TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item 5**

GOVERNANCE COMMITTEE MEETING: 11TH MARCH 2019

SUBJECT: TREASURY MANAGEMENT POLICY AND STRATEGY 2019/2020, INCLUDING PRUDENTIAL 'TREASURY MANAGEMENT' INDICATORS FOR 2019/2020 TO 2022/2023

REPORT OF THE STRATEGIC FINANCE MANAGER

---

1. Purpose of the Report

1.1 To inform the Committee on the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2019/2020 and to note the Prudential 'Treasury Management' Indicators for 2019/2020 to 2022/2023 and to provide comments to the Authority on the proposed policy and indicators where appropriate.

2. Treasury Management

2.1 Treasury Management is defined 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 Treasury Management function is a specialist service that is carried out by Sunderland City Council on behalf of the Authority.

2.2 Statutory requirements

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),
- 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).

The Ministry of Housing, Communities and Local Government (MHCLG) 'Statutory Guidance on Local Government Investments' was updated in February 2018 as a result CIPFA updated its Treasury Management in the Public Services Code of Practice in advance in December 2017. The Authority are statutorily required to have regard to this advice when setting its Treasury Management Policy Statement and Treasury Management Strategy. Changes to the MHCLG investment guidance focused particularly on non-treasury investments and this is included within the Commercial Investments 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.

2.3 CIPFA requirements

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:

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;
   - suitable Treasury Management Practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   The content of the 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 deviating from the Code's key principles and requirements.

2. The Authority will receive reports on 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 Strategic Finance Manager, who acts in accordance with the organisation's 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.

Treasury Management Strategy Statement for 2019/2020

2.4 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 2019/2020.

2.5 There are no major changes being proposed to the overall Treasury Management Strategy in 2019/2020 which maintains the prudent approach adopted by the Authority in previous years. Particular areas that inform the strategy include the extent of potential borrowing included in the Authority's capital programme, the availability of borrowing, and the current and forecast world and UK economic positions, in particular forecasts relating to interest rates and security of investments.

2.6 The proposed Treasury Management Strategy Statement for 2019/2020 is set out in Appendix 3 and is based upon the views of the Strategic Finance Manager, supplemented with market data, market information and leading market forecasts and views provided by the Authority's treasury adviser, Link Asset Services.

2.7 The strategy is subject to regular review to ensure compliance to the agreed treasury management strategy and that the strategy adapts to changing financial markets as appropriate. The Authority's performance for 2018/2019 using the prudent treasury management strategy adopted shows that the current average rate of borrowing at 3.13% is low in comparison with other local authorities whilst the current rate earned on investments at 0.62% is higher than the benchmark rate of 0.49%. Market conditions are under constant review so that the Lead Authority on behalf of this Authority can take a view on the optimum time to carry out borrowing and / or debt rescheduling.

3. Recommendations

3.1 Committee is requested to note and comment as necessary on the:

- Proposed Annual Treasury Management Policy and Strategy for 2019/2020 (including specifically the Annual Borrowing and Investment Strategies) and,

- The draft Prudential 'Treasury Management' Indicators 2019/2020 to 2022/2023.

Appendix 1

Prudential 'Treasury Management' Indicators 2019/2020 to 2022/2023

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 2019/2020 including Prudential Indicators for 2019/2020 to 2022/2023 report presented to the Authority on 18th February 2019).

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 must approve these limits and have delegated authority to the Strategic Finance Manager, 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

	2018/2019 £'000	**2019/2020 £'000**	**2020/2021 £'000**	**2021/2022 £'000**	**2022/2023 £'000**
Borrowing	20,555	30,027	31,285	32,300	33,140
Other long term liabilities	19,412	18,325	17,067	15,958	15,872
Total	**39,967**	**48,352**	**48,352**	**48,258**	**49,012**

The Strategic Finance Manager reports that the above authorised limits are consistent with the Authority's current commitments, existing plans within the recently approved Capital Programme 2019/2020 to 2022/2023 which set out its agreed capital expenditure and financing, and with its proposed treasury management policy statement and practices. The Strategic Finance Manager also confirms 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 2019/2020, the Authority has already agreed to the authorised limit determined for 2019/2020 (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 2019/2020 to 2022/2023 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 requested to delegate authority to the Strategic Finance Manager, 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 during 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

