

# Report

Report to:	<b>Executive Committee</b>
Date of Meeting:	<b>10 February 2021</b>
Report by:	<b>Executive Director of Finance and Corporate Resources</b>

Subject:	<b>Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy 2021/2022</b>
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## 1. Purpose of Report

1.1 The purpose of the report is to:-

- ◆ provide members with the Prudential Code indicators for 2021/22 to 2023/24,
- ◆ provide members with the Treasury Management Strategy for 2021/22, and
- ◆ provide members with the Annual Investment Strategy for 2021/22.

## 2. Recommendation(s)

2.1 The Committee is asked to approve the following recommendation(s):-

- (1) that the Prudential Code indicators for 2021/2022 to 2023/2024 are endorsed and referred to Council for formal approval (section 4).
- (2) that the 2021/2022 Treasury Management Strategy is endorsed and referred to Council for formal approval (section 5)
- (3) that the Annual Investment Strategy, which includes the change to counterparty limits as detailed in section 6.11, is endorsed and referred to Council for formal approval (section 6)

## 3. Background

3.1 Through guidance and regulation the Council is required to produce Prudential Indicators, a Treasury Management Strategy and an Annual Investment Strategy. It has been cited as best practice to combine the information in one document. This paper will therefore cover:

- ◆ Prudential Indicators (Section 4)
- ◆ Treasury Management Strategy (Section 5)
- ◆ Annual Investment Strategy (Section 6)

## 4. Prudential Code Indicators

4.1 The Prudential Code for Capital Finance in Local Authorities was introduced through the Local Government (Scotland) Act 2003 with the aim of supporting strategic planning for capital investment at a local level.

4.2 The key objectives of the Code are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable; and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation.

- 4.3 The Prudential Indicators for 2021/2022 to 2023/2024 are shown at Appendix 1 along with explanations for each indicator. An updated position for 2020/2021 is also included.
- 4.4 Through these Prudential Indicators we are laying out what our expectations are for the coming year, and setting limits based on these expectations. A report will be presented to Committee later this year showing actual achievement against the 2020/2021 indicators.
- 4.5 The first three indicators show details of capital expenditure, how this will be funded and set limits for external borrowing. The fourth indicator demonstrates the financial impact of the expected borrowing and that this is affordable.

### **Capital Expenditure and Asset Management**

- 4.6 It was through the introduction of the Code that Councils are now able to take responsibility for deciding an affordable level of borrowing to fund capital expenditure. This moves away from the previous regime through which central government gave councils consent to borrow defined amounts for capital expenditure.
- 4.7 The level of capital expenditure that we choose to fund through borrowing has a direct impact on the treasury activities of the Council. Borrowing is required to fund the capital programmes and for the Housing Investment Programme. Borrowing will also be used in the short term to manage the cashflow funding gap for City Deal. The Prudential Indicators show the level of borrowing required.
- 4.8 An update to the General Fund programme for 2021/2022 was presented to the Executive Committee on 4 November 2020. This allows for investment across priorities consistent with the objectives of the Council Plan.
- 4.9 The capital expenditure for 2021/2022 included in our indicators is based on the aforementioned report and takes account of anticipated expenditure for that year adjusted to include other potential commitments. It includes the General Capital Grant funding allocated by the Scottish Government and projects which will be funded by Specific Capital Grants from the Scottish Government.
- 4.10 At the time of writing this report, the level of General Capital Grant beyond the current financial year is not known. For 2021/2022, it has been assumed that £21.3m of General Capital Grant will be received, in line with the grant awarded in 2020/2021. For 2022/2023 and 2023/2024, £28m has been assumed as included in the Capital Strategy agreed by the Executive Committee on 21 November 2018.
- 4.11 The HRA capital programme for 2021/2022 will be presented to the Housing and Technical Resources Committee on 17 February 2021. For financial years 2022/2023 and 2023/2024, estimated capital programmes based on the HRA business plan have been included.
- 4.12 Housing capital expenditure reflects investment priorities of maintaining and improving the housing stock to the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (EESH). The programme includes the continuation of the legislative compliance works including meeting the new fire tolerable standard by February 2022, investment in multi storey blocks and improving the energy efficiency of the tenants' homes.

- 4.13 The Prudential Code also recognises that in making capital investment decisions the authority should be informed by sound asset management planning and options appraisal.
- 4.14 When considering potential capital investment, the Council ensures that the objectives of capital investment fit within the Council strategic plans and that the investment is informed through the asset management planning process. The following asset management plans were updated for 2020 and approved by the relevant resource Committees.
- ◆ Fleet Asset Management Plan 2020 presented to Community and Enterprise Resources Committee 15 September 2020
  - ◆ 2020/2021 Information and Communication Technology (ICT) Asset Management Plan presented to Finance and Corporate Resources Committee 19 August 2020
  - ◆ Roads Asset Management Plan – 2020 Update presented to Community and Enterprise Resources Committee 16 June 2020
- 4.15 The Property and Housing Asset Management Plan is currently being reviewed and updated and is expected to be taken forward to the Housing and Technical Resources Committee early in 2021/2022.

