies for managing both its borrowing and its investments, which gives priority to the security and liquidity of those investments over yield.

1.3 The proposed strategy for 2024/2025 is set out below and is based upon the Finance Director's views on interest rates, supplemented with leading market forecasts and other financial data available and advice provided by the Authority's treasury adviser, Link Asset Services.

1.4 In December 2021 CIPFA issued a revised Treasury Management Code of Practice and Cross-Sectoral Guidance Notes, and a revised Prudential Code. In February 2018 DLUHC revised their Guidance on Local Government Investments and also their Statutory Guidance on Minimum Revenue Provision. A particular focus of these revised codes is how to deal with local authority investments which are non-treasury type investments e.g. by investing in a property portfolio in order to generate income for the authority at a higher level than can be attained by vanilla treasury investments. This report deals solely with financial investments managed by the Lead Authority's Treasury Management function. This ensures the separation of the core treasury function where investments are made under security, liquidity and yield principles, and non-treasury commercial and strategic investments. The Authority has no non treasury type investments.

2. Treasury Management Strategy

Borrowing

2.1 Current Treasury Management Position

The treasury portfolio position at 31st December 2023 for the Lead Authority, (which the Fire and Rescue Authority's PWLB Debt of £10.346m) forms part of, comprised:

		Principal (£m)	Total (£m)	Average Rate (%)
Treasury external borrowing				
Fixed Rate Funding	PWLB	479.6		
	Market	39.5		
	Other	10.9	530.0	2.68
Variable Rate Funding	Temporary / Other		27.6	4.96
Total Borrowing			**557.6**	**2.80**
Total Investments				
	In house – short term		**188.0**	**5.05**
Net treasury borrowing			**369.6**	

Currently there is a net deficit of £369.6m which represents the difference between gross debt and total investments and is significantly lower than the lead authority's capital financing requirement (capital borrowing need).

2.2 Treasury Indicators and Limits

2.2.1 Prudential and Treasury Indicators (as set out in Appendix 1) are a requirement of the CIPFA Prudential Code and are relevant for the purposes of setting an integrated treasury management strategy and to ensure that treasury management decisions are taken in accordance with good professional practice. It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

2.2.2 The Authority must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels (and council housing rent levels where relevant) is 'acceptable'.

2.2.3 The "Affordable Borrowing Limit" comprises of the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is set, on a rolling basis, for the forthcoming financial year and three successive financial years and details can be found in Appendix 1 (P5) of this report. The Authority is requested to note these already agreed limits and to delegate authority to the Finance Director, within the total limit for any individual year, to action movement between the separately agreed limits for borrowing and other long-term liabilities where this would be appropriate. Any such changes made will be reported to the Authority at their next meeting following the change.

2.2.4 Also, the Authority is requested to note the already agreed Operational Boundary Limit (P6) which is included in the Prudential Indicators set out in Appendix 1. This operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified and the Authority is also asked to delegate authority to the Finance Director, within the total operational boundary for any individual year, to action movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the authorised limit.

2.2.5 The requirement for the Authority to indicate it has adopted the CIPFA Code of Practice on Treasury Management was removed in the revised 2017 edition of the code. However, this is still considered to be good practice. The original 2001 Code was adopted on 20th November 2002. The Authority re-affirms its full adherence to the latest 2017 edition of the Code and will continue to do so annually (as set out in Appendix 2).

2.3 Prospects for Interest Rates

2.3.1 At its meeting on 13th December 2023 the Bank of England's (BoE) Monetary Policy Committee (MPC) voted for the third meeting in a row to leave interest rates at 5.25%, with Governor Bailey commenting there is still some way to go in the fight to control inflation and that it was much too early to be thinking about rate cuts. This reflects their commitment to combat inflationary pressures, even at the risk of hampering growth, to ensure headline CPI inflation drops back to its 2% target.

