Bath & North East Somerset Council

Corporate Audit Committee

Supplement to Agenda

To: All Members of the Corporate Audit Committee

Councillors: Andrew Furse (Chair), Colin Blackburn, Mark Elliott, Lucy Hodge and Brian Simmons
Independent Member: John Barker
Chief Executive and other appropriate officers
Press and Public

Corporate Audit Committee: Thursday, 6th February, 2020

Please find attached a **SUPPLEMENTARY AGENDA DESPATCH** of late papers which were not available at the time the agenda was published. Please treat these papers as part of the agenda.

Papers have been included for the following items:

Yours sincerely

Sean O'NeillSean O'Neill
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for Chief Executive

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10. **TREASURY MANAGEMENT STRATEGY (Pages 3 - 28)**

Yours sincerely

Sean O'Neill
for Chief Executive

This Agenda and all accompanying reports are printed on recycled paper

Bath & North East Somerset Council	
MEETING:	**Corporate Audit Committee**
MEETING DATE:	**6th February 2020**
TITLE:	**Treasury Management Strategy Statement 2020/21**
WARD:	All
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1** - Treasury Management Strategy 2020/21 (To Follow) **Appendix 2** –Authorised Lending List (To Follow)	

1 THE ISSUE

1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.2 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

1.3 Investments held for service purposes or for commercial profit are considered in the Capital and Investment Strategy within the Budget Report which is also included on this meeting's agenda.

2 RECOMMENDATIONS

The Corporate Audit Committee is asked to note and comment on:

- The actions proposed within the Treasury Management Strategy (Appendix 1) to be approved at February Council.
- The Treasury Management Indicators detailed in Appendix 1

3 THE REPORT

Background

3.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare a Treasury Management Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.3 The suggested strategy for 2020/21 in respect of the following aspects of the treasury management function is based on the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Arlingclose.

The strategy covers:

•	Treasury limits in force which will limit the treasury risk and activities of the Council;
•	Treasury Management Indicators;
•	The current treasury position;
•	The borrowing requirement;
•	Prospects for interest rates;
•	The borrowing strategy;
•	The investment strategy.

3.4 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code). This requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee, and the Corporate Audit Committee have been nominated by Council to carry out this function.

2020/21 Treasury Management Strategy Statement

3.5 The Strategy Statement for 2019/20 set Treasury Indicators for 2019/20 – 2021/22, which included a forecast for total borrowing requirement at the end of 2019/20 of

£402 million. At the end of December 2019, actual external borrowing was at £233.3 million, which may increase before the end of the 2019/20 financial year should a review of the Council's cashflow and capital investment decisions highlight additional borrowing is required. The level of borrowing is in line with the policy of utilising internal cash to reduce net borrowing costs and investment counterparty risk.

3.6 The proposed Treasury Management Strategy is attached as **Appendix 1** and includes the Treasury Management Indicators required by the Treasury Management Code.

3.7 Although the indicators provide for a maximum level of total borrowing, this should by no means be taken as a recommended level of borrowing as each year affordability needs to be taken into account together with other changes in circumstances, for example revenue pressures, levels and timing of capital receipts, changes to capital projects spend profiles, and levels of internal cash balances.

3.8 The Budget Report, which is also on the agenda, includes appropriate provision for the revenue costs of the capital programme in accordance with this Treasury Management Strategy.

3.9 **Appendix 1** also details the Council's current portfolio position as at 31st December 2019, which shows after the netting off of the £60.7 million investments, the Council's net debt position was £172.6 million.

3.10 The Treasury Investment Strategy section of **Appendix 1** sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy, officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) prices, Individual Ratings, and the financial press. This has been the case in previous years, which has protected the Council against losses of investment, for example in Icelandic banks.

3.11 The Counterparty listing in **Appendix 2** includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in **Appendix 1** as at 31st December 2019 are included in the listing in **Appendix 2**.

3.12 The Council has met the conditions to opt up to MiFID II professional status and intends for this to continue in 2020/21 in order to continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors.

4 STATUTORY CONSIDERATIONS

4.1 This report is a statutory requirement.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 The resource implications are included in the report and appendices.