## **5. Treasury Management Strategy**

- 5.1 The Council's treasury activities are regulated by statute, and a professional code of practice (the CIPFA Treasury Management in Public Services Code of Practice). It is a requirement of this Code, and the financial regulations of South Lanarkshire Council that a Treasury Management Strategy is approved by Committee every year.
- 5.2 The Treasury Management Strategy for 2021/2022 is detailed at Appendix 2.
- 5.3 The Treasury Management in the Public Services - Guidance Notes for Local Authorities details treasury management indicators that are to be reported within the Treasury Strategy.
- 5.4 The level of borrowing required to fund the Council's Capital programme, together with the variable nature of interest rates increases the risks associated with the treasury management function. As a result, the Council will take a cautious approach to its Treasury Strategy by setting treasury management indicators to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of adverse movements in interest rates.
- 5.5 The indicators set limits on the maturity structure of borrowing and limits on investments over 364 days.
- 5.6 The main areas covered by the Strategy are:
- Debt and Investment Projections
  - Expected Movement in Interest Rates
  - Borrowing Strategies
  - Statutory Repayment of Loans Fund Advances
- 5.7 Total external net debt is expected to reach £1,112.196m by the end of 2020/2021. This is gross debt of £1,199.283m less estimated investments of £87.087m. The estimated level of investments reflects the level of reserves held plus an element of working capital and the borrowing that was not taken in 2020/2021 recognising that this reduces the cash that the council has available for investment.

5.8 External debt includes the liability of £193.743m that is included on the Council's balance sheet for the Secondary Schools and finance leases under International Financial Reporting Standards. It should be noted that while these liabilities are to be classed as external debt, there is no requirement to borrow these amounts and there is, therefore, no impact on borrowing costs.

## **6. Annual Investment Strategy 2021/2022**

6.1 The Local Government Investments (Scotland) Regulations 2010 provides a formal investment framework for councils. It provides greater autonomy for local authorities in their investment activities but with this greater freedom comes greater responsibility and the onus is on local authorities to act prudently with regard to their investment and treasury management activities.

6.2 The Council can decide what investment tools it will class as permitted investments in the coming year. The Regulations require an Annual Investment Strategy detailing the permitted investments to be approved by the Council.

6.3 The Annual Investment Strategy for 2021/22 has been included at Appendix 3.

6.4 The two fundamental principles of the Investment Regulations are that:

- Councils are required to manage their investments and deposits in a way that minimises the risk to the capital sum and optimises the return on the funds consistent with those risks. Security should be considered first, then liquidity, and lastly the yield or return.
- Councils are able to determine what investments they may make, including both the type and duration of the investment.

6.5 The Annual Investment Strategy is considered to be central to the Regulation. The Council is required to prepare an Annual Investment Strategy prior to the start of the financial year.

6.6 The Regulations require the Council to consider its investment activity as a whole. This includes a range of investments, which covers the depositing of temporary surplus funds with banks and similar institutions, shareholdings in companies or joint ventures, loans to group undertakings and third parties. It also covers investment properties

6.7 The Council is required to set out a strategy for investments that explains investment objectives and policies including any special circumstances applying to them that have led to a particular approach.

6.8 The attached strategy identifies the different types of treasury risk that investments are exposed to and the controls in place for limiting those risks. These include restrictions on who the Council will invest with and on the period of investment.

6.9 The Council is required to set out in the strategy the types of investment that it will permit in the financial year. These will be known as "permitted investments".

6.10 The strategy also limits the amounts that may be held in such investments at any time in the year.

- 6.11 After consideration of the Council's requirements to manage funds and our approach to risk, it is proposed that the counterparty limits for deposits with UK local authorities is increased from £15m to £20m and the limit for deposits and Certificates of Deposit with banks and building societies is increased from £10m to £20m. This approach has been supported by our Treasury Advisors.
- 6.12 Deposits with local authorities are considered to be of very high credit quality and deposits with banks or building societies are restricted to those of high credit quality as defined by the credit ratings assigned to them by the rating agencies. Increasing the counterparty limits provides additional flexibility when placing deposits while maintaining a low-risk appetite.
- 6.13 The Executive Director of Finance and Corporate Resources will ensure that the strategy is adhered to at all times. The Council can only make an investment if that type of investment is detailed in this Strategy.
- 6.14 **Borrowing in Advance:-** Borrowing in advance of need increases the level of funds which require to be invested or deposited.
- 6.15 The CIPFA Prudential Code is clear that the Council must not borrow more than, or in advance of needs purely in order to profit from the investment of the extra sums borrowed.
- 6.16 The Council needs to be able to demonstrate that borrowing is for a legitimate purpose such as the exercise of day to day cash management or the management of borrowing for capital purposes.
- 6.17 The regulations do not prevent borrowing in advance of need but for it to be allowed the Council must detail its policy for borrowing in advance in the strategy.
- 6.18 The Executive Director of Finance and Corporate Resources will ensure that borrowing is taken at the most appropriate time to ensure best value and that the requirements of the Prudential Code are met.

