

## **COUNCIL – 14 DECEMBER 2021**

### **TREASURY MANAGEMENT MID-TERM REVIEW 2021/22**

**Report by the Director of Finance**

#### **RECOMMENDATION**

**Council is RECOMMENDED to endorse the Council's Mid-Term Treasury Management Review 2021/22.**

#### **Executive Summary**

1. This report covers the treasury management activity for the first six months of 2021/22 in compliance with the CIPFA Code of Practice.
2. During the first six months of the year there were no maturities of external debt. The external debt balance remained at £335.38m on 30 September 2021.
3. The average daily balance of temporary surplus cash invested in-house in the six months to 30 September was £472.76m, compared to a budgeted figure of £428.00m. The Council achieved an average in-house return for that period of 0.48%, below the budgeted rate of 0.58% set in the strategy. This has produced gross interest receivable of £1.13m for the six months to 30 September 2021 compared to budget of £0.97m. Whilst the rate achieved is below the budgeted rate, the budget has been exceeded in cash terms due to higher than forecast balances.
4. During the first six months of the year the Council maintained its holding in external funds. Gross distributions from pooled funds have totalled £1.63m in the first six months of the year, exceeding the budgeted figure of £1.38m by £0.25m. Forecast returns for the year are £3.81m, in line with the budget of £3.81m.
5. Link Treasury Services were appointed as the Council's Treasury Management advisors on 1 May 2021 for 3 years after a competitive tendering exercise.

#### **Introduction**

6. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management 2017 recommends that members are informed of Treasury Management activities at least twice a year. This report ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.
7. The following annexes are attached

Annex 1	Lending List Changes
Annex 2	Debt Financing 2021/22

Annex 3	PWLB Debt Maturing
Annex 4	Prudential Indicator Monitoring
Annex 5	Link Treasury Services Quarter 2 Benchmarking
Annex 6	Specified & Non-Specified Investments 2021/22

## Strategy 2021/22

8. The approved Treasury Management Strategy for 2021/22 was based on an average base rate forecast of 0.10%.
9. The Strategy for borrowing provided an option to fund new or replacement borrowing up to £100m through internal borrowing.
10. The Strategy included the continued use of pooled fund vehicles with variable net asset value.

## External Context – Provided by Link Treasury Services

11. **Economic backdrop:** The Monetary Policy Committee (MPC) indicated in August 2021 that tightening of monetary policy was not on the horizon, weighted against not wanting to stifle economic recovery by too early an increase in Bank Rate.
12. In August, the MPC indicated that they are prepared to look through a temporary spike in inflation caused by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system.
13. In September 2021 the MPC indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October 2021 and due again in April 2022, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. To emphasise its concern about inflationary pressures, the MPC reaffirmed its commitment to the 2% inflation target. The MPC also suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year.
14. Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment, once furlough ends at the end of September 2021. At the MPC's meeting in February 2022, it will only have available the employment figures for November 2021; to get a clearer picture of employment trends, it would need to wait until the May 2022 meeting when it would have data up until February 2022. At its May 2022 meeting, it will also have a clearer understanding of the likely peak of inflation.
15. The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
  2. Raising Bank Rate to 0.50% before starting on reducing its holdings.

3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.
16. **COVID-19 vaccines.** The roll out of the COVID-19 vaccinations boosted confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals in spring 2021. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. However, it remains unclear whether mutations of the virus could develop which render current vaccines ineffective, and how quickly vaccines can be modified to deal with them along with implementation of enhanced testing programmes to contain their spread.
  17. **EU.** The slow roll out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.
  18. **German general election.** Following the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. A Social Democratic Party led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a Christian Democratic Union/Christian Social Union led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, this is likely to impact significantly on overall EU leadership.
  19. **World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.
  20. **Interest Rate Forecasts** Link Group, provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View		29.9.21								
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

## Treasury Management Activity

### Debt Financing

21. The Council's cumulative total external remained at from £335.38m from 1 April 2021 to 30 September 2021. No new debt financing has been arranged during the year. The total forecast external debt as at 31 March 2022 is £313.38m. The forecast debt financing position for 31 March 2022 is shown in Annex 2.
22. At 30 September 2021, the authority had 53 PWLB<sup>1</sup> loans totalling £285.38m, nine LOBO<sup>2</sup> loans totalling £45m and one long-term fixed Money Market loan totalling £5m<sup>3</sup>. The combined weighted average interest rate for external debt as at 30 September 2021 was 4.46%.

### Maturing Debt

23. No debt matured during the first half of the year. The Council is forecast to repay £22m of PWLB debt by 31<sup>st</sup> March 2022. The details are set out in Annex 3.