6 RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Arlingclose.

6.3 The 2017 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carries out this scrutiny.

6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

7 CLIMATE CHANGE

7.1 The Council will continue to review its investments to minimise direct investment in fossil fuel related companies.

8 OTHER OPTIONS CONSIDERED

8.1 The Chief Financial Officer, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are the table below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times.	Interest income will be lower.	Lower chance of losses from credit related defaults, but any such losses may be greater.
Invest in a wider range of counterparties and/or for longer times.	Interest income will be higher.	Increased risk of losses from credit related defaults, but any such losses may be smaller.
Borrow additional sums at long-term fixed interest rates.	Debt interest costs will rise; this is unlikely to be offset by higher investment income.	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain.
Borrow short-term or variable loans instead of long-term fixed rates.	Debt interest costs will initially be lower.	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain.
Reduce level of borrowing.	Saving on debt interest is likely to exceed lost investment income.	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain.

9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Resources, Section 151 Finance Officer and Monitoring Officer.

9.2 Consultation was carried out via e-mail.

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Background papers	*2019/20 Treasury Management & Investment Strategy*
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

TREASURY MANAGEMENT STRATEGY STATEMENT – 2020/21

1. Introduction

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

In accordance with the CLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Other than code changes, other circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

2. External Context & Prospects for Interest Rates (Arlingclose Ltd)

2.1 Economic background:

The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21. The General Election has removed some uncertainty within the market, however following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.

GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The headline rate of UK Consumer Price Inflation remained the same in November 2019 at 1.5% year-on-year, the same as October 2019, however continuing to fall from highs of 2.1% in July and April 2019 as accommodation services and transport continued to contribute to a level of inflation below the BOE target of 2%. Labour market data continues to be positive. The ILO unemployment rate continues to hold at historic

lows at 3.8%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019 providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 1.8% in November 2019 and only likely to have a moderate impact on household spending.

Domestic inflationary pressures have abated, as domestic gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December 2019. The limited inflationary pressure from real wages will likely keep inflation below the Bank of England target of 2%. The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary tightening through 2019. The Federal Reserve has cut rates three times to 1.5% - 1.75%, to stimulate growth as GDP growth has started to fall (to 2.1%).

The fallout from the US-China trade war continues which risks contributing to a slowdown in global economic activity in 2020. Recent suggestions have been an initial compromise and potential unwinding of tariffs; however the situation is uncertain. Slow growth in Europe, combined with changes in leadership at the ECB and IMF has led to a change of stance in 2019 moving away from tightening monetary policy towards loosening as such, quantitative easing has continued and been extended.

Arlingclose believes that central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

2.2 Credit outlook

The recent Bank of England stress tests assessed all seven UK banking groups. The tests scenarios include deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a CET1 ratio and a leverage ratio basis. Major banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank's approach; timeliness as the results are over 11 months of out date when they are published, being based on end-2018 balance sheets; ringfencing, as the tests ignore the restrictions on transferring capital between ringfenced "retail" banks and non-ringfenced "investment" banks within the larger groups and; coverage – the tests should be expanded to cover a wider range of UK banks and building societies.

The Bank of England will seek to address some of these issues in 2020, when Virgin Money/Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a “no-deal” Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

2.3 Interest rate forecast

The Authority’s treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, given the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose’s interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

The Council has budgeted for treasury management investment interest rates to be at an average rate of 1.10% for 2020/21 & beyond, reflecting the majority of planned investment will be short-term.

2.3.1 Arlingclose Interest Rate Forecasts – as at December 2019

	Bank Rate	3 month LIBID	12 month LIBID	5-year gilt yield	20-year gilt yield	50-year gilt yield
Q1 2020	0.75	0.75	0.85	0.50	1.20	1.20
Q2 2020	0.75	0.75	0.85	0.50	1.25	1.25
Q3 2020	0.75	0.75	0.85	0.55	1.25	1.25
Q4 2020	0.75	0.75	0.85	0.60	1.25	1.25
Q1 2021	0.75	0.75	0.85	0.60	1.30	1.30
Q2 2021	0.75	0.75	0.85	0.60	1.30	1.30
Q3 2021	0.75	0.75	0.85	0.60	1.30	1.30
Q4 2021	0.75	0.75	0.85	0.60	1.35	1.35
Q1 2022	0.75	0.75	0.85	0.60	1.35	1.35
Q2 2022	0.75	0.75	0.85	0.60	1.35	1.35
Q3 2022	0.75	0.75	0.85	0.60	1.40	1.40
Q4 2022	0.75	0.75	0.85	0.60	1.40	1.40