## **7. Employee Implications**

- 7.1 None

## **8. Financial Implications**

- 8.1 There are no direct funding implications arising from the production of the Prudential Indicators, Treasury Management Strategy or Annual Investment Strategy.
- 8.2 The financial impact from treasury activity and borrowing for capital expenditure has been built into the long-term revenue budget strategy.

## **9. Climate Change, Sustainability and Environmental Implications**

- 9.1 There are no implications for climate change, sustainability or the environment in terms of the information contained in this report.

## **10. Other Implications**

- 10.1 South Lanarkshire Council recognises that any treasury management activity will carry an element of risk. It is important that risk is identified, and controls put in place to limit those risks.

- 10.2 The preparation and approval of Prudential Indicators and the Treasury Management Strategy set a framework for treasury management activities and limits on debt to mitigate risks.
- 10.3 The CIPFA Treasury Management Code of Practice adopted by the Council, places Credit and Counterparty risk at the forefront of treasury risks.
- 10.4 South Lanarkshire Council recognises that any investment activity will carry an element of risk. It is important that risk is identified, and controls put in place to limit and manage those risks.
- 10.5 Section 5 of the Annual Investment Strategy details how South Lanarkshire Council will manage these risks.

## **11. Equality Impact Assessment and Consultation Arrangements**

- 11.1 This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.
- 11.2 There is no requirement to undertake any consultation in relation to the content of the report.

**Paul Manning**

**Executive Director of Finance and Corporate Resources**

7 January 2020

### **Link(s) to Council Values and Objectives**

- ◆ Value: Accountable, effective, efficient and transparent

### **Previous References**

- ◆ None

### **List of Background Papers**

- ◆ None

### **Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

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**Prudential Indicators 2021/22 – 2023/24**

The Prudential Indicators are shown below and are split into 2 categories:

- Capital Expenditure and External Debt
- Affordability

Indicators 1 to 3 show statements of the expected borrowing requirement for the years 2020/21 to 2023/24 and attributes limits for external borrowing.

Indicator 4 demonstrates the financial impact of the expected borrowing for the years 2020/21 to 2023/24 and that this borrowing is affordable.

After year end, the actual position for the Indicators will be reported to this Committee.

**Capital Expenditure and External Debt Indicators****1. Prudential Indicator 1 – Capital Expenditure**

1.1 This indicator states the capital expenditure plans for the years 2020/21 through to 2023/24. The indicator takes account of the anticipated spend for 2020/21 and 2021/22. For 2022/23 and 2023/24, the Capital Strategy has been used as the basis, adjusted to reflect anticipated spend.

	<b>2020/21 Estimate £ m</b>	<b>2021/22 Estimate £ m</b>	<b>2022/23 Estimate £ m</b>	<b>2023/24 Estimate £ m</b>
<b>General Fund Capital Expenditure</b>	<b>80.021</b>	<b>86.874</b>	<b>87.791</b>	<b>51.602</b>
<i>Funded by:</i>				
Borrowing	23.790	53.542	57.565	20.697
Capital Receipts and Grants	53.538	32.858	30.226	30.905
Contributions from Reserves	1.295	0.474	0.000	0.000
Revenue Contributions	1.398	0.000	0.000	0.000
<b>Total Funding</b>	<b>80.021</b>	<b>86.874</b>	<b>87.791</b>	<b>51.602</b>
<b>HRA Capital Expenditure</b>	<b>48.172</b>	<b>100.801</b>	<b>29.211</b>	<b>29.240</b>
<i>Funded by:</i>				
Borrowing	9.994	71.657	2.141	1.630
Capital Receipts and Grants	18.134	19.637	26.050	26.590
Revenue Contributions	20.044	9.507	1.020	1.020
<b>Total Funding</b>	<b>48.172</b>	<b>100.801</b>	<b>29.211</b>	<b>29.240</b>

1.2 The table overleaf summarises the above capital expenditure plans and how the borrowing required for the capital programmes are adjusted for loans fund principal repayments, maturing debt and borrowing not taken in prior financial years to derive the borrowing requirement for the Council in each financial year.