2.3.2 Link Asset Services, the Authority's treasury advisors, reviewed their interest rate forecasts in January 2024 to reflect their view that the MPC would be keen to underpin its anti-inflation credentials by keeping the Bank Rate at 5.25% until at least the second quarter of 2024. They believe the MPC won't look to cuts rates until both CPI inflation and wage/employment data are unequivocally supportive of such a move and that there is a strong likelihood of the overall economy enduring tepid growth (at best) or a mild recession (at worst) over the coming months.

2.3.3 Link forecast the BoE Base Rate will remain at 5.25% until June 2024, before gradually falling to 3.00% by September 2025. These forecasts, and MPC decisions, will be liable to further amendment as updated economic data becomes available and emerging developments in the financial markets.

2.3.4 The following table shows the average PWLB rates for Quarters 1, 2 and 3 and the figures for Quarter 4 to 5th January 2024.

2023/2024	Qtr 1 (Apr - Jun) %	Qtr 2 (Jul - Sep) %	Qtr 3 (Oct – Dec) %	Qtr 4 (to 17th Jan 2024) %
SONIA Rate	4.37	5.09	5.19	5.19
1 year	5.32*	5.91*	5.54*	5.28*
5 year	4.87*	5.44*	4.95*	4.44*
10 year	4.78*	5.23*	5.05*	4.62*
25 year	5.09*	5.47*	5.48*	5.17*
50 year	4.82*	5.16*	5.24*	4.96*

*rates take account of the 0.2% discount to the PWLB rates available to eligible authorities that came into effect on 1st November 2012.

2.3.5 The Link Asset Services forecast in respect of interest rates for loans charged by the PWLB is as follows:-

Date	Bank Rate %	PWLB Borrowing Rates (including certainty rate adjustment) %		
		5 year	25 year	50 year
March 2024	5.25	4.50	5.20	5.00
June 2024	5.25	4.40	5.10	4.90
Sept 2024	4.75	4.30	4.90	4.70
Dec 2024	4.25	4.20	4.80	4.60
March 2025	3.75	4.10	4.60	4.40
June 2025	3.25	4.00	4.40	4.20
Sept 2025	3.00	3.80	4.30	4.10
Dec 2025	3.00	3.70	4.20	4.00
March 2026	3.00	3.60	4.20	4.00
June 2026	3.00	3.60	4.10	3.90
Sept 2026	3.00	3.50	4.10	3.90
Dec 2026	3.00	3.50	4.10	3.90

2.3.6 The main sensitivities of the forecasts in the UK are felt to be linked to the timing of when the BoE decides to cut the Base Rate. Cut too soon and inflationary pressures could build up further but cut too late and any downturn or recession may be prolonged. The ongoing conflict between Russia and the Ukraine, Gaza and Israel and heightened tensions between China, Taiwan and the United States alongside other geopolitical factors are likely to continue to have a global economic impact. A further concern is that significant issues remain unresolved over future UK / EU trade arrangements following Brexit and complications or lack of co-operation in discussions pose a threat.

2.4 Borrowing Strategy

2.4.1 The Authority's strategy for 2023/2024 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of

4.5% for long-term borrowing was set considering the views prevalent at the time the Treasury Management policy was set in March.

2.4.2 The basis of the proposed Borrowing Strategy for 2024/2025 is to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Authority's future borrowing requirement when market conditions are considered favourable;
- current (17th January 2024) long-term PWLB rate (50 years) 5.15%. Forecast rates over the financial year 2024/2025 are 4.90% Q1, 4.70% Q2, 4.60% Q3 and 4.40% Q4. Should interest rates fall below these rates borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity.

2.4.3 As announced by the Chancellor in November 2020, a prohibition was introduced that denies access to any new borrowing from the PWLB for a local authority that has plans to purchase investment assets "primarily for yield". When applying for PWLB borrowing authorities must now submit a high-level description of their capital spending and financing plans for the following three years. In addition, the lead authority's Section 151 Officer (Director of Finance) must confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment will be based on the Section 151 Officer's professional interpretation of guidance issued along with PWLB lending terms.

