

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	5 March 2018
REPORT TITLE	Treasury Management Policy and Strategy
REPORT NUMBER	CG/17/152
DIRECTOR	Steven Whyte
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1. PURPOSE OF REPORT:-

- 1.1 To outline the Treasury Management Policy and Strategy for 2018/19 to 2020/21, for approval.

2. RECOMMENDATION(S)

- 2.1 That the Council :-

a) Consider and approve the Council's Treasury Management Policy Statement for 2018/19 to 2020/21 as detailed at Appendix 1;

b) Consider and approve the Council's Borrowing Strategy for 2018/19 to 2020/21 as detailed at Appendix 2;

c) Consider and approve the Council's Investment Strategy for 2018/19 to 2020/21 as detailed at Appendix 3;

d) Approve the Council's Counterparty list as detailed at Appendix 4;

e) delegate authority to Head of Finance following consultation with the Head of Commercial and Procurement Services, to undertake a tender process for the procurement and thereafter award of a contracts for the provision of Banking Services for a duration of up to 5 years;

(f) delegate authority to the Head of Commercial and Procurement Services, to conclude a contract with the successful bidder; and

(g) approve the total estimated expenditure of £75,000 per annum as detailed in this report.

3. BACKGROUND/MAIN ISSUES

3.1 Introduction

- 3.1.1 The Council approved a Treasury Management policy for the financial years of 2017/18 to 2019/20 on 16 February 2017. Part of this policy is to report annually on a strategy for future financial years. A final report reviewing Treasury Management activities for the year, as well as a mid-year review, will also be presented to Committee, and then to full Council, in due course.
- 3.1.2 With effect from 1 April 2004, Councils are now required by regulation to have regard to the Prudential Code (the Code) when carrying out their duties under part 7 of the Local Government in Scotland Act 2003.
- 3.1.3 It is a requirement of this Code that Treasury Management is carried out in accordance with good professional practice. The Code requires compliance with the CIPFA "Code of Practice for Treasury Management in the Public Services", which this Council does. The CIPFA Code of Practice state that Treasury Management Strategy reports must be approved by full Council.
- 3.1.4 Historically, the Council's annual programme of capital investment has been funded by Treasury Management activities, such as additional long-term borrowing.

3.2 Treasury Management Policy Statement 2018/19 to 2020/21

- 3.2.1 The proposed Treasury Management Policy Statement for 2018/19 to 2020/21 is set out in detail at Appendix 1, and is subject to annual review. This Policy Statement uses a form of words as recommended by CIPFA in its Code of Practice for Treasury Management in the Public Services.

3.3 Borrowing and Investment Strategy 2018/19 to 2020/21

- 3.3.1 There are no key changes within the Council's Borrowing and Investment Strategies for 2018/19 to 2020/21.
- 3.3.2 Appendix 2 includes for consideration and approval, the Council's Borrowing Strategy for 2018/19 to 2020/21. Appendix 3 includes for consideration and approval, the Council's Investment Strategy for 2018/19 to 2020/21. These strategies are subject to annual review.
- 3.3.3 The process of setting these strategies takes account of the pre-existing structure of the Council's debt and investment portfolios. The limits on fixed rate debt and variable rate debt within this Treasury Management Strategy may be subject to further change, in line with market conditions. However, any such change to these limits would be reported to Committee, and then to full Council.
- 3.3.4 One of the key areas of the investment regulations is permitted investments. Under the regulations, local authorities are required to set out in their Strategy the types of investment that they will permit in the financial year. These are

known as permitted investments. The Council is required to set a limit to the amounts that may be held in such investment types at any time in the year, although some types of investment may be classed as unlimited, e.g. Bank deposits (subject to individual Counterparty list limits).

- 3.3.5 Permitted Investment instruments identified for use in the financial years 2018/19 to 2020/21 are listed in Appendix 3.