### Debt Restructuring

24. The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt restructuring activity. No PWLB debt restructuring activity was undertaken during the first half of the year. Opportunities to restructure debt remain under regular review.

### LOBOs

25. At the beginning of the financial year the Council held £45m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £20m of these LOBOs had options during 2021/22, to the 30 September 2021 none had been exercised by the lender. The Council acknowledges there is an element of refinancing risk associated with LOBOs although in the current interest rate environment lenders are unlikely to exercise their options.

### Investment Strategy

26. The Council holds deposits and invested funds representing income received in advance of expenditure plus balances and reserves. The guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The

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<sup>1</sup> PWLB (Public Works Loans Board) is a Government agency operating within the United Kingdom Debt Management Office and is responsible for lending money to Local Authorities.

<sup>2</sup> LOBO (Lender's Option/Borrower's Option) Loans are long-term loans which include a re-pricing option for the bank at predetermined intervals.

<sup>3</sup> In June 2016, the Council's LOBO with Barclays PLC was converted to a fixed rate loan at its current interest rate of 3.95% to mature on the 29th May 2065 with Barclays waiving their right to change the interest rate on the loan in the future.

Council continued to adopt a cautious approach to lending to financial institutions and continuously monitored credit quality information relating to counterparties.

27. During the first half of the financial year term fixed deposits have been placed with other Local Authorities as per the approved lending list, whilst Money Market Funds have been utilised for short-term liquidity. Inter Local Authority lending remains an attractive market to deposit funds with from a security view point.
28. The Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22 included the use of external fund managers and pooled funds to diversify the investment portfolio through the use of different investment instruments, investment in different markets, and exposure to a range of counterparties. It is expected that these funds should outperform the Council's in-house investment performance over a rolling three-year period. The strategy permitted up to 50% of the total portfolio to be invested with external fund managers and pooled funds (excluding Money Market Funds). The performance of the pooled funds will continue to be monitored by the Treasury Management Strategy Team (TMST) throughout the year against respective benchmarks and the in-house portfolio.
29. The UK Bank Rate has remained at 0.10% for the six months to 30 September 2021. Link Treasury Services forecast base rate to stay at 0.10% for the remainder of the financial year, rising to 0.25% for the duration for 2022/23 and rising to 0.75% by the end of 2023/24.
30. The long term lending limit for 2021/22 is £215m. During the first six months of the year the average available cash headroom within that limit was £35m. The TMST explored investment options available for this cash, including the option of investing £25m in Strategic Funds, shorted dated "Cash Plus" funds, as well as longer term deposits with other Local Authorities. However, it was deemed inappropriate to increase exposure to strategic investments above the current levels, due to uncertainty about cash balances for the 10 year time horizon required. In addition to this analysis of shorter dated cash plus funds indicated that the returns were not currently favourable.
31. Because of this it was decided to review these funds in 6 months and to maintain headroom in the longer term lending limit to invest in these if it is in the best interest of the Council.

### **The Council's Lending List**

32. The Council's in-house cash balances were deposited with institutions that meet the Council's approved credit rating criteria. The approved Lending List is updated to reflect changes in counterparty credit quality with changes reported to Cabinet on a bi-monthly basis. Changes to the lending list in the first six months of 2021/22 are set out in Annex 1.
33. In the six months to 30 September 2021 there were no instances of breaches in policy in relation to the Council's Lending List. Any breaches in policy will be reported to Cabinet as part of the monthly Business Management & Monitoring report.

## **Investment Performance**

34. Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22 and by purposefully reducing exposure to "bail in" banks and favouring deposits with other Local Authorities. As at 30 September 2021, the Council had £350.0m deposited with 34 other Local Authorities with an average deposit total of £10.29m per authority.
35. The average daily balance of temporary surplus cash invested in-house in the six months to 30 September was £472.76m, compared to a budgeted figure of £428.00m. The Council achieved an average in-house return for that period of 0.48%, below the budgeted rate of 0.58% set in the strategy. This has produced gross interest receivable of £1.13m for the six months to 30 September 2021 compared to budget of £0.97m. Whilst the rate achieved is below the budgeted rate, the budget has been exceeded in cash terms due to higher than forecast balances.
36. Temporary surplus cash includes; developer contributions; council reserves and balances; trust fund balances; and various other funds to which the Council pays interest at each financial year end, based on the average three month London Interbank Bid (LIBID) rate.