2.4.4 PWLB interest rates remain the likely cheapest option available to the Council to fund the large borrowing requirement needed to support the capital programme and it will benefit the Authority's revenue budget over the longer term. The Treasury Management team continues to closely monitor interest rates to assess the value of possible further new borrowing in line with Capital Programme requirements. Consideration will also be given to various other funding options, including taking out shorter term borrowing, utilising investment balances, and use of other financial institutions to provide borrowing facilities.

2.4.5 There are currently seven market Lender's Option / Borrower's Option (LOBO) loans totalling £39.5 million. The lender has the option to alter the rate on these loans at set intervals and theses can either be accepted at the new rate or repaid without penalty. The following table shows the three LOBOs that were subject to a potential rollover in 2022/2023. No changes to loan rates have been received and so these arrangements will continue.

Roll Over Dates	**Lender**	**Amount £m**	**Rate %**	**Roll Over Periods**
27/07/2023 and 27/01/2024	Dexia	5.0	4.32	Every 3 years
21/04/2023 and 21/10/2023	Barclays	5.0	4.50	Every 6 months
10/06/2023 and 10/12/2023	Barclays	9.5	4.37	Every 3 years
Total		**19.5**		

2.4.6 The potential borrowing requirement for the Lead Authority, (which the Fire and Rescue Authority does not form part of as it has no plans to borrow over the next 4 year at this time), is as follows:

		2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
1.	Capital Programme Borrowing	**160.3**	**122.5**	**88.6**	**39.2**
2.	Replacement borrowing (PWLB)	**0.0**	**0.0**	**0.0**	**0.0**
3.	Replacement LOBO	**20.0**	**10.0**	**19.5**	**20.0**
TOTAL:		**180.3**	**132.5**	**108.1**	**59.2**

2.4.7 Currently there is net treasury borrowing of £369.6m which represents the difference between gross debt and total investments. This means that the capital borrowing need (the capital financing requirement) has not been fully funded with loan debt, as cash supporting the lead authority's reserves, balances and cash flow has been used as a temporary financing measure. Consideration will be given by the lead authority to continue utilising some investment balances to fund the borrowing requirement in 2024/2025. This policy has served the Authority well over the last few years as investment returns were low. As a result, the Lead Authority is currently maintaining an under-borrowed position This position will be carefully reviewed to avoid incurring higher borrowing costs over the long-term whilst ensuring that financing is available to support capital expenditure plans.

2.4.8 There are a number of risks and benefits associated with having both a large amount of debt whilst at the same time having a considerable number of investments.

2.4.9 Benefits of having a high level of investments are;

- liquidity risk – having a large amount of investments means that the Authority is at less of a risk should money markets become restricted or borrowing less generally available, this mitigates against liquidity risk;
- interest is received on investments which helps support the Authority's overall budget position; and
- of more importance, the Authority has greater freedom in the timing of its borrowing as it can afford to wait until the timing is right rather than be subject to the need to borrow at a time when interest rates are not advantageous.

2.4.10 Risks associated with holding a high level of investments are;

- the counterparty risk – institutions cannot repay the Authority investments placed with them; and
- interest rate risk – the rate of interest earned on the investments will be less than that paid on debt, thus causing a loss to the Authority.

2.4.11 The Authority has mitigated these risks by having a risk averse Treasury Management Investment Strategy and by detailed monitoring of counterparties through its borrowing and investment strategies and treasury management working practices and procedures.

2.4.12 A Municipal Bonds Agency, set up by the Local Government Association, has begun to offer bonds to local authorities. The rates offered by the Agency will be assessed and use made of this, and any other new sources of funding that may become available, where it is considered advantageous.

2.4.13 The need to adapt to changing circumstances and revisions to profiling of capital expenditure is required when considering borrowing opportunities, and flexibility needs to be retained to adapt to any changes that may occur.

2.4.14 The Authority, taking advice from its treasury advisers, will continue to monitor rates closely, and whilst implementing the borrowing strategy, will adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, wherever possible.