	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m
Borrowing for General Fund Capital Expenditure	23.790	53.542	57.565	20.697
Borrowing for HRA Capital Expenditure	9.994	71.657	2.141	1.630
<b>Total Borrowing for Capital Expenditure</b>	<b>33.784</b>	<b>125.199</b>	<b>59.706</b>	<b>22.327</b>
Less Loans Fund Principal Repayments	(11.374)	(11.570)	(7.531)	(7.858)
Plus Maturing Debt	29.893	40.954	43.884	21.770
Borrowing carried over/(taken) in prior financial years	27.895	80.198	0.000	0.000
<b>Total Borrowing Requirement</b>	<b>80.198</b>	<b>234.781</b>	<b>96.059</b>	<b>36.239</b>
<b>Actual/Expected Borrowing</b>	<b>0.000</b>	<b>234.781</b>	<b>96.059</b>	<b>36.239</b>
Borrowing carried over to next financial year	80.198	0.000	0.000	0.000

1.3 The Council has not borrowed in 2020/21, instead it has used its cash balances to fund capital spend. Borrowing to replace these balances will be required going forward and this borrowing requirement is carried forward to 2021/22.

1.4 The borrowing identified above, and associated costs have been included in the Council's Financial Strategy.

## 2. Prudential Indicator 2 – Council's Borrowing Need (the Capital Financing Requirement) and Gross Debt

2.1 The Council's Capital Financial Requirement (CFR) is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow for past and present capital expenditure.

2.2 The Council is required to pay off an element of the accumulated balance of borrowing every year through a charge to the revenue account.

2.3 In order to ensure that over the medium-term debt will only be for a capital purpose, the Council needs to ensure that debt does not, except in the short term, exceed the total of the Capital Financing requirement (CFR) in 2020/21 plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

2.4 The projected Capital Financing Requirement and Gross Debt is shown in the table below.

	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m
General Fund Capital Financing Requirement	1,031.629	1,072.714	1,123.117	1,136.715
HRA Capital Financing Requirement	247.852	312.943	307.558	301.332
<b>Total Capital Financing Requirement</b>	1,279.481	1,385.657	1,430.675	1,438.047
<b>Gross Debt</b>	1,199.283	1,385.657	1,430.675	1,438.047
<b>Difference</b>	80.198	0.000	0.000	0.000

2.5 It can be seen that the estimated gross debt levels for the period 2020/21 to 2023/24 do not exceed the forecast CFR at the end of 2023/24, demonstrating that borrowing will only be undertaken for capital purposes.

2.6. This indicator sets out the expected CFR based on the capital plans shown at Indicator 1. Actual CFR for 2020/21 will be presented to committee following year end.

### 3. Prudential Indicator 3 – Limits to Borrowing

3.1 The **Operational Boundary for external debt** is based on the expected maximum external debt that could be faced in the course of the year. It is set to accommodate the borrowing requirements as detailed at Prudential Indicator 1, and also includes sufficient scope to allow for changes to the capital programme throughout the year and to borrow for the following year should this be considered appropriate. This limit is permitted to be breached during the year. This would be reported in the Prudential Indicators report presented to Committee after year end.

3.2 The **Authorised Limit for External Debt** represents a limit beyond which external debt is prohibited. It represents the level of external debt which could be afforded in the very short term, but is not sustainable in the longer term without consideration to revenue budgets. This limit needs to be set or revised by the full Council who should also be advised if the limit is exceeded or is expected to be exceeded. Again the limits include scope to borrow for the following year should this be considered appropriate.

	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m
<b>Operational Limit for debt</b>	1,270.000	1,340.000	1,340.000	1,330.000
<b>Operational Limit for other liabilities</b>	210.000	200.000	190.000	180.000
<b>Operational Limit</b>	1,480.000	1,540.000	1,530.000	1,510,000
<b>Authorised Limit for debt</b>	1,290.000	1,360.000	1,360.000	1,350.000
<b>Authorised Limit for other liabilities</b>	210.000	200.000	190.000	180.000
<b>Authorised Limit</b>	1,500.000	1,560.000	1,550.000	1,530,000

## Affordability Indicators

### 4. Prudential Indicator 4 – Ratio of Financing Costs to Net Revenue Stream

- 4.1. This indicator focuses on the extent to which the Council's net revenue budget is used for servicing debt. This is shown for both General Fund and HRA. The figures for General Fund include the reduction in the PPP/Finance Lease Liability as a financing cost.

	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m
<b>General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)</b>	6.27%	6.40%	5.88%	5.93%
<b>HRA General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)</b>	16.53%	17.55%	17.48%	16.92%

- 4.2. While the Council has prepared a Financial Strategy for 2021/22 to 2023/24, at the time of writing this report, we have not been advised of our General Revenue Grant funding beyond 2020/21. The indicators have been calculated using the assumptions regarding reductions in grant levels built into the Financial Strategy for 2021/22 and beyond.
- 4.3. For the HRA, estimates of rental income in each financial year have been used in the calculation.

## Treasury Management Strategy 2021/22

### 1. Foreword

- 1.1. The treasury management function is an important part of the overall financial management of the Council's affairs. The treasury management function considers the effective funding of capital investment plans and works toward ensuring that best practice is followed when making decisions on managing Council deposited funds.

The Council's treasury activities are regulated by the Local Government (Scotland) Acts 1975 and 2003, and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised December 2017). It is a requirement of this Code, and the financial regulations of South Lanarkshire Council, that a Treasury Management Strategy is approved by Committee every year.