The Council can currently borrow from the PWLB at 1.80% above gilt yields

3. Local Context

Current Portfolio Position

The Council's treasury portfolio position at 31st December 2019 comprised:

	Principal	Ave. rate
	£m	%
External Borrowing		
Fixed rate funding – PWLB	203.3	2.98
Fixed rate funding – LA's	10.0	1.57
Variable rate funding – LOBOs *	20.0	4.50*
Other long term liabilities	Nil	N/A
TOTAL GROSS EXTERNAL DEBT	**233.3**	**2.97%**
Investments		
Short Term Investments	55.7	
Long Term Investments	5	
TOTAL INVESTMENTS**	**60.7**	**1.05%**
NET DEBT	**172.6**	

* These market loans are 'Lenders Options, Borrow Options' or LOBO's. They were taken out on October 2004 and April 2005 and were fixed at a relatively low rate of interest for an initial period and are now payable at 4.5%. The loans are classed as variable, as the lender has the option to change the interest rate at 6 monthly intervals, however if the lender chooses to exercise this option at this point the borrower will also have the option to repay the loan without penalty.

** Total Investments includes Schools' balances, where schools have not opted for an external bank account.

4. Borrowing Strategy

4.1 Current position & approach

As at 31st December 2019, the Council held £233.3 million of long-term loans, and will continue to monitor appropriate opportunities for borrowing in line with the overall Capital Financing Requirement.

The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31st March 2020 is expected to be £341 million, and is forecast to rise to £457 million by March 2021 as capital expenditure is incurred.

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

The maximum expected long-term borrowing requirement for 2020/21 is:

	£m
Not borrowed in previous years	*108*
Forecast increase in CFR	*116*
Loans maturing in 2020/21	*0*
TOTAL	***224***

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

4.2 Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments that meets the investment criteria (this includes other local authorities)
- any other bank or building society approved by the Prudential Regulation Authority to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Avon Pension Fund)
- Capital market bond investor
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive options. The Authority will now consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

4.2.1 Municipal Bond Agency

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be subject to specific approval in accordance with the Council's appropriate delegation.

4.2.2 LOBO's

The Authority holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2020/21, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

4.2.3 Short-term and variable rate loans

These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

4.2.4 Debt Rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

5. Investment Strategy

5.1 Current position and approach

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £34.4million and £79.7million, and similar levels are expected to be maintained in the forthcoming year.

The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

The strategy of this policy is to set outer limits for treasury management operations. In times of exceptional market uncertainty, Council Officers will operate in a more restrictive manner than the policy allows, as has been the case during recent years.

As a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients but can "opt up" to professional client status, providing that they meet certain criteria which includes having an investment balance of at least £10 million and the persons authorised to make investment decisions on behalf of the Council having at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies must assess that these persons have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Council has met the conditions to opt up to MiFID professional status and intends for this to continue in 2020/21 in order continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors.

Avon Pension Fund Investments

The Council's Treasury Management team also manage the Avon Pension Fund's internally held cash on behalf of the Fund. The cash balance held internally is a working balance to cover pension payments at any point in time and it is estimated will be an average of £25 million, being around 0.5% of the overall assets of the Fund. The regulations require that this cash is accounted for separately and invested separately from the Council's cash.

Investments held will operate within the framework of this Investment Strategy, but the maximum counterparty limit and investment term with any counterparty are set annually by the Avon Pension Fund Committee. These limits are in addition to the Council's limits for counterparties as set out in Appendix 3.

The Fund's investment managers, are responsible for the investment of cash held within their portfolios and this policy does not relate to their cash investments. The Brunel Pension Partnership does not have any direct impact on the Council's treasury management activities.

5.2 Risk Assessments & Credit Ratings

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality, unless an investment-specific rating is available.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is unlikely that the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that an BBB+ rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the

review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

If further counterparties are identified during the year that meet the minimum credit rating criteria and conform to the other criteria set out in the Treasury Management Practice Schedules, they can be added to the lending list following the agreement of the Chief Financial Officer.

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.3 Foreign countries

Investments in foreign countries will be limited to those that hold a AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £15m per country for those rated AAA and £10 million per country for those rated AA+. There is no limit on investments in the UK, irrespective of the sovereign credit rating.

Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

5.4 Approved Investment Counterparties

The majority of the Council's investments will be made for relatively short periods and in higher credit rated investments, giving priority to security and liquidity ahead of yield. However, where the Council has identified a core cash balance that is not required for any cash outflows in the short term, these funds will be considered suitable for a wider range of investments, with a greater focus on achieving a level of investment income

that can support Council services. These may include long-term investments with registered providers of social housing, small businesses or corporate bond funds where an enhanced return is paid to cover the additional risks presented. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed, and no such investment will be made without a specific recommendation from the Council's treasury management adviser.

The Council may invest its surplus funds with any of the counterparties in the following table, subject to the cash and time limits shown:

Credit Rating	Banks and Building Society Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Central Govt.	N/A	N/A	£unlimited 50 Years	N/A	N/A
AAA	£10m 5 Years	£15m 20 Years	£15m 50 Years	£10m 20 Years	£5m 20 Years
AA+	£10m 5 Years	£15m 10 Years	£10m 25 Years	£5m 10 Years	£5m 10 Years
AA	£10m 4 Years	£15m 5 Years	£10m 15Years	£5m 5 Years	£5m 10 Years
AA-	£10m 3 Years	£15m 4 Years	£10m 10 Years	£5m 4 Years	£5m 10 Years
A+	£10m 2 Years	£15m 3 Years	£10m 5 Years	£5m 3 Years	£5m 5 Years
A	£10m 13 Month	£10m 2 Years	£10m 5 Years	£5m 2 Years	£5m 5 Years
A-	£10m 6 Months	£10m 13 months	£10m 5 Years	£5m 13 Months	£5m 5 Years
BBB+	£5m 3 Months	£10m 6 Months	£10m 2 Years	£3m 6 months	£3m 2 Years
BBB	£5m Overnight	£5m 3 Months	N/A	N/A	N/A
None*	£1m 6 Months	N/A	£10m 25 Years	£50,000 5 Year	£3m 5 Years
Money Markey Funds	£10m per Fund and an overall total of £50m invested in Money Market Funds				
Pooled Funds	£10m Per Fund**				

* This category is included in order to allow the council to invest with local authorities and housing associations which are unlikely to have external ratings.
** Amount refers to the principal invested (excluding any market valuation changes)

Credit rating

Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Current Bank Account

The Council's current accounts are held with National Westminster Bank plc (NatWest), which has seen its credit rating improve from BBB+ to A over the last 2 years. The Council will treat NatWest as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day, subject to the bank maintaining a credit rating no lower than BBB-.

Banks Unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

Registered Providers
Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and register social landlords, formerly known as Housing Associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds & Other Organisations
In addition, the Council may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

Pooled Funds
Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Other Organisations
The Council may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

5.5 Investment limits

To limit risk from any a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment Category	Cash limit
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£15m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£15m per country rated AAA £10m per Country rated AA+
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£15m in total
Loans to unrated corporates	£50k in total
Money market funds	£50m in total

5.6 Specified Investments

Specified investments are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The CLG Guidance defines specified investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.7 Liquidity management

The Council regularly reviews and updates its cash flow forecasts to determine the maximum period for which funds may prudently be committed.
Limits on long-term investments are set by reference to the Council's medium term financial plan, levels of reserves and cash flow forecast.

5.8 Planned investment strategy for 2020/21

Investments are made in three broad categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Bank deposit accounts and Money Market Funds will be the main methods used to manage short-term cash.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. Preference will continue to be given to investments with UK banks with approved credit ratings.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local Council services. Decisions on making longer term investments (i.e. over 1 year) will be considered during the year after taking account of the interest rate yield curve, levels of core cash and the amount of temporary internal borrowing related to funding of capital spend. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds may be used to diversify the portfolio. The use of external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments may be considered.

The continuing low level of short-term interest rates will mean the on-going use of internal cash resources to minimise the new borrowing. This approach will be regularly reviewed in light of market conditions and the wider economic outlook.

6. Treasury Management Indicators 2020/20 – 2022/23

The Council measures and manages its exposures to treasury management risks using the following indicators. The council is asked to approve the following indicators:

6.1 Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2021/22
Upper limit on fixed interest rate exposures	£427m
Upper limit on variable interest rate exposures	£214m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

6.2 Investments

6.2.1 Security: Average credit rating

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment Unrated investments are assigned a score based on their perceived risk.

	2020/21
Minimum Portfolio average credit rating	A-

6.2.2 Principal sums invested for longer than 1 year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2020/21	2021/22	2022/23
Limit on proportion of principal invested for longer than 1 year	£50m	£50m	£50m

6.3 Borrowing

6.3.1 Treasury Borrowing Limits for 2020/21 to 2022/23

It is a statutory duty under s.3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'.