2.4.15 Taking into account potential market volatility and the advice of the Authority's treasury adviser, alongside potential movement in the Bank of England base rate, a benchmark financing rate of 5.00% for any further long-term borrowing for 2024/2025 is considered to be appropriate.

2.5 Policy on Borrowing in Advance of Need

2.5.1 The Authority will not borrow more than or in advance of its needs purely to profit from treasury investments of the extra sums borrowed. Any decision to borrow in advance will be assessed within forward approved Capital Financing Requirement estimates, with regard to current policies, and will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds.

2.5.2 Risks associated with any borrowing in advance of activity will be subject to appraisal and any borrowing undertaken will be reported to the Authority as part of the agreed treasury management reporting arrangements.

2.6 Policy on Debt Rescheduling

2.6.1 The reasons for any rescheduling of debt will include:

- the generation of cash savings at minimum risk;
- in order to help fulfil the Treasury Management Strategy; and
- in order to enhance the balance of the long-term portfolio (by amending the maturity profile and/or the balance of volatility).

2.6.2 In previous years, debt rescheduling has achieved significant savings in interest charges and discounts and these interest savings have been secured for many years to come. However, the very low underlying rate of the Council's long-term borrowing together with the current spread between the rates applied to new PWLB borrowing and repayment of PWLB debt means that PWLB debt restructuring is much less attractive. Consideration will also be given to other options where interest savings may be achievable by using LOBO (Lenders Option Borrowers Option) loans, and / or other market loans, in rescheduling exercises rather than solely using PWLB borrowing as the source of replacement financing but this would only be the case where this would represent best value to the Authority

2.6.3 Following consultation and advice from the Authority's treasury advisors the Authority has taken the decision to borrow over longer-term periods and much of the existing borrowing is for periods over 40 years and on a fixed interest rate basis. This borrowing has been taken out where it offers good value and to allow for the potential to benefit from refinancing debt in the future. A further benefit is that it reduces risk by giving certainty of borrowing rates over the long-term.

2.6.4 The Authority keeps a watching brief on market conditions in order to secure further debt rescheduling when, and if, appropriate opportunities arise. The timing of all borrowing and investment decisions inevitably includes an element of risk, as those decisions are based upon expectations of future interest rates. The policy to date has been very firmly one of risk spread and this prudent approach will be continued.

2.6.5 Any rescheduling undertaken will be reported to the Authority, as part of the agreed treasury management reporting arrangements.

Annual Investment Policy and Strategy

2.7 Investment Policy and Management of Risk

2.7.1 When considering its investment policy and objectives, the Authority has regard to the DLUHC Guidance on Local Government Investments ("the Guidance"), CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). Consideration has also been given to the refreshed Code published in December 2021.

2.7.2 The DLUHC 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 lead authority's Treasury Management function.

2.7.3 The Authority's investment objectives are: -

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

2.7.4 The Authority also aims to achieve the optimum return on its investments, but this is commensurate with proper levels of security and liquidity.

2.7.5 In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate the Authority will also consider the value available in placing investments for longer periods with high credit rated financial institutions, as well as wider range fund options.

2.7.6 The guidance from the DLUHC and CIPFA places a high priority on the management of risk. The Authority has adopted a prudent approach to managing risk and in order to minimise the risk to investments, the Authority will;