The Annual Investment Strategy is also required to identify:-

- the different types of risk that each permitted type of investments are exposed to;
- the objectives for each type of permitted investment;
- details of the maximum value and maximum period for which funds may prudently be invested; and
- procedures for reviewing the holding of longer-term investments

3.4 Counterparty List

- 3.4.1 The Council, as part of its Treasury Policy, has an approved listing of banks and other financial institutions (the Counterparty list) with which it can undertake short-term money investments.
- 3.4.2 The Council's Counterparty list is compiled using credit rating information supplied by the major credit rating agencies to Link Asset Services, the Council's appointed Treasury Management advisors.
- 3.4.3 The Counterparty list was last updated on 9 March 2017, and is attached at Appendix 4, for consideration.

3.5 Other Developments

- 3.5.1 **CIPFA Code of Practice for Treasury Management in the Public Services**
A revised version of the Treasury Management Code of Practice was issued by CIPFA in late December 2017. The Treasury Management Policy Statement, Borrowing and Investment Strategy documents contained within this report have been prepared in line with this latest version.
- 3.5.2 **The Prudential Code for Capital Finance in Local Authorities**
A revised version of the Prudential Code was issued by CIPFA in late December 2017. The new version contains several changes to the governance around Prudential Code borrowing. The main changes are the inclusion of a new Capital Strategy and the removal of some previously reported indicators.
- 3.5.3 The Capital Strategy will demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy will also set out the long-term context in which capital expenditure and investment decisions are made and give due

consideration to both risk and reward and impact on the achievement of priority outcomes.

- 3.5.4 With the Code's late publication in the current planning process, CIPFA has accepted that a Capital Strategy in the format outlined will require to be developed, and will not be in place for financial year 2018/19 planning. The Capital Strategy will be developed over the next few months and will be reported and implemented in due course.
- 3.5.5 The ability for the Council to set the scope and size of its capital plans remains unrestricted, but the prudential system processes have been strengthened to set out greater consideration of prudence, with sustainability and risk reporting to be improved through governance procedures.
- 3.5.6 The Council remains required to comply with the requirements of the Prudential Code. This includes the setting of a number of Prudential Indicators. The revised Prudential Code makes slight changes to some of the reported Prudential Indicators, the main change being the removal of the impact on the Council tax/Housing Rents indicators.
- 3.5.7 Included within these indicators are a number of Treasury Management Indicators for External Debt boundaries. The Code does state "It will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate".
- 3.5.8 The Council has in place an early warning system to highlight when these indicators are likely to be breached. No indicators were breached during the previous year.
- 3.5.9 The Prudential Indicators 2018/19 to 2022/23 will be considered and approved by Council at its budget meeting on 6th March 2018.
- 3.5.10 **National Limit on Local Authority Borrowing**
HM Treasury has a reserve power to limit local authority borrowing for 'national economic reasons'. Legislation specifies that any such 'National Limit' would be used to protect the country's economic interest if local borrowing under the Prudential Code, albeit prudent locally, were unaffordable nationally.
- 3.5.11 In principal, a national limit could be set at any point during any financial year. Any such national limit would be implemented, based on local authorities outstanding borrowing with all future borrowing being reduced proportionately. There are no known plans for the introduction of a National Limit at this time.

3.6 **Banking Services Tender**

- 3.6.1 The Council has a contract in place to secure best value for its core banking services (bank accounts and associated services (including receipt of cash deposits, Internet banking, reconciliation data services, night safe facilities), and

credit facilities). The current contract with Clydesdale Bank expires on 30th September 2018, and was let for a 5 year period. The contract was tendered collaboratively with Aberdeenshire Council.

- 3.6.2 Given the previous success of partnership working and scale economies, the Commercial & Procurement Services team is also exploring the possibility of also including Highland Council in the new proposed collaborative tender exercise. All three councils currently bank with Clydesdale Bank.
- 3.6.3 The estimated expenditure of the contract for Aberdeen City Council would be £75,000 per annum, which equates to a total expenditure of £375,000 over the proposed 5 year duration, commencing 1st October 2018. The proposed procurement of a new contract requires to be approved in advance, in accordance with Procurement Regulation 4.1.1.3.
- 3.6.4 The proposed competitive tendering exercise for the provision of Banking Services undertaken jointly with Aberdeenshire Council and potentially Highland Council, would be in line with the Council's Procurement Regulations, Financial Regulations and relevant EU Legislation.