A key requirement of this strategy is to explain both the risks and the management of these risks associated with the treasury function. A further report will be produced after the year end to report on actual activity during the year. It is a requirement of the Treasury Management Code of Practice that a mid year monitoring report is produced. This will cover the period 1 April 2021 to 30 September 2021 and will be submitted to Committee after that date.

This strategy covers:

- The Council's debt and investment projections (Section 2)
- The Council's estimates and limits on future debt levels (Section 3)
- The expected movement in interest rates (Section 4)
- The Council's borrowing strategy (Section 5)
- Treasury Management Limits on Activity (Section 6)
- Statutory Repayment of Loans Fund Advances (Section 7)

### 2. Debt and Investment Projections 2019/20 – 2021/22

- 2.1 The expected levels of external borrowing and investment for 2021/22 to 2023/24 are shown in the table below. An updated position for 2020/21 is also shown.

	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m
<b>External Debt</b>				
Borrowing	£1,005.540	£1,199.368	£1,251.543	£1,266.012
Other long term liabilities	£193.743	£186.290	£179.133	£172.036
Debt at 31 March (including PPP/Finance Lease Liability)	£1,199.283	£1,385.657	£1,430.675	£1,438.047
<b>Investments</b>				
Total Investments at 31 March	£87.087	£123.272	£112.047	£106.895

### 3. Estimates and Limits on Future Debt Levels

- 3.1 There are a number of key indicators to ensure the Council operates its activities within well defined limits. These are detailed in the Prudential Indicators Appendix 1, paragraphs 2.1 to 3.2.

### 4. Expected Movement in Interest Rates

- 4.1 The interest rate forecast provided by the Council's treasury advisor, Link Asset Services is reproduced below. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The forecasts below will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year.

#### Medium Term Interest rates - Annual Averages – Link Asset Services

	Base Interest Rate	5 year PWLB	10 year PWLB	25 year PWLB	50 year PWLB
2021/22	0.100%	0.825%	1.125%	1.600%	1.400%
2022/23	0.100%	0.900%	1.200%	1.700%	1.500%
2023/24	0.100%	1.000%	1.300%	1.800%	1.600%

- 4.2 Link Asset Services expect there to be little upward movement in Public Works Loans Board (PWLB) rates over the next three years as economies recover growth that stalled during the lockdowns to protect against the coronavirus pandemic. It is likely that there will be periods of volatility over the next three years as markets react to emerging economic data, however the overall trend is for PWLB rates to increase marginally.
- 4.3 The differential between investment earnings and debt costs remains high and is expected to continue in 2021/22. This “cost of carrying” needs to be considered if borrowing is taken before our cash flow requires funds as returns on deposits will be lower than the rate paid on borrowing.

### 5. Borrowing Strategy

- 5.1 The Council is currently maintaining an under-borrowed position in comparison to its Capital Financing Requirement, using its cash balances rather than borrowing to fund capital expenditure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 5.2 The Council's borrowing strategy will be to minimise borrowing costs over the medium to long term by considering the borrowing requirement arising from the capital programmes along with expected interest rates and the level of existing cash balances.
- 5.3 In conjunction with advice from its treasury advisor, Link Asset Services, the Council will keep under review the options it has in borrowing from the PWLB, the market and other sources up to the available capacity within its CFR and Authorised Limit.
- 5.4 One of the options to finance capital borrowing is the issuance of Bonds. In the right circumstances, Bonds could be appropriate for the Council but are dependent on the level of borrowing, the repayment period and the mix of other funding sources to fund a large-scale capital programme. To date, their use has not been considered

appropriate or necessary given the amount the Council requires to borrow and the repayment period of the borrowing. Moving forward, they will remain an option and will be considered along with other sources of borrowing as required.

- 5.5 Alongside fixed rate maturity borrowing, other options such as variable rate or short-term borrowing or EIP (equal instalments of principal) loans that help mitigate the impact of the cost of carry are all active considerations.
- 5.6 The Council will consider debt rescheduling where appropriate to make savings in interest costs or to amend the profile of maturing debt to reduce any inherent refinancing risks, however opportunities will be limited due to the premium that is charged by the PWLB for the early repayment of debt.
- 5.7 The overall strategy for borrowing will be to monitor interest rates, undertake planned borrowing at the best time, whilst investigating opportunities where possible to improve the structure of our existing loan portfolio.
- 5.8 The expected borrowing is detailed in the Prudential Indicators Appendix 1, paragraphs 1.1 to 1.3 and is summarised below.

	2020/21 Estimate £ m	2021/22 Estimate £ m	2022/23 Estimate £ m	2023/24 Estimate £ m
Total Borrowing Requirement	0.000	234.781	96.059	36.239

## 5. Treasury Management Limits on Activity

- 6.1 The Treasury Management in the Public Services - Guidance Notes for Local Authorities details treasury management indicators that are to be reported within the Treasury Strategy.
- 6.2 The purpose of the Treasury Management Indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are detailed below.