- apply minimum acceptable credit criteria (detailed in Appendix 5) in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of risk. The risk appetite of the Authority is regarded as low in order to give priority to security of its investments.
- monitor credit ratings daily. The Authority has access to all three credit ratings agencies and is alerted to changes through its use of Link Asset Services counterparty service. If a counterparty's rating is downgraded with the result that it no longer meets the Authority's minimum criteria, the Authority will cease to place funds with that counterparty. If a counterparty's rating is downgraded with the result that their rating is still sufficient for the counterparty to remain on the Approved Lending List, then the counterparty's authorised investment limit will be reviewed accordingly. A downgraded credit rating may result in the lowering of the counterparty's investment limit and vice versa;
- not use ratings as the sole determinant of the quality of an institution. The Authority will 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 this end the Authority will engage with its advisors to monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings provided.
- use other information sources including 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.
- define the type of investment instrument that the treasury management team are authorised to use. The Authority is allowed to invest in two types of investment, namely Specified Investments and Non-specified investments:
  - Specified Investments are sterling investments that are for a period of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. These are placed with high rated counterparties and are considered low risk assets where the possibility of loss of principal or investment income is small. Within these bodies and in accordance with the Code, the Authority has set additional criteria to limit the time and amount of monies that will be invested with these bodies
  - Non-Specified Investments are any investments which are not classified as Specified Investments. As the Authority only uses investment grade high credit rated counterparties for treasury management investments this means in effect that any investments placed with those counterparties for a period over one year will be classed as Non-specified Investments. A limit on the amount of investments which can be invested for longer than 365 days is set in the Authority's creditworthiness policy.

- the type of investments to be used by the in-house treasury management team will be limited to Certificates of Deposit, variable term deposits, fixed term deposits, interest bearing accounts, Money Market Funds, Government debt instruments, floating rate notes, corporate bonds, municipal / local authority bonds, bond funds, gilt funds, and gilt-edged securities and will follow the criteria as set out in Appendix 5.
- assess the risk of default and if any of the Authority's investments appear at risk of loss due to default, (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates), then the lead authority will make revenue provision of an appropriate amount in accordance with proper accounting practice or any prevailing government regulations, if applicable. The lead authority mitigates this risk with its prudent investment policy;
- set an approved lending list which shows lending limits and the maximum duration of any investment for each counterparty (detailed in Appendix 6). These are set using the agreed lending list criteria (detailed in Appendix 5).
- only place investments with counterparties from countries with a specified minimum sovereign rating as set out in the agreed lending list criteria (detailed in Appendix 5). Should the UK Government AA- sovereign rating be withdrawn the Authority's Investment Strategy and Lending List criteria will be reviewed and any changes necessary will be reported to the Authority; and
- engage external consultants to provide expect 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.

2.7.7 In accordance with accounting standard IFRS9**,** the authority considers the implications of investment instruments which could result in an adverse movement in the value of the amount invested and lead to resultant charges at the end of the year to the General Fund. In November 2018 DLUHC 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 for five years ending 31st March 2023. More recently, a further extension to the over-ride to 31st March 2025 has been agreed by Government.

2.7.8 The prudential code states that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

2.8 Creditworthiness Policy

2.8.1 The creditworthiness policy adopted by the Authority takes into account the credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's). Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the Authority's counterparty criteria.

2.8.2 Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to future outlooks for counterparties. However, as economies have recovered, there have been some instances of previous lowering of future outlooks being reversed.

2.8.3 Although bank Credit Default Swap (CDS) prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

2.8.4 While the Authority understands changes that have taken place to reduce ratings, it will specify a minimum sovereign rating of AA-. This is due to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution. It is important to stress the ongoing regulatory changes made in the UK and the rest of Europe are designed to make the financial system sounder. Banks are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now

2.8.5 In keeping with the agencies' new methodologies, the rating element of the Authority's credit assessment process now focuses solely on the Short and Long Term ratings of an institution.

2.8.6 One of the recommendations of the Code is that local authorities should set limits for the amounts of investments that can be placed with institutions by country, sector and group. These limits are applied in the lead authority's Counterparty criteria set out in Appendix 5.

2.8.7 Set out in Appendix 6 is the detailed criteria that will be used, subject to approval, in determining the level of investments that can be invested with each counterparty or institution. Where a counterparty is rated differently by any of the 3 rating agencies, the lowest rating will be used to determine the level of investment. If the lead authority's own banker, National Westminster Bank plc, should fail to meet the minimum credit criteria to allow investments from the Authority then balances will be minimized as far as possible.

2.8.8 The Finance Director will monitor long-term investment rates and identify any investment opportunities if market conditions change. It is proposed that delegated authority continues for the Finance Director to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to the Authority retrospectively, in accordance with normal treasury management reporting procedures.