The Council must have regard to the Prudential Code when setting the Affordable Borrowing Limit. The Code requires an authority to ensure that its total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

The Affordable Borrowing Limit must include all planned capital investment to be financed by external borrowing and any other forms of liability, such as credit arrangements. The Affordable Borrowing Limit is to be set on a rolling basis for the forthcoming year and two successive financial years.

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2020/21	**2021/22**	**2022/23**
Operational boundary – borrowing	**£427m**	**£434m**	**£432m**
Operational boundary – other long-term liabilities	**£4m**	**£4m**	**£4m**
Operational boundary – TOTAL	**£431m**	**£438m**	**£436m**
Authorised limit – borrowing	**£457m**	**£465m**	**£461m**
Authorised limit – other long-term liabilities	**£4m**	**£4m**	**£4m**
Authorised limit – TOTAL	**£461m**	**£469m**	**£465m**

6.3.2 Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

	Upper	**Lower**
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within five years	75%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7. Related CIPFA requirements

7.1 Derivatives policy

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Policy on use of Financial Derivatives
Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications. This would also be discussed at Corporate Audit Committee prior to consideration being entered into.

7.2 Review Reports

The revised CIPFA Code of Practice requires that both mid year and annual review reports on treasury activities are reported to Full Council.

8. GLG Investment Guidance disclosures

The CLG Investment Guidance also requires the Council to note the following matters each year as part of the investment strategy:

8.1 Treasury management advisers

The Council's has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is monitored by officers on a regular basis, focusing on supply of relevant, accurate and timely information across the headings above.

8.2 Investment training

The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff performance development review process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

8.3 Investment of money borrowed in advance of need

The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the 2020/21 authorised borrowing limit of £457 million. The maximum periods between borrowing and expenditure is expected to be two years, although the Council links loans with its budgeted programme, individual items within that programme are not linked to the loans at a granular level.

Appendix 2: Proposed Counterparty List - Unsecured Bank Investments (ratings as at 31/12/2019)