4. FINANCIAL IMPLICATIONS

- 4.1 Treasury Management activities influence the loans pool interest rates and aims to minimise the cost of borrowing. This directly impacts on costs chargeable to the Council's revenue budgets through the interest rates that are applied to capital financing costs. Whilst the level of borrowing a Council can undertake is now devolved from the Scottish Government to individual Councils, it will still be constrained by the requirement for capital investment to be affordable, sustainable and prudent. The main test of affordability will be whether the capital financing costs can be contained within the revenue budgets.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 Financial

The CIPFA Code of Practice states that in the use of financial instruments for the prudent management of risk, priority must be given to security and liquidity, when investing funds.

6.2 **Legal**

The banking services procurement will be carried out in consultation with the Commercial and Procurement Service and in compliance with the Council's procurement regulations.

6.3 **Other**

Consideration has also been given to Employee, Customer / Citizen, Environmental, Technological and Reputational risks, and no risks were identified.

7. **IMPACT SECTION**

7.1 **Economy**

If an active Treasury Management policy is not undertaken and implemented there may be future budgetary implications for the Council through greater than budgeted capital financing costs.

7.1.2 Should the outcome of the Banking Tender exercise result in a new supplier being appointed for the provision of Banking Services then the procurement timescales will allow for a lead-in period which should mitigate against any potential upheaval during the initial transition/implementation phase.

7.2 **People**

No direct impact arising from this report.

7.3 **Place**

No direct impact arising from this report.

7.4 **Technology**

No direct impact arising from this report.

8. **BACKGROUND PAPERS**

8.1 CIPFA "Code of Practice for Treasury Management in the Public Services ";
CIPFA "The Prudential Code for Capital Finance in Local Authorities";
Link Asset Services "Treasury Management Annual Investment Strategy";
Scottish Government "The Investment of Money by Scottish Local Authorities".

9. **APPENDICES**

9.1 Appendix 1 - Treasury Management Policy Statement for 2018/19 to 2020/21
Appendix 2 - Borrowing Strategy for 2018/19 to 2020/21
Appendix 3 - Investment Strategy for 2018/19 to 2020/21
Appendix 4 - Counterparty List

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TREASURY MANAGEMENT POLICY STATEMENT FOR 2018/19 TO 2020/21

The proposed Treasury Management Policy for 2018/19 to 2020/21 is as follows:

1. Aberdeen City Council will adopt the CIPFA Treasury Management in the Public Services Code of Practice. The Council will also have regard to the Local Government Investment (Scotland) Regulations 2010.
2. The Council defines its treasury management activities as:
The management of the organisation'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.
3. The Council 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.
4. The Council 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.
5. The Council's appointed Treasury Advisors are Link Asset Services. Their expertise will continue to be used by the Council in making Treasury decisions in areas such as debt rescheduling, interest rate forecasts, market conditions, advice on new types of financial instruments and compiling the Council's Counterparty list.

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BORROWING STRATEGY FOR 2018/19 TO 2020/21

The proposed Treasury Management Borrowing Strategy for 2018/19 to 2020/21 is as follows:

1. Under the Prudential Code previous borrowing restrictions linked to consents no longer apply. Longer dated PWLB (Public Works Loans Board) rates, in periods from 40 to 50 years, continue at relatively low levels and the strategy would be to borrow, if required, in these periods to take advantage of those rates. Rates are monitored on an on-going basis to determine the optimum time to undertake any necessary borrowing. When decisions on new borrowing are being made, due consideration must also be given to the Council's Debt Maturity Profile.
2. Approximately 55% of the Council's borrowing is in long-term fixed rate loans, which reflects the lower interest rates available in recent years. Whilst there is no immediate intention to reschedule these debts in 2018/19, if opportunities arise to do so that will result in a decrease in the Council's cost of borrowing then these will be fully examined to determine whether this represents Best Value. Due care and attention to FRS 25 and 26 will be examined prior to entering any such commitment.
3. It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2018/19, 2019/20 and 2020/21 of 100% of its net outstanding principal sums.
4. It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2018/19, 2019/20 and 2020/21 of 30% of its net outstanding principal sums. This means that the Head of Finance will manage fixed interest rate exposures within the range 70% to 100% and variable interest rate exposures within the range 0% to 30%.
5. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowing as follows:

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

	Upper limit	Lower limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	90%	25%

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

STATUTORY REPAYMENT OF LOANS FUND ADVANCES

The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

A variety of options are provided to Councils so long as a prudent provision is made each year. The Council is recommended to approve the following policy on the repayment of loans fund advances:-

For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the **Statutory Method (option 1)**, with all loans fund advances being repaid using the annuity method.

For loans fund advances made after 1 April 2016, the Council has additional options for the repayment of loans advances. Each asset type will be calculated by what the Council regards as the most prudent and appropriate method for that particular asset type, taking into account all relevant known factors surrounding the asset.

The four available options are:-

1. **Statutory method** – loans fund advances will be repaid using the annuity method. The Council is permitted to use this option for a transitional period only, of five years until 31st March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile;
2. **Depreciation method** – annual repayment of loans fund advances will follow standard depreciation accounting procedures (option 2);
3. **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method (option 3);
4. **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream (option 4).

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INVESTMENT STRATEGY FOR 2018/19 TO 2020/21

The proposed Treasury Management Investment Strategy for 2018/19 to 2020/21 is as follows:

1. The Council's investment priorities are: -
 - (a) the security of capital and
 - (b) the liquidity of its investments.
2. The strategy is designed to ensure that the Council complies with all applicable legislation and regulation relating to the management of portfolio liquidity risk and has robust controls in place to protect the financial soundness of this Council.
3. The strategy must be read in conjunction with all applicable operational policies. The strategy is aligned with the low risk appetite of this Council and fundamentally with the two key principles of preservation of capital and guarantee of liquidity of the investments. The strategy has also been designed to provide the Council with the flexibility to obtain an adequate return on its investments in line with predefined levels of security and liquidity.
4. The Council's approved counter party list will be adhered to when making short-term investments and reviewed as necessary. This ensures that only those counter parties with the highest credit ratings are used within the maximum limits set. If it is considered necessary to make any changes to the list Committee approval will be sought.
5. Prior to the introduction of the current investment regulations, investments made by Scottish local authorities were limited to one year. This restriction was removed from 1st April 2010 and the Council accordingly wishes to make use of these powers when such investing is both appropriate and attractive, while respecting the key principles of preservation of capital and guaranteeing the liquidity of the investments.
6. Rates offered by approved counterparties are monitored on an on-going basis to determine the optimum time to undertake any investments. When decisions on new investments are being made, due consideration must also be given to the Council's projected cashflow position.
7. With the introduction of investment regulations, the Local Authority investment market will start to develop new investment products. In order to protect against any possible loss of income, the power to add a new investment instrument to the list of Permitted Investments, should be delegated to the Head of Finance. Any such approval would be reported at the next committee meeting.

8. Liquidity of its investments is a key priority of the Council. To ensure good availability of liquidity for cashflow purposes, no more than 50% of the Council's available investments should be placed in longer-term, fixed rate investments. The remainder will be kept in highly liquid investments and invested on a short-term basis, using either Bank deposits or "Aaa"/"AAA" rated Money Market Funds.
9. Any change in the level of liquidity held will require approval from the Head of Finance and will be reported at the next Committee meeting.
10. The level of liquidity required at any given time will be based on several factors, including :-
 - (a) the Council's cashflow requirements over the months ahead. This would include any known payments to third parties, loan repayments etc.
 - (b) the level of surplus funds administered on behalf other bodies such as the Pension Fund, ALEO's and Trusts, as these funds may be called back at any time by the bodies.
 - (c) any payment with regards to capital projects which may require financing at short notice.