2.9 Outlook and Proposed Treasury Investment Strategy

2.9.1 Based on its cash flow forecasts, the Authority together with the City Council anticipates its fund balances in 2024/2025 are likely to range between £50 million and £250 million. This represents a cautious approach and provides for funding being received in excess of the level budgeted for, and also for unexpected and unplanned levels of capital underspending in the year or reprofiling of spend into future years. In 2023/2024 some investment balances have been used to fund borrowing requirements. It is likely that this will continue into 2024/2025 with investment balances being used to fund some borrowing or used for debt rescheduling. Such funding is wholly dependent upon market conditions and will be assessed and reported to the Authority if and when the appropriate conditions arise.

2.9.2 Activities likely to have a significant effect on investment balances are:

- Capital expenditure during the financial year, (dependent upon timing) will affect cash flow and short-term investment balances;
- Any reprofiling of capital expenditure from, and to, other financial years will also affect cash flow (no reprofiling has been taken into account in current estimates);
- Any unexpected capital receipts or other income;
- Timing of new long-term borrowing to fund capital expenditure; and
- Possible funding of long-term borrowing from investment balances (dependent upon appropriate market conditions).

2.9.3 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.

2.9.4 The minimum amount of overall investments that will be held in short-term investments (less than one year) is £50 million. As the lead authority has decided to restrict most of its investments to term deposits, it will maintain liquidity by having a minimum of 30% of the total value of short-term investments maturing within 6 months.

2.9.5 A maximum limit of £75 million is to be set for in-house Non-Specified Investments over 365 days up to a maximum period of 2 years (excluding non-treasury management investments and all other investments defined as capital expenditure). This amount has been calculated by reference to the lead authority's cash flows, including the potential use of earmarked reserves.

2.9.6 The Authority is not committed to any investments which are due to commence in 2024/2025 (i.e. it has not agreed any forward deals).

2.9.7 The Finance Director, in conjunction with the Authority's treasury adviser Link Asset Services, and taking into account the minimum amount to be maintained in short-term investments, will continue to monitor investment rates closely and to identify any appropriate investment opportunities that may arise.

2.9.8 During 2023/2024 the Authority did not employ any external fund managers; all funds being managed by the lead authority's in-house team. The performance of the fund managed by Sunderland City Council's in-house team is shown below compared with the benchmark SONIA (Sterling Overnight Index Average) rate and with the relevant benchmarks and performance from the previous year:

Return	**2022/23 Benchmark %**	**2022/23 Return %**	**To date 2023/24 Benchmark %**	**To date 2023/24 %**
Performance	2.24	2.24	4.88	4.88

2.9.9 During 2024/2025 the Authority will continue to review the optimum arrangements for the investment of its funds whilst fully observing the investment strategy in place. The Authority uses the Sterling Overnight Index Average (SONIA) rate as a benchmark for its investments and has benefitted by its investment income being matched to the benchmark rate instead of the average Money Market Fund return that has been used in previous years, but which has been adversely impacted by the Covid pandemic and now the continuing conflict in Ukraine. The Authority's treasury management advisor reports the rate of return achieved compares favourably with their other local authority clients, whilst still adhering to the prudent policy agreed by the Authority.

2.10 Policy on the Use of External Service Providers

2.10.1 At present the Authority does not employ any external fund managers.

2.10.2 Should the Authority appoint any external fund managers in the future, they will have to agree to strict investment limits and investment criteria. These will be reported to the Authority prior to any fund manager being appointed.

2.10.3 The Authority uses Link Asset Services as its external treasury management advisors. The Authority recognises that responsibility for treasury management decisions remain with the Authority at all times and will ensure that undue reliance is not placed upon our external service providers.

2.10.4 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 Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

2.11 Non-Treasury Investments

2.11.1 The Authority may make other types of investments (usually defined by regulation as capital expenditure) that are not part of treasury management activity. Treasury management investment activity covers those investments which arise from the Authority's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

2.11.2 Investments that may be made for policy reasons outside of normal treasury management activities may include service investments held clearly and explicitly in the course of the provision, and for the purposes, of operational services, including regeneration. This may include loans to local enterprises as part of a wider strategy for local economic growth.