### Treasury Management Indicator 1 – Maturity Structure of Borrowing

- 6.3 By setting limits on the maturity structure of borrowing, the exposure to large concentrations of debt needing to be replaced at the same time in the future at currently unknown rates can be limited. This effectively places a limit on exposure to longer term interest rate movement. The upper and lower limits for the maturity structure of borrowing is shown in the table overleaf.

<b>Maturity Structure of Borrowing</b>		
	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 12 months	30%	0%
12 months and 24 months	30%	0%
24 months and 5 years	50%	0%
5 years and 10 years	60%	0%
10 years and 20 years	60%	0%
20 years and 30 years	70%	0%
30 years and 40 years	80%	0%
40 years and 50 years	90%	0%
50 years and above	90%	0%

### **Treasury Management Indicator 2 – Investments Greater Than 364 Days-**

- 6.4 Limits on the total principal sums invested for greater than 364 days protects against potential loss that we would suffer if we required to get our money back earlier than the full term of the investment.
- 6.5 This Council will, at any one time, have no more than £10m invested for periods greater than 364 days, subject to a maximum period of 5 years.

### **Interest Rate Risk**

- 6.6 As there is no longer a specific recommended indicator in respect of interest rate exposures, councils are asked to explain their strategy for managing interest rate risks.
- 6.7 Interest rate risk is the risk that movements in interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.
- 6.8 The Council manages this risk by having a view of the future course of interest rates and a borrowing strategy that aims to minimise borrowing costs and ensure that these are affordable. The financial impact of borrowing for capital expenditure has been built into the long-term revenue budget strategy.

### **Credit Risk**

- 6.9 There is no specific recommended indicator in relation to credit risk, although the Treasury Management Code states that authorities may wish to design and set their own indicators in relation to this.
- 6.10 Details of how South Lanarkshire Council manages credit risk are included in the Annual Investment Strategy 2021/22 which is included in Appendix 3 of this report.

## **7. Statutory Repayment of Loans Fund Advances**

- 7.1 The Scottish Government introduced The Local Authority (Capital Financing and Accounting) Scotland Regulations 2016 with effect from 1 April 2016. These regulations require the statutory loans fund to be administered in accordance with

the 2016 Regulations, proper accounting practice and prudent financial management.

- 7.2 The Local Authority (Capital Financing and Accounting) Scotland Regulations 2016 provides local authorities with greater flexibility to determine the repayments of loans fund advances and permits these to be varied if the authority considers it prudent to do so.
- 7.3 As reported to the Executive Committee on 24 June 2020, a review of the General Fund Loans Fund has now been completed and identified that £68m of loans fund advances had been repaid earlier than it would have been under a revised model. This enables loan fund repayments to be reduced in the short term with the resultant in year underspends being transferred to reserves and used to support the Council's Budget Strategies.

### **Policy for the Statutory Repayment of Loans Fund Advances**

- 7.4 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.
- 7.5 A number of options are available 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:-

The policy for the repayment of loans fund advances will be to use the most appropriate method of repayment for individual capital schemes or projects from the following methods.

**1. Asset life method** – loans fund advances will be repaid with reference to the life of an asset on an annuity basis.

**2. Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream.

- 7.6 For loans fund advances repaid using the annuity basis, the annual repayment will be calculated using an appropriate interest rate based on an average cost of funding capital advances to services.
- 7.7 The Council's strategy for managing debt includes making additional voluntary repayments. These repayments will be used as a tool to reduce interest costs in the short to medium term by lowering the Council's need to borrow. These additional voluntary repayments will be retained and used to offset higher loans fund repayments in the long term. All of this helps to ensure that charges to the revenue account remain prudent and affordable in the long term.

### **Repayment of Loans Fund Advances**

- 7.8 Borrowing to fund the capital programmes result in new loans fund advances and create a liability to repay those advances from future years' budgets. The Council is required to report on the commitment to repay loans fund advances. This is shown in the following tables.

<b>General Fund</b>	<b>Opening Balance</b>	<b>New Advances</b>	<b>Repayments</b>	<b>Closing Balance</b>
2020/21	816.956	23.790	-5.000	835.746
2021/22	835.746	53.542	-5.004	884.284
2022/23 – 2025/26	884.284	104.218	-24.585	963.917
2026/27 – 2030/31	963.917	9.105	-166.619	797.298
2031/32 – 2035/36	797.298	0.000	-158.353	638.945
2036/37 – 2040/41	638.945	0.000	-125.109	513.836
2041/42 – 2045/46	513.836	0.000	-129.805	384.031
2046/47 – 2050/51	384.031	0.000	-128.066	255.965
2051/52 – 2055/56	255.965	0.000	-127.822	128.143
2056/57 – 2060/61	128.143	0.000	-53.864	74.279
2061/62 – 2065/66	74.279	0.000	-45.579	28.700
2066/67 – 2070/71	28.700	0.000	-24.393	4.307
2071/72 – 2075/76	4.307	0.000	-4.307	0.000