## **External Fund Managers and Pooled Funds**

37. During the first six months of 2021/22 the Council maintained its holding in external funds. The value of the funds was £103.19m as at 30 September 2021 compared to £100.70m at 31 March 2021. The original purchase cost of the portfolio in March 2019 was £101.0m. Weighted by original purchase value, pooled fund investments produced an annualised income return of 3.26% for the period. These investments are held with a long-term view and performance is assessed accordingly.
38. Gross distributions from pooled funds have totalled £1.63m in the first six months of the year, exceeding the budgeted figure of £1.38m by £0.25m.

## **Prudential Indicators for Treasury Management**

39. The Authority confirms compliance with its Prudential Indicators for 2021/22, which were set as part of the Authority's Treasury Management Strategy Statement. The position as at 30 September 2021 for the Prudential Indicators is shown in Annex 4.
40. CIPFA has issued a consultation on the Treasury Management and Prudential Codes, the outcomes of which will be published in December 2021. The council will adopt the new codes in the 2022/23 Capital and Investment Strategies. The new codes are likely to include a new "Liability Benchmark" for debt financing, and more robust guidance relating to commercial investments.

## **External Performance Indicators and Statistics**

41. Link Treasury Services were appointed as the Council's Treasury Management advisors on 1 May 2021 for 3 years after a competitive tendering exercise.
42. Link Treasury Services benchmark the Council's investment performance against its other clients on a quarterly basis. The results of the quarter 2 benchmarking to 31 July 2021 are shown in Annex 5.
43. The benchmarking results show that the Council was achieving higher than average interest on inhouse investments, with a lower than average credit risk, when compared with other County Councils. This has been achieved by placing deposits over a longer than average duration with institutions that are of higher than average credit quality.
44. Oxfordshire had a higher than average allocation to fixed and local authority deposits when compared with other local authorities in the benchmarking exercise. Oxfordshire also had a notably lower than average exposure to money market funds and banks

## **Training**

45. Individuals within the Treasury Management Team continue to keep up to date with the latest developments and attend external workshops and conferences where relevant

## **Financial and Legal Implications**

46. Interest payable and receivable in relation to Treasury Management activities are included within the overall Strategic Measures budget. In house interest receivable for 2021/22 is currently forecast to be in line with the budgeted figure of £1.94m. Of the forecast £1.94m interest receivable, £1.13m had been realised as at the 30 September 2021.
47. Dividends payable from external funds in 2021/22 are forecast as £3.81m, which is in line with budget.
48. Interest payable is currently forecast to be in line with the budgeted figure of £15.08m.
49. There are no direct legal implications arising from this report save for the need for ongoing collaborative working between the S.151 Officer and the Monitoring Office. CIPFA guidance promotes the need for consultative working and collaboration between these respective roles to promote good organisational governance.

**LORNA BAXTER**

Director of Finance

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November 2021

**Lending List Changes from 1 April 2020 to 30 September 2021**

None

**Pension Fund Lending list changes**

None



**OXFORDSHIRE COUNTY COUNCIL DEBT FINANCING 2021/22**

<u>Debt Profile</u>		£m
1. PWLB	85%	285.38
2. Other Long Term Loans	15%	<u>50.00</u>
3. Sub-total External Debt		335.38
4. Internal Balances		<u>-7.24</u>
<b>5. Actual Debt at 31 March 2021</b>	<b>100%</b>	<b>328.14</b>
6. Prudential Borrowing		81.09
7. Borrowing in Advance		0.00
8. Minimum Revenue Provision		<u>-8.53</u>
<b>9. Forecast Debt at 31 March 2022</b>		<b>400.70</b>
<u>Maturing Debt</u>		
10. PWLB loans maturing during the year		22.00
11. PWLB loans repaid prematurely in the course of debt restructuring		<u>0.00</u>
<b>12. Total Maturing Debt</b>		<b>-22.00</b>
<u>New External Borrowing</u>		
13. PWLB Normal		0.00
14. PWLB loans raised in the course of debt restructuring		0.00
15. Money Market LOBO loans		<u>0.00</u>
<b>16. Total New External Borrowing</b>		<b>0.00</b>
<u>Debt Profile Year End</u>		
17. PWLB	66%	263.38
18. Money Market loans (incl £45m LOBOs)	12%	<u>50.00</u>
19. Forecast Sub-total External Debt		313.38
20. Forecast Internal Balances	<u>20%</u>	<u>87.32</u>
<b>21. Forecast Debt at 31 March 2021</b>	<b>100%</b>	<b>400.70</b>