	2018/2019 £'000	**2019/2020 £'000**	**2020/2021 £'000**	**2021/2022 £'000**	**2022/2023 £'000**
Borrowing	15,555	25,027	26,285	27,300	28,140
Other long term liabilities	19,412	18,325	17,067	15,958	15,872
Total	**34,967**	**43,352**	**43,352**	**43,258**	**44,012**

P7 The Authority's actual external debt at 31st March 2018 was £32.980 million (calculated on the basis that all Authority debt is classed as external) and was made up of actual borrowing of £12.690 million and £20.290 million in respect of other long-term liabilities.

The Authority includes an element for long-term liabilities relating to PFI schemes and finance 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 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 adopted on 3rd March 2010 by full Council 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:
(d) accountable, by providing a clear and transparent framework.

Further, the framework established by the Code should be consistent with and support:
(e) local strategic planning;
(f) local asset management planning;
(g) 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 2019/2020 to 2022/2023

P9 It is recommended that the Authority also adopts the lead authority's upper limit on its fixed interest rate exposures of £485 million in 2019/2020, £475 million in 2020/2021, £470 million in 2021/2022 and £480 million in 2022/2023

P10 It is further recommended that the Authority also adopts the lead authority's upper limit on its variable interest rate exposures of £48 million in 2019/2020, £55 million in 2020/2021, £54 million in 2021/2022 and £42 million in 2022/2023.

P11 It is recommended that the Authority sets upper and lower limits for the maturity structure of its borrowings, consistent with Lead Authirty's policy, as follows:

Amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate 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%

P12 A maximum maturity limit of £75 million is set for each financial year (2019/2020, 2020/2021, 2021/2022 and 2022/2023) 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 the Authority funds may be invested within the limits set by Sunderland City Council as set out in the Annual Investment Strategy (Appendix 3).

Appendix 2

Treasury Management Policy Statement

In line with CIPFA recommendations, the Authority adopted 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.

  The Authority has an agreed Borrowing and Investment Strategy, the high level policies of which are as follows:

  The basis of the agreed Borrowing Strategy 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;
  - use a benchmark financing rate of 3.50% for long term borrowing (i.e. all borrowing for a period of one year or more);
  - take advantage of debt rescheduling opportunities, as appropriate.

  The general policy objective for the Authority in considering potential investments is the prudent investment of its treasury balances.

  - the Authority’s investment priorities in order of importance are:
    1) The security of its capital
    2) The liquidity of its investments and then
    3) The Authority aims to achieve the optimum yield on its investments but this is commensurate with the proper levels of security and liquidity
  - the Authority has a detailed Lending List and criteria must be observed when placing funds – these are determined using expert TM advice, view of money market

conditions and using detailed rating agency information as well as using our own market intelligence.
- Limits are also placed on the amounts that can be invested with individual and grouped financial institutions based on the Lending List (Appendix 6) and detailed criteria (Appendix 5) which is regularly reviewed.

The Authority re-affirms its commitment to the Treasury Management Policy Statement in 2019/2020 as it does every year.

Appendix 3

Treasury Management Strategy Statement for 2019/2020

1. **Introduction**

1.1 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.

The suggested strategy for 2019/2020 is set out below and is based upon the Strategic Finance Manager'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.

In December 2017 CIPFA issued a revised Treasury Management Code of Practice and Cross-Sectoral Guidance Notes, and a revised Prudential Code. In February 2018 MHCLG 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 not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a higher level than can be attained by treasury investments. This report deals solely with financial investments managed by the lead authority's Treasury Management function. Non-financial investments, essentially the purchase of income yielding assets, are covered in the lead authority's Capital 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.