<b>Housing Revenue Account</b>	<b>Opening Balance</b>	<b>New Advances</b>	<b>Repayments</b>	<b>Closing Balance</b>
2020/21	244.219	9.995	-6.374	247.840
2021/22	247.840	71.657	-6.566	312.931
2022/23 – 2025/26	312.931	5.401	-32.037	286.925
2026/27 – 2030/31	286.925	0.000	-49.943	236.352
2031/32 – 2035/36	236.352	0.000	-55.785	180.567
2036/37 – 2040/41	180.567	0.000	-39.100	141.467
2041/42 – 2045/46	141.467	0.000	-35.977	105.490
2046/47 – 2050/51	105.490	0.000	-41.366	64.124
2051/52 – 2055/56	64.124	0.000	-36.124	28.000
2056/57 – 2060/61	28.000	0.000	-23.904	4.096
2061/62 – 2065/66	4.096	0.000	-4.096	0.000

## Annual Investment Strategy 2021/2022

### 1. Background

- 1.1. Local authority investment activity is regulated by statute. In Scotland the legislation that local authorities rely on to make investments has consisted of the Trustee Investments Act 1961 and the Local Government (Scotland) Act 1973.
- 1.2. In response to representation from local authorities that the existing regulation was too prescriptive, provision was made in the Local Government in Scotland Act 2003 for Scottish Ministers to introduce a new regulatory framework.
- 1.3. Section 40 of the Local Government in Scotland Act 2003 provides local authorities with the power to invest money. This power may be exercised in accordance with regulations made by Scottish Ministers under this section.
- 1.4. Scottish Ministers have, through Consent and Regulations, provided a formal investment framework, namely The Local Government Investments (Scotland) Regulations 2010 which came into force on 1 April 2010.
- 1.5. The new regulatory framework introduced by regulations made by Scottish Ministers under Section 40, provides greater autonomy for local authorities in their investment activities. With this greater freedom comes greater responsibility and the onus is on local authorities to act prudently regarding their investment and treasury management activities.
- 1.6. Local authorities are required to manage their investments in a way that minimises the risk to the capital sum and optimises the return on the funds consistent with those risks.
- 1.7. Local authorities are required to prepare an Annual Investment Strategy before the start of the financial year.

### 2. Investment Policy and Strategy

- 2.1. Scottish Ministers have identified two CIPFA Codes of Practice which local authorities must have regard to in managing their investments:
  - Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Fully Revised Second Edition 2009)
  - The Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition 2009)
- 2.2. The first Code referenced covers the whole range of treasury management issues including the fundamental principles for making and managing investments. The second Code deals with capital investment but also includes guidance on Treasury Management.
- 2.3. The CIPFA Treasury Management Code and the CIPFA Prudential Code were updated in December 2017. There are no significant areas of change in the revised codes that would impact on our investment strategy.

- 2.4. This Council in its Treasury Management Policy Statement 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.*
- 2.5. The main objective when investing surplus funds will therefore be the security of the transaction. The Council must also meet its liquidity requirement and only invest for the period of time that is prudent. Finally, and only after consideration of security and liquidity, the yield that will be gained from the investment will be considered.
- 2.6. While the prime considerations when investing surplus funds are security liquidity and yield, it is recognised that consideration must be given to other factors such as climate change, sustainability and the environment.
- 2.7. Since 2016, the only banks that the Council have used for the temporary investment of surplus funds are Bank of Scotland and The Royal Bank of Scotland.
- 2.8. These banks have their own policies on climate change, sustainability and environmental issues and further details can be found here:

[Lloyds Banking Group - Approach to Environmental, Social and Governance \(ESG\) Topics](#)

[NatWest Group - Sustainable Banking](#)

- 2.9. The Council will continue to work with their Treasury Management Advisors who are looking at ways to incorporate additional factors covering these areas into their creditworthiness assessment service. Any developments in this area will be reported to the Climate Change and Sustainability Committee.

### **3. Treasury Management Risks**

- 3.1. The CIPFA Treasury Management Code of Practice adopted by the Council includes a section on Managing Treasury Management Risks, placing Credit and Counterparty risk at the forefront of treasury risks.
- 3.2. South Lanarkshire Council recognises that any investment activity will carry an element of risk. It is important that risk is identified and controls put in place to limit those risks.
- 3.3. Risks when carrying out investment activities can broadly be categorised as follows:

Credit Risk:	failure to receive back the principal and interest on an investment in full and on the due date
Liquidity Risk:	the maturity or terms of the investment are such that insufficient cash is available in the short term
Market Risk:	the effect of market prices on the value of the investment

### **4. Permitted Investments**

- 4.1. Local authorities are required to list and document all types of investments that they will permit in the financial year. These will be described as the permitted investments for that local authority.