## Line

- 1 – 5 This is a breakdown of the Council's debt at the beginning of the financial year (1 April 2020). The PWLB is a government agency operating within the Debt Management Office. LOBO (Lender's Option/ Borrower's Option) loans are long-term loans, with a maturity of up to 60 years, which includes a re-pricing option for the bank at predetermined time intervals. Internal balances include provisions, reserves, revenue balances, capital receipts unapplied, and excess of creditors over debtors.
- 6 'Prudential Borrowing' reflects Prudential Borrowing taken by the authority whereby the associated borrowing costs are met by savings in the revenue budget.
- 7 'Borrowing in Advance' is the amount the Council borrowed in advance to fund future capital finance costs.
- 8 The amount of debt to be repaid from revenue. The sum to be repaid annually is laid down in the Local Government and Housing Act 1989, which stipulates that the repayments must equate to at least 4% of the debt outstanding at 1 April each year.
- 9 The Council's forecast total debt by the end of the financial year, after taking into account new borrowing, debt repayment and movement in funding by internal balances.
- 10 The Council's normal maturing PWLB debt.
- 11 PWLB debt repaid early during the year.
- 12 Total debt repayable during the year.
- 13 The normal PWLB borrowing undertaken by the Council during 2021/22.
- 14 New PWLB loans to replace debt repaid early.
- 15 The Money Market borrowing undertaken by the Council during 2021/22
- 16 The total external borrowing undertaken.
- 18-22 The Council's forecast debt profile at the end of the year.

**Long-Term Debt Maturing 2021/22****Public Works Loan Board: Loans maturing during 2021/22**

<b>Date</b>	<b>Amount £m</b>	<b>Rate %</b>
31/12/2021	2.000	4.70%
31/12/2021	10.000	4.65%
31/01/2021	10.000	4.85%
<b>Total</b>	<b>22.000</b>	

### **Prudential Indicators Monitoring at 30 September 2022**

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. To demonstrate that the Authority has fulfilled the requirements of the Prudential Code the following indicators must be set and monitored each year.

#### **Authorised and Operational Limit for External Debt**

Actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt below. The Operational Boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The council confirms that the Operational Boundary has not been breached during 2021/22.

The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. The Authority confirms that the Authorised limit was not breached in the first half of 2021/22.

Authorised limit for External Debt	£445,000,000
Operational Limit for External Debt	£420,000,000
Capital Financing Requirement for year	£419,707,000

	<b>Actual</b>	<b>Forecast</b>
	<b>30/09/2021</b>	<b>31/03/2022</b>
Borrowing	£335,382,618	£313,382,618
Other Long-Term Liabilities	£ 17,000,000	£ 17,000,000
<b>Total</b>	<b>£352,382,619</b>	<b>£330,382,618</b>

#### **Interest Rate Exposures**

These indicators are set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest exposures. Fixed rate investments are borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

##### **Fixed Interest Rate Exposure**

Fixed Interest Net Borrowing limit	£350,000,000
Actual at 30 September 2021	-£102,117,382

##### **Variable Interest Rate Exposure**

Variable Interest Net Borrowing limit	£0
Actual at 30 September 2021	-£23,761,997

**Principal Sums Invested over 365 days**

Total sums invested for more than 364 days limit	£215,000,000
Actual sums invested for more than 364 days	£ 96,500,000

**Maturity Structure of Borrowing**

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing and the actual structure at 30 September 2021, are shown below. 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.

	<b>Limit %</b>	<b>Actual %</b>
Under 12 months	0 - 20	6.56
12 – 24 months	0 - 25	11.03
24 months – 5 years	0 - 35	8.05
5 years to 10 years	5 - 40	26.95
10 years +	40 - 95	47.41

Summary

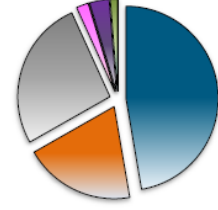
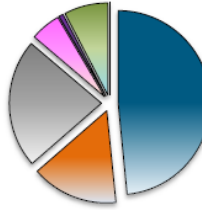
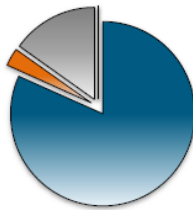
Oxfordshire County Council

Summary Sheet

Oxfordshire County Council	Benchmarking Group3 (10) Basic Portfolio Characteristics	English Counties (18)
WARoR	0.45%	0.18%
WAM	231	90
WATT	401	165
WA Credit Risk	1.13	2.52
Model WARoR	0.44%	0.20%
Difference	0.01%	-0.02%
Model Band	0.40% - 0.49%	0.16% - 0.25%
Performance	Inline	Inline

Asset Breakdown

- Fixed Deposits
- Calls & O/N
- MMFs
- USDBFs
- Struct. Prods.
- Bonds
- CDs



This shows that, at 30 June 2021, Oxfordshire achieved higher than average return for lower than average credit risk.