1.2 The treasury management strategy covers:

- current treasury management position
- treasury indicators and limits
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment policy and strategy
- creditworthiness policy
- policy on use of external service providers

2. Treasury Management Strategy

2.1 Borrowing

2.1.1 Current Treasury Management Position

The treasury portfolio position at 31st December 2018 for Sunderland City Council, which the Fire and Rescue Authority forms part of, comprised:

		Principal (£m)	Total (£m)	Average Rate (%)
Treasury external borrowing				
Fixed Rate Funding	PWLB	258.7		
	Market	39.6		
	Other	8.7	307.0	3.36
Variable Rate Funding	Temporary / Other		27.6	0.54
Total Borrowing			**334.6**	**3.13**
Total Investments				
	In house – short term*		**168.1**	**0.92**
Net Deficit			**166.5**	

* The total investments figure includes monies invested on behalf of ANEC which agreed with its member authorities that the Council would invest its surplus funds.

Currently there is a deficit of £166.5m 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).

2.1.2 Treasury Indicators and Limits

Prudential 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.

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 is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate 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 Strategic Finance Manager, 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.

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 Strategic Finance Manager, 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.

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 and the revised Code in 2011 was adopted in March 2012. 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).

2.1.3 Prospects for Interest Rates

In his 2018 Autumn Budget on 29th October, the Chancellor announced the end of austerity based on the improved financial forecasts from the Office for Budget Responsibility (OBR). GDP growth forecasts are 1.4% for 2018, 1.6% in 2019 and 1.4% in 2020. Public Sector Net Borrowing forecasts have also been updated with the 2019/2020 deficit of £31.8bn (down from £34.7bn forecast in the 2017 Autumn Budget) below 1.4% of GDP. The annual Net Borrowing is projected to continue falling each year to around £19.8bn in 2023/2024.

At its meeting on 19th December 2018, the BoE Monetary Policy Committee (MPC) voted unanimously to maintain the Bank Rate at 0.75% although they noted that risks to growth had increased since their previous meeting. Global financial conditions have tightened noticeably, particularly in corporate credit markets. However, oil prices have fallen significantly which should provide some support to demand in advanced economies but also means that UK CPI inflation is likely to fall below 2% in coming months. The MPC judged that the loosening of fiscal policy in the Autumn Budget will boost UK GDP by the end of the MPC's forecast period by around 0.3%.

Brexit uncertainties have intensified considerably since the Committee's meeting in November. These uncertainties are weighing on UK financial markets and, coupled with the slowing global economy, have also weighed on the near-term outlook for UK growth. Business investment has fallen for each of the past three quarters and is likely to remain weak in the near term and the housing market has remained subdued. The MPC has previously noted that shifting expectations about Brexit among financial markets, businesses and households could lead to greater-than-usual short-term volatility in UK data.

The labour market is showing high levels of employment and high vacancy rates, with unemployment at its lowest levels since the mid-1970s. The economic outlook will depend significantly on the nature of EU withdrawal and in particular the new trading arrangements and the transition to them. The MPC judges monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. The MPC felt that were the economy to continue to develop broadly in line with its Inflation Report projections, an ongoing tightening of monetary policy over the forecast period would be appropriate to return CPI inflation sustainably to the 2% target by 2020. Any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent. The BoE Governor has warned that a No-Deal Brexit could see the pound plunge and trigger a worse recession than the financial crisis. This worst-case scenario predicts the pound could fall by 25% and the UK economy shrinks by 8% in the immediate aftermath if there was no transition period.

On the assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019 then Link Asset Services, the Authority's treasury advisors, think the next increase in Bank Rate will be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

PWLB rates have remained at historically low levels and Link Asset Services predict a gradual rise in PWLB rates reaching 2.10%, 2.50%, 2.90% and 2.70% for 5, 10, 25 and 50 year durations respectively by 31st March 2019 with further increases in future years. With so many external influences weighing on the UK economic and interest rate forecasting remains difficult. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political events, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period. The above forecasts, and MPC decisions, are therefore liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. High levels of volatility in PWLB rates and bond yields are expected to continue during 2019 particularly due to the continued uncertainty over the outcome of the Brexit negotiations.

The government introduced a 0.20% discount on PWLB loans under the prudential borrowing regime in March 2012 for those authorities that provided 'improved information and transparency on their locally determined long-term borrowing and associated capital spending plans'. Sunderland City Council successfully applied to access PWLB loans at a discount of 0.20% and has been successful in extending its access to the PWLB certainty rate until 31st October 2019.