LIST OF PERMITTED INVESTMENTS

This Council approves the following forms of investment instrument for use as permitted investments: -

DEPOSITS - Unlimited (subject to individual Counterparty list limits)

Debt Management Agency Deposit Facility

Term deposits – local authorities (as per Counterparty list)

Call accounts – banks and building societies (as per Counterparty list)

Term deposits – banks and building societies (as per Counterparty list)

Fixed term deposits with variable rate/maturities (Structured deposits, as per Counterparty list)

COLLECTIVE INVESTMENT SCHEMES - £450m

Government Liquidity Funds

Money Market Funds (subject to individual Counterparty list limits)

Enhanced cash funds

Gilt Funds

Bond Funds

GOVERNMENT SECURITIES - £100m

Treasury Bills

UK Government Gilts

Bond issuance (from financial institution guaranteed by UK Government)

Bonds issued by multi-lateral development banks

CORPORATE SECURITIES - £10m
Certificates of deposit (as per Counterparty list)

PERMITTED INVESTMENTS - NON TREASURY INVESTMENTS

The Council can also invest in the following areas, which are outwith the Treasury Management scope and would be subject to separate committee approval: -

- a) All share holding, unit holding and bond holding, including those in a local authority owned company;
- b) Loans to a local authority company or other entity formed by a local authority to deliver services, including Joint Venture entities;
- c) Loans made to third parties;
- d) Investment properties.

TREASURY RISKS AND CONTROLS

All treasury borrowing and investments are subject to the following risks: -

1. Credit and counter-party risk: this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

Control: This authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes.

2. Liquidity risk: this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk, as credit risk can never be zero. In this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be liquidated at short notice if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer.

Control: This authority has a cash flow forecasting system to enable it to determine how long investments can be made for and how much can be invested.

3. Market risk: this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury

management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long-term increase in value.

Control: This authority does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value.

4. Interest rate risk: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report. All types of investment instrument have interest rate risk except for instruments with a variable rate of interest.

Control: This authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which seeks to minimise borrowing costs.

5. Legal and regulatory risk: this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Control: This authority will not undertake any form of investing until it has ensured that it has all the necessary powers and also complied with all regulations.

OBJECTIVES OF PERMITTED INVESTMENTS

DEPOSITS - The following forms of 'investments' are more accurately called deposits as cash is deposited in an account until an agreed maturity date, or is held at call.

Debt Management Agency Deposit Facility – This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. As it is low risk also earns low rates of interest. The longest period for a term deposit with the DMADF is 6 months.

Term Deposits – This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF. In addition, longer term deposits offer an opportunity to increase investments returns by locking in high rates ahead of an expected fall in the level of interest rates.

Call accounts – The objectives are as for Term Deposits, but with instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Use of call accounts is highly desirable to ensure that the authority has ready access to cash for liquidity purposes.

Fixed term deposits with variable rate/maturities – This encompasses all types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluid nature of this area, this section allows flexibility to adopt new instruments as and when they are brought to the market.

Deposits with Counterparties currently in receipt of government support/ownership – These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits.

COLLECTIVE INVESTMENT SCHEMES -

Money Market Funds – By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly.

Due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market.

MMFs also help an authority to diversify its own portfolio and offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

Government Liquidity Funds – These are the same as money market funds (see above) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

Enhanced cash funds – These funds are similar to MMFs, can still be AAA rated but have variable net asset values (VNAV) as opposed to a traditional MMF which has a constant net asset value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile.

These funds can have WAM's and Weighted Average Life (WALs) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

Gilt Funds – These are funds which invest only in UK Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in DMADF but they do have an exposure to movements in market prices of assets held.