2.11.3 The Finance Director will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Authority's risk exposure.

2.11.4 Investment objectives in relation to these types of investments will still be primarily security and liquidity but with the understanding that the liquidity for these types of investments may be less than those for treasury management activities and that these may be subject to higher levels of risk. When non-treasury management investments are considered, due diligence will take place with all proposed investments being subjected to a detailed financial appraisal that will include financial sustainability of the investment and the identification of risk to both capital and returns. An assessment against loss will be carried out periodically and if the value of non-financial investments is no longer sufficient to provide security against loss mitigating actions will be taken. Decisions relating to non-treasury management investments will follow appropriate governance arrangements.

2.11.5 Non-treasury investments are covered within the Capital Strategy.

3. Scheme of Delegation

3.1 The Treasury Management Strategy Statement has been prepared in accordance with the revised Code. Accordingly, the Authority's Treasury Management Strategy (TMS) is approved annually by the Authority. In addition, the Governance Committee receives, as a minimum, a mid-year TMS report and an annual Treasury Management outturn report for the previous year by no later than the 30th September of the following year. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

3.2 The Authority has the following reporting arrangements in place in accordance with the requirements of the Code:

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Treasury Management Policy Statement	Full Authority	Reaffirmed annually and updated as appropriate

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Strategy / Annual Investment Strategy	Full Authority	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy –mid-year report	Full Authority	Mid-year
Treasury Management Strategy / Annual Investment Strategy – updates or revisions at other times	Full Authority	As appropriate
Treasury Management Practices	Finance Director	Annually
Scrutiny of Treasury Management Strategy	Governance Committee	Annually before Full Authority
Scrutiny of Treasury Management Performance	Governance Committee	Quarterly
Annual Treasury Management Outturn Report	Full Authority	Annually by 30/9 after the end of the financial year

4. The Treasury Management Role of the Section 151 Officer

4.1 The Finance Director is the Authority’s Section 151 Officer and has specific delegated responsibility in the Authority’s Constitution to manage the borrowing, financing, and investment requirements of the Authority in accordance with the Treasury Management Policy agreed by the Authority. This includes:

- 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;
- preparing 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;
- ensuring that the Authority has the 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;
- providing to members 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 the Authority; and
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above.

Appendix 4

1. Interest Rate Forecasts

1.1 The data set out overleaf shows a variety of forecasts published by Link Asset Services and Capital Economics (an independent forecasting consultancy). PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012. There are no changes to these forecasts as at 16h January 2024.

1.2 The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

ECONOMIC FORECASTS

LINK GROUP – JANUARY 2024

	End Q1 2024	End Q2 2024	End Q3 2024	End Q4 2024	End Q1 2025	End Q2 2025	End Q3 2025	End Q4 2025	End Q1 2026	End Q2 2026	End Q3 2026	End Q4 2026	End Q4 2026
Bank Rate	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
5yr PWLB Rate	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.80%	3.70%	3.60%	3.60%	3.50%	3.50%	3.50%
10yr PWLB Rate	4.70%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.90%	3.80%	3.70%	3.70%	3.70%	3.70%
25yr PWLB Rate	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.30%	4.20%	4.20%	4.10%	4.10%	4.10%	4.10%
50yr PWLB Rate	5.00%	4.90%	4.70%	4.60%	4.40%	4.20%	4.10%	4.00%	4.00%	3.90%	3.90%	3.90%	3.90%

CAPITAL ECONOMICS – JANUARY 2024

	End Q1 2024	End Q2 2024	End Q3 2024	End Q4 2024	End Q1 2025	End Q2 2025	End Q3 2025	End Q4 2025
Bank Rate	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	3.00%	3.00%
5yr PWLB Rate	4.50%	4.30%	4.20%	4.00%	3.90%	3.80%	3.80%	3.70%
10yr PWLB Rate	4.50%	4.40%	4.20%	4.10%	4.10%	4.10%	4.10%	4.10%
25yr PWLB Rate	5.10%	4.80%	4.60%	4.30%	4.40%	4.40%	4.50%	4.60%
50yr PWLB Rate	4.70%	4.60%	4.50%	4.30%	4.30%	4.30%	4.40%	4.40%