The following table shows the average PWLB rates for Quarters 1, 2 and 3 and the figures for Quarter 4 to 8th January 2019.

2018/2019	Qtr 1* (Apr - Jun) %	Qtr 2* (Jul - Sep) %	Qtr 3* (Oct – Dec) %	Qtr 4* (rates to 8th Jan 2019) %
7 days notice	0.36	0.51	0.58	0.58
1 year	1.44*	1.48*	1.54*	1.52*
5 year	1.86*	1.83*	1.82*	1.67*
10 year	2.29*	2.22*	2.23*	2.04*
25 year	2.66*	2.62*	2.76*	2.62*
50 year	2.40*	2.42*	2.62*	2.49*

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

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 2019	0.75	2.10	2.90	2.70
June 2019	1.00	2.20	3.00	2.80
Sept 2019	1.00	2.20	3.10	2.90
Dec 2019	1.00	2.30	3.10	2.90
March 2020	1.25	2.30	3.20	3.00
June 2020	1.25	2.40	3.30	3.10
Sept 2020	1.25	2.50	3.30	3.10
Dec 2020	1.50	2.50	3.40	3.20
March 2021	1.50	2.60	3.40	3.20
June 2021	1.75	2.60	3.50	3.30
Sept 2021	1.75	2.70	3.50	3.30
Dec 2021	1.75	2.80	3.60	3.40
March 2022	2.00	2.80	3.60	3.40

The main sensitivities of the forecast are likely to be;

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

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

2.1.4 **Borrowing Strategy**

The Authority's strategy for 2018/2019 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 3.50% for long-term borrowing was set in light of the views prevalent at the time the Treasury Management policy was set in March 2018.

There have been high levels of volatility in the financial markets during 2018/2019. While they were on a rising trend during the first half of the financial year, they have reduced since then until late December. In line with discussions with the Authority's economic advisors, Sunderland City Council took advantage of the low borrowing rate troughs that have occurred and has taken out £20 million of new borrowing during the financial year as these rates were considered opportune. The new borrowing is summarised in the following table:

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
49½ years	12/12/2018	14/12/2018	14/06/2068	2.44	20.0

PWLB rates continue to be volatile, the overall longer term expectation is for gilt yields and PWLB rates to rise and the Treasury Management team continues to closely monitor rates to assess the value of possible further new borrowing in line with future Capital Programme requirements.

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 these can either be accepted at the new rate or repaid without penalty. The following table shows the LOBO's that were subject to a potential rollover this financial year. No changes to loan rates have been received and none are expected for the outstanding rollover period LOBO's with Dexia and Barclays and so these arrangements will continue.

Roll Over Dates	Lender	Amount £m	Rate %	Roll Over Periods
29/09/18	Dexia	5.0	4.45	Every 3 years
21/04/2018 and 21/10/2018	Barclays	5.0	4.50	Every 6 months
03/02/2019	Dexia	5.0	4.37	Every 3 years
22/02/2019	Dexia	5.0	4.38	Every 3 years
Total		**20.0**		

The potential borrowing requirement for Sunderland City Council, which the Fire and Rescue Authority forms part of, is as follows**:**

		2019/2020 £m	**2020/2021 £m**	**2021/2022 £m**
1.	Capital Programme Borrowing - Lead Authority	**98.1**	**57.1**	**51.4**
2.	Borrowing - TWFRA	**0.0**	**0.0**	**0.0**
3.	Replacement borrowing (PWLB)	**5.0**	**4.0**	**5.0**
4.	Replacement LOBO	**10.0**	**19.5**	**20.0**
	TOTAL:	**113.1**	**80.6**	**76.4**

Currently there is a deficit of £166.5m 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 measure. This strategy is prudent as investment returns are low and it also reduces counterparty risk. Consideration will be given by the lead authority to continuing utilising some investment balances to fund the borrowing requirement in 2019/2020. 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.

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 amount of investments.

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 the Authority to address its Strategic Priorities;
- 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.