Counterparty	Country of Domicile	Duration	Council limit £(m)	FITCH RATINGS			MOODY'S RATINGS			STANDARD & POOR'S RATINGS			Banking Group
				Short-term	Long-term	Outlook	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook	
UNITED KINGDOM: BANKS													
BANK OF SCOTLAND PLC	GB	2 Years	10	F1	A+	STABLE	P-1	Aa3	NEG	A-1	A+	STABLE	Lloyds Banking Group
LLOYDS BANK PLC	GB	2 Years	10	F1	A+	STABLE	P-1	Aa3	NEG	A-1	A+	STABLE	
BARCLAYS BANK PLC	GB	13 Months	10	F1	A+	STABLE	P-1	A2	POS	A-1	A	STABLE	Barclays Group
BARCLAYS BANK UK PLC	GB	13 Months	10	F1	A+	STABLE	P-1	A1	NEG	A-1	A	STABLE	
CLOSE BROTHERS LTD	GB	13 Months	10	F1	A	STABLE	P-1	Aa3	NEG				
GOLDMAN SACHS INT'L BANK	GB	13 Months	10	F1	A	STABLE	P-1	A1	STABLE	A-1	A+	STABLE	
HANDELSBANKEN PLC	GB	3 Years	10	F1+	AA	STABLE				A-1+	AA-	STABLE	
HSBC BANK PLC	GB	2 Years	10	F1+	A+	STABLE	P-1	Aa3	NEG	A-1+	AA-	NEG	HSBC Group
HSBC UK BANK PLC	GB	2 Years	10	F1+	A+	STABLE	P-1	Aa3	NEG	A-1+	AA-	NEG	
NATIONAL WESTMINSTER BANK	GB	13 Months	10	F1	A+	STABLE	P-1	A1	POS	A-1	A	STABLE	RBS Group
ROYAL BANK OF SCOTLAND PLC/T	GB	13 Months	10	F1	A+	STABLE	(P)P-1	A1	POS	A-1	A	STABLE	
ULSTER BANK LIMITED	GB	13 Months	10	F1	A+	STABLE	P-1	A1	POS	A-1	A	STABLE	
SANTANDER UK PLC	GB	13 Months	10	F1	A+	STABLE	P-1	Aa3	NEG	A-1	A	STABLE	
STANDARD CHARTERED BANK	GB	13 Months	10	F1	A+	STABLE	P-1	A1	STABLE	A-1	A	STABLE	
UK: BUILDING SOCIETIES													
COVENTRY BUILDING SOCIETY	GB	6 Months	10	F1	A-	STABLE	P-1	A2	NEG				
LEEDS BUILDING SOCIETY	GB	6 Months	10	F1	A-	STABLE	P-2	A3	NEG				
NATIONWIDE BUILDING SOCIETY	GB	13 Months	10	F1	A+	STABLE	P-1	Aa3	NEG	A-1	A	POS	
AUSTRALIA	AU			F1+	AAA	STABLE		Aaa	STABLE	A-1+u	AAAu	STABLE	
AUST AND NZ BANKING GROUP	AU	3 Years	10	F1+	AA-	NEG	P-1	Aa3	STABLE	A-1+	AA-	STABLE	
COMMONWEALTH BANK OF AUSTRAL	AU	3 Years	10	F1+	AA-	NEG	P-1	Aa3	STABLE	A-1+	AA-	STABLE	
NATIONAL AUSTRALIA BANK LTD	AU	3 Years	10	F1+	AA-	NEG	P-1	Aa3	STABLE	A-1+	AA-	STABLE	
NEW SOUTH WALES TREASURY COR	AU	5 Years	10				P-1	Aaa	STABLE	A-1+	AAA	STABLE	
WESTPAC BANKING CORP	AU	3 Years	10	F1+	AA-	NEG	P-1	Aa3	STABLE	A-1+	AA-	STABLE	
AUSTRIA	AS			F1+	AA+	POS	P-1	Aa1	STABLE	A-1+	AA+	STABLE	
OESTERREICHISCHE KONTROLLBAN	AS	5 Years	10				P-1	Aa1	STABLE	A-1+	AA+	STABLE	
CANADA	CA			F1+	AAA	STABLE		Aaa	STABLE	A-1+	AAA	STABLE	
BANK OF MONTREAL	CA	2 Years	10	F1+	AA-	STABLE	P-1	Aa2	STABLE	A-1	A+	STABLE	
BANK OF NOVA SCOTIA	CA	2 Years	10	F1+	AA-	STABLE	P-1	Aa2	STABLE	A-1	A+	STABLE	
CAN IMPERIAL BK OF COMMERCE	CA	2 Years	10	F1+	AA-	STABLE	P-1	Aa2	STABLE	A-1	A+	STABLE	
EXPORT DEVELOPMENT CANADA	CA	5 Years	10				P-1	Aaa	STABLE	A-1+	AAA	STABLE	
ROYAL BANK OF CANADA	CA	3 Years	10	F1+	AA	STABLE	P-1	Aa2	STABLE	A-1+	AA-	STABLE	
TORONTO-DOMINION BANK	CA	3 Years	10	F1+	AA-	STABLE	P-1	Aa1	STABLE	A-1+	AA-	STABLE	
DENMARK	DE			F1+	AAA	STABLE	P-1	Aaa	STABLE	A-1+u	AAAu	STABLE	
KOMMUNEKREDIT	DE	5 Years	10				P-1	Aaa	STABLE	A-1+	AAA	STABLE	
FINLAND	FI			F1+	AA+	POS	P-1	Aa1	STABLE	A-1+	AA+	STABLE	
MUNICIPALITY FINANCE PLC	FI	5 Years	10					Aa1	STABLE	A-1+	AA+	STABLE	
NORDEA BANK ABP	FI	3 Years	10	F1+	AA-	NEG	P-1	Aa3	STABLE	A-1+	AA-	STABLE	
OP CORPORATE BANK PLC	FI	3 Years	10				P-1	Aa3	STABLE	A-1+	AA-	STABLE	

Appendix 2: Proposed Counterparty List - Unsecured Bank Investments (ratings as at 31/12/2019)