Source: Link Asset Services – Citywatch December 2023

2. Survey of Economic Forecasts

2.1 HM Treasury November 2023

The current 2023 base rate forecasts are based on samples of both City and non-City forecasters included in the HM Treasury November 2023 report.

BANK RATE FORECASTS	Annual Average Bank Rate				
	Ave. 2023	**Ave. 2024**	**Ave. 2025**	**Ave. 2026**	**Ave. 2027**
Average	4.76%	5.02%	3.86%	3.13%	2.89%
Highest	4.90%	5.40%	4.70%	4.20%	4.10%
Lowest	4.30%	3.80%	2.80%	2.00%	2.00%

Source: HM Treasury: Forecasts for the UK Economy Nov. 2023 (No.436, Table M4)

Appendix 5

Lending List Criteria

1. Counterparty Criteria

1.1 The lead authority takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

1.2 Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch Long-Term Rating	**Fitch Short-Term Rating**	**Moody's Long-Term Rating**	**Moody's Short-Term Rating**	**S&P's Long-Term Rating**	**S&P's Short-Term Rating**	**Maximum Deposit £m**	**Maximum Duration**
AAA	F1+	Aaa	P-1	AAA	A-1+	120	2 Years
AA+	F1+	Aa1	P-1	AA+	A-1+	100	2 Years
AA	F1+	Aa2	P-1	AA	A-1+	80	2 Years
AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 Years
A+	F1+	A1	P-1	A+	A-1	70	365 days
A+	F1	A1	P-1	A+	A-1	70	365 days
A	F1	A2	P-1	A	A-1	65	365 days
A-	F1	A3	P-1	A-	A-1	50	365 days
A-	F2	A3	P-2	A-	A-2	50	365 days
Local Authorities (limit for each local authority)						30	2 years
UK Government (including debt management office, gilts and treasury bills)						300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund.						250	Liquid Deposits
Local Authority controlled companies						40	20 years

1.3 Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA- will be applied to that institution to determine the amount the lead authority can place with that institution for a maximum period of 2 years.

1.4 The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above. These limits are as follows:

2. Country Limit

2.1 It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

2.2 It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit (excluding money market funds) of £300m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	300
Non-UK	50

3. Sector Limit

3.1 The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	300
Local Government	300
UK Banks	300
Money Market Funds	250
UK Building Societies	100
Foreign Banks	50

4. Group Limit

4.1 Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA-; and
- that market intelligence and professional advice is taken into account.

4.2 Proposed group limits are set out in Annex 6:

Approved Lending List **Appendix 6**

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Clydesdale Bank *	A-	F2	A3	P-2	A-	A-2	50	365 days
Co-Operative Bank Plc **	BB	B	Ba1	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A+	A-1	65	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
Close Brothers Ltd	A-	F2	Aa3	P-1	-	-	50	365 days
SMBC Bank International Ltd	A-	F1	A1	P-1	A	A-1	50	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1			50	365 days
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Principality BS **	BBB+	F2	Baa1	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
West Bromwich BS **			Ba3	NP	-	-	0	
Yorkshire BS	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							250	Liquid
Prime Rate Stirling Liquidity	AAA		AAA		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA				AAA		50	Liquid
Deutsche Managed Sterling Fund			Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A+	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV			Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
UBS AG	A+	F1	Aa2	P-1	A+	A-1	50	365 days
USA	AA+		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

RFB – Ringfenced Bank, NRFB – Non-Ringfenced Bank

Notes

Note 1 **Nationalised / Part-Nationalised**
The counterparties in this section will have the UK Government's AA- rating applied to them thus giving them a credit limit of £75m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.