Risks associated with holding a high level of investments are;

- the Counterparty risk – institutions cannot repay the Authority investments placed with them;
- 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.

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.

- It is possible that a Municipal Bonds Agency, currently being set up by the Local Government Association, will be offering bonds to local authorities in the future. The rates offered by the new 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.

- 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.

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.

Taking into account potential market volatility and the advice of the Authority's treasury adviser, a benchmark financing rate of 3.50% for any further long-term borrowing for 2019/2020 is considered appropriate.

2.1.5 **Policy on borrowing in advance of need**

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 the relevant 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.

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.

2.1.6 **Debt Rescheduling**

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).

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 in 2007 the PWLB introduced a spread between the rates applied to new borrowing and repayment of debt which was compounded in 2010 by a considerable further widening of the difference between new borrowing and repayment rates and it has meant that PWLB debt restructuring is much less attractive than it was before both of these measures were introduced. 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.

The latest interest rate projections for 2019/2020 show short-term borrowing rates will be cheaper than longer term rates and as such there may be potential for some opportunities to generate savings by switching from long-term debt to short-term debt. These potential savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment premiums incurred, their short-term nature, and the likely cost of refinancing those short-term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

The Authority is keeping 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.

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

2.2 Annual Investment Policy and Strategy

2.2.1 Investment Policy and Management of Risk

When considering its investment policy and objectives, the Authority has taken regard to the MHCLG 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”), and CIPFA Treasury Management Guidance Notes 2018

The MHCLG 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).

The Authority’s investment objectives are:-

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

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

The guidance from the MHCLG 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;

- applies 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.
- monitors credit ratings on a daily basis. 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
- does 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.
- will 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.
- defines 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 are 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, 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.
- will 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. This position has not occurred and the lead authority mitigates this risk with its prudent investment policy
- sets 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).
- will 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
- has engaged external consultants, Link Asset Services, 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.

As a result of a change in accounting standards for 2018/19 under IFRS9**,** the authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018 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 for five years commencing from 1st April 2018.

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. The Authority will not engage in such activity without full consideration of all financial and non-financial risks and subject to the appropriate approval process. The Investment Strategy would subsequently be updated to reflect any such change in approach.

2.2.2 **Creditworthiness policy**

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.

Following the financial crisis of 2008 it was recognised that investors, who largely remained unaffected through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon. Regulatory changes that have been made in the banking sector are designed to see greater stability, lower risk and reduce expectations of Government financial support should an institution fail. To reflect these changes the three credit rating agencies have carried out a wider reassessment of methodologies. In addition to the removal of implied government support, new methodologies are now taking into account additional factors, such as regulatory capital levels.

While this Authority understands the changes that have taken place, it will continue to 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.

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

The largest UK banks, (those with more than £25bn of retail/Small and Medium-sized Enterprise (SME) deposits), have also been 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" and is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank 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. 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 Authority 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.

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.

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.

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.

The Strategic Finance Manager will monitor long-term investment rates and identify any investment opportunities if market conditions change. It is proposed that delegated authority continues for the Strategic Finance Manager 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.

2.2.3 **Outlook and Proposed Treasury Investment Strategy**

Based on its cash flow forecasts, the Authority together with the Lead Authority anticipates its fund balances in 2019/2020 are likely to range between £50 million and £200 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 2018/2019 short-term interest rates have been materially below long-term rates and some investment balances have been used to fund some long-term borrowing requirements. It is likely that this will continue into 2019/2020 with investment balances being used to fund some long-term 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.

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;
- Possible funding of long-term borrowing from investment balances (dependent upon appropriate market conditions).

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 these short-term investments maturing within 6 months.

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 Council's cash flows, including the potential use of earmarked reserves. The Strategic Finance Manager will monitor long-term investment rates and identify any investment opportunities in market conditions change.

The Authority is not committed to any investments which are due to commence in 2019/2020 (i.e. it has not agreed any forward deals).