Bond Funds – These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

GOVERNMENT SECURITIES – The following types of investments are where a local authority directly purchases a particular investment instrument - a security. It has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield - it is normally the interest paid by the issuer divided by the price paid, unless the security is initially issued at a discount (e.g. treasury bills).

Treasury Bills – These are short term bills (up to 12 months, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

UK Government Gilts – These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity, if the yield curve is positive.

Bond issuance (from financial institution guaranteed by UK Government) – This is similar to a gilt due to the Government guarantee.

Bonds issued by multi-lateral development banks (MLDBs) – These are similar to both gilts and bond issuance but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

CORPORATE SECURITIES – The following types of investments are where a local authority directly purchases a particular investment instrument – a security. It has a market price when purchased and that value can change during the period is held until it is sold. The annual earnings on a security is called a yield – the interest paid by the issuer divided by the price paid. These are similar to government securities although they generally have a higher risk than government debt and as such earn higher yields.

Certificates of deposit (CDs) – These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

PERMITTED INVESTMENTS - NON TREASURY INVESTMENTS

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries/ALEO's, and investment property portfolios.

COUNTERPARTY LIST

Deposits up to 12 months

All the banks listed in this category have a suggested duration of 12 months from our treasury advisors, Link Asset Services (LAS) credit rating list – i.e. the highest rated

UK Nationalised and Part Nationalised Banks - £50m limit

The Royal Bank of Scotland Group plc
(includes Royal Bank of Scotland plc, National Westminster Bank plc)
(actual rating overridden by the significant UK Govt. Ownership, i.e. >20%)

UK Banks - £50m limit

HSBC Bank plc – Highest rated UK bank
Lloyds Banking Group (includes Bank of Scotland)

Other Banks - £50m limit

Countries with a minimum of AA+ Sovereign rating and Banks with a suggested duration of 12 months from LAS credit rating list – i.e. the highest rated

Australia - AAA

Australia and New Zealand Banking Group Ltd.
Commonwealth Bank of Australia
National Australia Bank Ltd.
Westpac Banking Corp.

Canada - AAA

Bank of Montreal
Bank of Nova Scotia
Canadian Imperial Bank of Commerce
Royal Bank of Canada
Toronto-Dominion Bank

Finland – AA+

OP Corporate Bank PLC

Germany - AAA

DZ BANK AG Deutsche Zentral- Genossenschaftsbank
Landesbank Hessen-Thueringen Girozentrale
Landesbank Berlin AG

Netherlands - AAA

Cooperatieve Rabobank U.A.
ING Bank N.V.

Singapore - AAA

DBS Bank Ltd.
Oversea-Chinese Banking Corp. Ltd.
United Overseas Bank Ltd

Sweden - AAA

Nordea Bank AB
Skandinaviska Enskilda Banken AB (SEB)
Svenska Handelsbanken AB
Swedbank AB

Switzerland - AAA

UBS AG

UK Local Authorities (including Police Authorities) - £30m limit (per authority)

Deposits up to 6 months

UK Banks - £20m limit

Abbey National Treasury Services PLC
Barclays Bank plc
Close Brothers Ltd
Goldman Sachs International Bank
Santander UK plc
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation Europe Ltd

UK Building Societies - £20m limit

Coventry Building Society
Nationwide Building Society

Deposits up to 3 months

Council's Bankers - £50m limit

Clydesdale Bank plc

UK Building Societies - £10m limit

Leeds Building Society
Skipton Building Society
Yorkshire Building Society

Collective Investment Schemes - £450m total limit

Money Market Funds - £50m limit

Deutsche Managed Sterling Fund
Federated Short Term Sterling Prime Fund
Goldman Sachs Sterling Liquid Reserve Fund
Standard Life (SLI) Sterling Liquidity Fund
Insight Liquidity Fund
Morgan Stanley Sterling Liquidity Fund
Aberdeen Liquidity Fund - Sterling
State Street Global Advisors GBP Liquidity Fund
Blackrock ICS Instit Fund