Investment Instruments – Peer Comparison

Oxfordshire County Council

Peer Comparison

Oxfordshire County Council	Benchmarking Group3 (10) Basic Characteristics	English Counties (18)	Population Average (212)
Principal	£477,154,600	£271,409,423	£99,798,516
WARoR	0.45%	0.18%	0.17%
WAM	231	90	69
WATT	401	165	127
WA Credit Risk	1.13	2.52	2.97
<b>Portfolio Breakdown</b>			
Fixed Deposits	81.69%	47.33%	39.25%
Calls & O/N	3.13%	19.45%	31.86%
MMFs	15.17%	26.42%	25.27%
USDBFs	0.00%	2.11%	1.13%
Struct. Prods.	0.00%	0.00%	0.12%
Bonds	0.00%	3.44%	0.77%
CDs	0.00%	7.70%	1.59%
<b>Institution Breakdown</b>			
Banks	3.13%	37.66%	46.15%
Building Socs.	0.00%	7.07%	4.80%
Government	81.69%	29.75%	21.94%
MMFs	15.17%	26.42%	25.32%
USDBFs	0.00%	5.32%	1.13%
MLDBs	0.00%	0.00%	0.02%
Other	0.00%	1.84%	0.64%
<b>Domestic/Foreign Exposure</b>			
Domestic	84.83%	65.46%	70.00%
Foreign	0.00%	2.47%	3.52%
MMFs	15.17%	26.42%	25.35%
USDBFs	0.00%	5.32%	1.13%
<b>Maturity Structure</b>			
< 1 Month	32.77%	48.43%	58.67%
1-3 Months	6.29%	17.22%	13.82%
3-6 Months	11.53%	21.74%	16.61%
6-9 Months	12.99%	4.13%	5.12%
9-12 Months	18.65%	9.02%	3.79%
12 Months +	17.77%	5.18%	2.00%

This shows that, at 30 June 2021, Oxfordshire achieved higher than average return for lower than average. This was achieved by pursuing a higher than average weighted average maturity and having a higher allocation to government deposits (rather than banks or money market funds) compared to peers.

## Specified and Non Specified Investments 2021/22

**Specified Investments**

<b>Investment Instrument</b>	<b>Minimum Credit Criteria</b>	<b>Use</b>
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Term Deposits – UK Government	N/A	In-house
Term Deposits – other Local Authorities	N/A	In-house
Term Deposits – Banks and Building Societies	Short-term F1, Long-term BBB+, Minimum Sovereign Rating AA+	In-house and Fund Managers
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis and Fund Managers
Money Market Funds	AAA	In-house and Fund Managers
Other Money Market Funds and Collective Investment Schemes <sup>4</sup>	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	In-house and Fund Managers
UK Government Gilts	N/A	In-house on a buy and hold basis and Fund Managers
Treasury Bills	N/A	In-house and Fund Managers
Reverse Repurchase Agreements - maturity under 1 year from arrangement and counterparty is of high credit quality (not collateral)	Long Term Counterparty Rating A-	In-house and Fund Managers
Covered Bonds – maturity under 1 year from arrangement	Minimum issue rating of A-	In-house and Fund Managers

<sup>4</sup> I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

## Non-Specified Investments

<b>Investment Instrument</b>	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of total Investments</b>	<b>Max Maturity Period</b>
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc.)	Short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
UK Government Gilts with maturities in excess of 1 year	N/A	In-house and Fund Managers	50% in-house; 100% External Funds	5 years in-house, 10 years fund managers
Bonds issued by Multilateral Development Banks	AAA	In-house and Fund Managers	50% in-house; 100% External Fund	25 years
Bonds issued by a financial institution which is guaranteed by the UK Government	AA	In-house and Fund Managers	50% in-house; 100% External Fund	5 years in-house
Collective Investment Schemes <sup>5</sup> but which are not credit rated	N/A	In-house and Fund Managers	50% In-house; 100% External Funds	Pooled Funds do not have a defined maturity date
Sovereign Bond Issues	AAA	In-house on a buy and hold	50% in-house;	5 year in-house, 30

<sup>5</sup> Pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.



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		basis. Fund Managers	100% External Funds	years fund managers
Reverse Repurchase Agreements - maturity in excess of 1 year, or/and counterparty not of high credit quality.	Minimum long term rating of A-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Covered Bonds	AAA	In-house and Fund Managers	50% in-house; 100% External Funds	20 years
Registered Providers	As agreed by TMST in consultation with the Leader and the Cabinet Member for Finance	In-house	50% In-house	5 years

The maximum limits for in-house investments apply at the time of arrangement.