New European Financial Directives known as MiFID II came into force on 3rd January 2018. These directives are designed to strengthen transparency and investor protection in financial markets across the EU. Under the directives each client is classed as either retail or professional. All Local Authorities are initially classified as de facto retail counterparties under MiFID II but with the option to ask to opt up to professional status subject to meeting qualitative and quantitative criteria. Financial Institutions dealing with a number of regulated products including direct investments such as Certificates of Deposit, Gilts, Corporate Bonds and investment funds (including Money Market Funds) will only be able to deal with professional clients. Sunderland City Council has opted up to professional client status with a number of financial institutions to allow access to specific products and will seek to opt up with others where this is appropriate.

The Strategic Finance Manager, 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.

During 2018/2019 the Authority did not employ any external fund managers, all funds being managed by the in-house team. The performance of the fund managed by Sunderland City Council's in-house team is shown below and compares favourably with the relevant benchmarks and performance from the previous year:

Return	**2017/18 Benchmark %**	**2017/18 Return %**	**To date 2018/19 Benchmark %**	**To date 2018/19 %**
Performance	0.21	0.41	0.49	0.62

Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

During 2019/2020 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 7-day London Interbank Bid (LIBID) rate as a benchmark for its investments. Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Authority, in what remains a very challenging market. The Authority's treasury management advisor reports the rate of return achieved compares favourably with their other authority clients.

2.2.4 **Policy on the use of external service providers**

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

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

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.

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.

2.2.5 **Non-Treasury Investments**

The Authority may make other type 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.

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
- commercial investments which are taken for mainly financial reasons. These may include investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures; or investments explicitly taken with the aim of making a financial surplus for the Authority. Commercial investments also include non-financial assets which are held primarily for financial benefit, such as investment properties.

The Strategic Finance Manager 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.

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 and will form part of the Authority's Capital Strategy.

The Authority currently has no Non-treasury investments..

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 and receives, as a minimum, 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. In addition quarterly reports are made to the Governance Committee and monitoring reports are reviewed by members of this Committee as part of their scrutiny function. 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.

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
Treasury Management Strategy / Annual Investment Strategy	Full Authority	Annually before the start of the year

Area of Responsibility	Council/ Committee/ Officer	Frequency
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 Monitoring Reports	Strategic Finance Manager	Monthly
Treasury Management Practices	Strategic Finance Manager	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 Strategic Finance Manager 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
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing

- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

Appendix 4

Interest Rate Forecasts

The data set out overleaf shows a variety of forecasts published by Link Asset Services and Capital Economics (an independent forecasting consultancy).

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

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-	-	-	-	-

Survey of Economic Forecasts

HM Treasury November 2018
The current 2018 base rate forecasts are based from samples of both City and non-City forecasters included in the HM Treasury November 2018 report.

BANK RATE FORECASTS	Annual Average Bank Rate				
	Ave. 2018	Ave. 2019	Ave. 2020	Ave. 2021	Ave. 2022
Average	0.64%	0.97%	1.37%	1.69%	1.92%
Highest	0.75%	1.25%	2.25%	3.00%	3.00%
Lowest	0.50%	0.75%	0.75%	1.00%	1.00%

Source: HM Treasury: Forecasts for the UK Economy Nov. 2018 (No.377)

Appendix 5

Lending List Criteria

<u>Counterparty Criteria</u>
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.

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.