GERMANY	GE			F1+	AAA	STABLE		Aaa	STABLE	A-1+u	AAAu	STABLE	
BAYERISCHE LANDESBANK	GE	6 months	10	F1	A-	STABLE	P-1	Aa3	STABLE	NR	NR		
DEUTSCHE BAHN FINANCE GMBH	GE	4 Years	10		AA		P-1	Aa1	NEG				
DZ BANK AG DEUTSCHE ZENTRAL-	GE	3 Years	10	F1+	AA-	STABLE	P-1	Aa1	NEG	A-1+	AA-	NEG	
FMS WERTMANAGEMENT	GE	5 Years	10				P-1	Aaa	STABLE	A-1+	AAA	STABLE	
KREDITANSTALT FUER WIEDERAUFBRAU (KFW)	GE	5 Years	10	F1+	AAA	STABLE	P-1		STABLE	A-1+	AAA	STABLE	
LANDESBANK HESSEN-THURINGEN	GE	13 Months	10	F1+	AA-	STABLE	P-1	Aa3	STABLE	A-1	A	STABLE	
LANDESKRED BADEN-WUERTT FOER	GE	5 Years	10	F1+	AAA	STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE	
LANDESBANK BADEN-WUERTTEMBER	GE	6 Months	10	F1	A-	STABLE	P-1	Aa3	STABLE	NR	NR		
LANDWIRTSCHAFTLICHE RENTENBA	GE	5 Years	10	F1+	AAA	STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE	
LAND SACHSEN-ANHALT	GE	5 Years	10	F1+	AAA	STABLE	P-1	Aa1	STABLE	A-1+	AA+	NEG	
NETHERLANDS	NE			F1+	AAA	STABLE	P-1u	Aaa	STABLE	A-1+u	AAAu	STABLE	
BNG BANK NV	NE	5 Years	10	F1+	AAA	STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE	
COOPERATIEVE RABOBANK UA	NE	2 Years	10	F1+	AA-	NEG	P-1	Aa3	STABLE	A-1	A+	STABLE	
NEDERLANDSE WATERSCHAPSBANK	NE	5 Years	10				P-1	Aaa	STABLE	A-1+	AAA	STABLE	
NORWAY	NO			F1+	AAA	STABLE		Aaa	STABLE	A-1+	AAA	STABLE	
KOMMUNALBANKEN AS	NO	5 Years	10				P-1	Aaa	STABLE	A-1+	AAA	STABLE	
SINGAPORE	SI			F1+	AAA	STABLE		Aaa	STABLE	A-1+u	AAAu	STABLE	
DBS BANK LTD	SI	3 Years	10	F1+	AA-	STABLE	P-1	Aa1	STABLE	A-1+	AA-	STABLE	
OVERSEA-CHINESE BANKING CORP	SI	3 Years	10	F1+	AA-	STABLE	P-1	Aa1	STABLE	A-1+	AA-	STABLE	
TEMASEK FINANCIAL I LTD	SI	5 Years	10					Aaa	STABLE		AAA		
UNITED OVERSEAS BANK LTD	SI	3 Years	10	F1+	AA-	STABLE	P-1	Aa1	STABLE	A-1+	AA-	STABLE	
SWEDEN	SW			F1+	AAA	STABLE	P-1	Aaa	STABLE	A-1+u	AAAu	STABLE	
KOMMUNINVEST I SVERIGE	SW	5 Years	10				P-1	Aaa	STABLE	A-1+	AAA	STABLE	
SVENSK EXPORTKREDIT AB	SW	5 Years	10				P-1	Aa1	STABLE	A-1+	AA+	STABLE	
UNITED STATES OF AMERICA	US			F1+	AAA	STABLE		Aaa	STABLE	A-1+u	AA+u	STABLE	
SUPRANATIONAL													
COUNCIL OF EUROPE DEVELOPMENT BANK (CEDB)	FR	5 Years	10	F1+	AA+	POS	P-1	Aa1	STABLE	A-1+	AAA	STABLE	
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)	GB	5 Years	10	F1+	AAA	STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE	
EUROPEAN COAL & STEEL COMMUN	BE	5 Years	10					Aaa	STABLE		AAA	STABLE	
EUROPEAN INVESTMENT BANK (EIB)	LX	5 Years	10	F1+	AAA	STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE	
INTER-AMERICAN DEVELOPMENT BANK (IADB)	US	5 Years	10	F1+	AAA	STABLE	(P)P-1	Aaa	STABLE	A-1+	AAA	STABLE	
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (THE	US	5 Years	10	F1+	AAA	STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE	World Bank Group
INTERNATIONAL FINANCE CORP	US	5 Years	10				(P)P-1	(P)Aaa	STABLE	A-1+	AAA	STABLE	
NORDIC INVESTMENT BANK (NIB)	FI	5 Years	10				P-1	Aaa	STABLE	A-1+	AAA	STABLE	