<table>
<tr><th>Fitch / S&P's Long Term Rating</th><th>Fitch Short Term Rating</th><th>S&P's Short Term Rating</th><th>Moody's Long Term Rating</th><th>Moody's Short Term Rating</th><th><u>Maximum Deposit £m</u></th><th><u>Maximum Duration</u></th></tr>
<tr><td>AAA</td><td>F1+</td><td>A1+</td><td>Aaa</td><td>P-1</td><td>120</td><td>2 Years</td></tr>
<tr><td>AA+</td><td>F1+</td><td>A1+</td><td>Aa1</td><td>P-1</td><td>100</td><td>2 Years</td></tr>
<tr><td>AA</td><td>F1+</td><td>A1+</td><td>Aa2</td><td>P-1</td><td>80</td><td>2 Years</td></tr>
<tr><td>AA-</td><td>F1+ / F1</td><td>A1+ / A-1</td><td>Aa3</td><td>P-1</td><td>75</td><td>2 Years</td></tr>
<tr><td>A+</td><td>F1</td><td>A-1</td><td>A1</td><td>P-1</td><td>70</td><td>364 days</td></tr>
<tr><td>A</td><td>F1 / F2</td><td>A-1 / A-2</td><td>A2</td><td>P-1 / P-2</td><td>65</td><td>364 days</td></tr>
<tr><td>A-</td><td>F1 / F2</td><td>A-2</td><td>A3</td><td>P-1 / P-2</td><td>50</td><td>364 days</td></tr>
<tr><td colspan="5">Local Authorities (limit for each local authority)</td><td>30</td><td>2 years</td></tr>
<tr><td colspan="5">UK Government (including debt management office, gilts and treasury bills)</td><td>250</td><td>2 years</td></tr>
<tr><td colspan="5">Money Market Funds (CNAV, LVNAV and VNAV)
Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.</td><td>120</td><td>Liquid Deposits</td></tr>
<tr><td colspan="5">Local Authority controlled companies</td><td>40</td><td>20 years</td></tr>
</table>

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.

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 new limits are as follows:

Country Limit
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.

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 of £250m 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	250
Non-UK	50

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

Sector	Limit £m
Central Government	250
Local Government	250
UK Banks	250
Money Market Funds	120
UK Building Societies	100
Foreign Banks	50

Group Limit
Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then 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.

Proposed group limits are set out in Appendix 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	-	Aa2	-	AA	-	350	2 years
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	Aa3	P-1	A+	A-1	70	364 days
Lloyds Bank Corporate Markets plc (NRFB)	A	F1	A1	P-1	A	A-1	70	364 days
Bank of Scotland Plc (RFB)	A+	F1	Aa3	P-1	A+	A-1	70	364 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 80	
The Royal Bank of Scotland Plc (RFB)	A+	F2	A1	P-1	A-	A-2	80	2 years
National Westminster Bank Plc (RFB)	A+	F2	A1	P-1	A-	A-2	80	2 years
NatWest Markets plc (NRFB)	A	F2	Baa2	P-2	BBB+	A-2	80	2 years
Santander UK plc	A+	F1	Aa3	P-1	A	A-1	65	364 days
Barclays Bank plc (NRFB)	A+	F1	A2	P-1	A	A-1	65	364 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	364 days
Clydesdale Bank *	BBB+	F2	Baa1	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	Caa1	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A+	A-1	65	364 days
HSBC Bank plc (NRFB)	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
HSBC UK Bank plc (RFB)	AA-	F1+	-	-	AA-	A-1+	75	2 years
Nationwide BS	A	F1	Aa3	P-1	A	A-1	65	364 days
Standard Chartered Bank	A+	F1	A1	P-1	A	A-1	65	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Coventry BS	A	F1	A2	P-1	-	-	65	364 days
Leeds BS	A-	F1	A3	P-2	-	-	50	364 days
Nottingham BS **	-	-	Baa1	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS **	A-	F1	Baa1	P-2	-	-	0	
West Bromwich BS **	-	-	Ba3	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	364 days
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA		AAA		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £100m								
Australia	AAA		Aaa		AAA		100	2 years
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Canada	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Finland	AA+		Aa1		AA+		100	2 years
OP Corporate Bank plc	-	-	Aa3	P-1	AA-	A-1+	75	2 years
Germany	AAA		Aaa		AAA		100	2 years
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	100	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
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Netherlands	AAA		Aaa		AAA		100	2 years
Bank Nederlandse Gemeenten	AA+	F1+	Aaa	P-1	AAA	A-1+	100	2 years
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa3	P-1	A+	A-1	70	364 days
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AAA	A-1+	100	2 years
Singapore	AAA		Aaa		AAA		100	2 years
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Sweden	AAA		Aaa		AAA		100	2 years
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	75	2 years
USA	AAA		Aaa		AA+		100	2 years
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	70	364 days

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 £80m.

* 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.

Tyne and Wear Fire and Rescue Authority
Creating the Safest Community
www.twfire.gov.uk