- 4.2. Local authorities are required to state the limits for the amounts which at any time during the year may be invested in each type of permitted investments, such limit being applied when the investment is made.
- 4.3. For each type of permitted investment, the objectives of that investment are to be identified along with the associated treasury risks and the controls that will be put in place to limit those risks.
- 4.4. The permitted investments that South Lanarkshire Council have identified for the financial year 2020/21 are detailed in Annex 1 to this strategy and listed below:
  - Deposits with the Debt Management Account Deposit Facility
  - Deposits with UK Local Authorities
  - Deposits with Banks and Building Societies
  - Certificates of Deposit with Banks and Building Societies
  - UK Government Gilts and Treasury Bills
  - AAA Rated Bonds Issued by Multilateral Development Banks
  - AAA Rated Money Market Funds
  - Loans to Third Parties

Inclusion as a permitted investment simply allows the Council to use that investment if considered to be appropriate. It is not necessarily the case that all permitted investments will be used.

## 5. Risk Management

- 5.1. The CIPFA Treasury Management Code of Practice adopted by the Council includes a section on Managing Treasury Management Risks, placing Credit and Counterparty risk at the forefront of treasury risks. The Code states:

*Credit ratings should only be used as a starting point when considering credit risk. Organisations should make use of generally available market information, such as the quality financial press, market data, and information on government support for banks including the ability and willingness of the relevant government to provide adequate support.*

- 5.2. In managing credit and counterparty risk the Council will be required to:
  - Establish a sound diversification policy with high credit quality counterparties
  - Set clear minimum credit limits for counterparties.
  - Have regard to the credit ratings issued by all three rating agencies and make decisions based on the lowest rating
  - Consider country, sector and group limits
  - Regularly review credit ratings and other creditworthiness indicators as outlined in 5.6 below and act upon forward looking rating warnings

### **Deposits with the Debt Management Account Deposit Facility**

- 5.3. Deposits with the Debt Management Office Account Deposit facility provided by HM Treasury will be continued. This facility offers the highest security for investments and deposits will be subject to a maximum period of six months which is the maximum time allowed by the DMO and no maximum deposit size.

### **Deposits with UK Local Authorities**

- 5.4. Deposits with UK local authorities will be permitted subject to a maximum period of three years and a maximum deposit size of £20m for up to 364 days and £10m beyond this.
- 5.5. Before placing a deposit with a local authority, an internet search will be carried out to ensure that there are no financial concerns regarding the local authority that may cause reputational damage to this Council through association.

### **Deposits and Certificates of Deposit with Banks and Building Societies**

- 5.6. The following minimum thresholds will be applied to all deposits with banks and building societies, including Certificate of Deposits.

<b>Rating Agency</b>	<b>Long Term Rating</b>	<b>Maximum Deposit</b>
Fitch	A-	£20m
Moody's	A3	£20m
Standard and Poors	A-	£20m

- 5.7. Prior to depositing funds with any bank or building society, checks will be made with the Council's treasury adviser, Link Asset Services, that the institution is considered safe and that any deposit conforms to their recommended time duration as determined by their Rating Methodology. This methodology uses credit ratings, rating watches and outlooks and credit default swap (CDS) prices to establish a suggested time duration for deposits.
- 5.8. Currently all deposits are with UK institutions. Non-UK banks would only be considered if they meet our strict criteria and are recommended by our advisers. Any one foreign country would carry a limit of £20m deposits.
- 5.9. If two or more organisations in the same group meet the criteria detailed in 5.5. then a group limit of £20m will be applied.
- 5.10. Deposits with banks or building societies will be restricted to 364 days.
- 5.11. The existing Counterparty policy sets out a sound approach to depositing cash in normal market circumstances. Whilst this policy still stands, the Executive Director of Finance and Corporate Resources may consider temporarily restricting deposits to those counterparties considered of higher credit quality than the minimum criteria set out in the policy.
- 5.12. Examples of these restrictions would be greater use of higher rated institutions; increased use of the DMO account and restricting the term of deposits as appropriate.
- 5.13. Operational banking will continue with our contracted provider. Any deposits with banks or building societies will continue to meet the criteria set in 5.5.

### **UK Government Gilts and Treasury Bills**

- 5.14. UK Government Gilts and Treasury Bills are bonds issued by HM Treasury. Purchasing these bonds is a means of investing in the UK Government. The UK Government has never failed to make interest or principal payments on these bonds.

- 5.15. Investments in UK Government Gilts and Treasury Bills carry very little credit risk as they are investments in the UK Government. Gilts and Treasury Bills are marketable, and the price fluctuates from day to day. There is therefore the potential of capital loss if sold ahead of maturity. Gilts and Treasury Bills will be bought by the Council with the intention of holding them to maturity thereby mitigating market risk. There will be no maximum limit to the amount that will be invested in UK Gilts or Treasury Bills for maturities of less than one year. For Gilts with maturities in excess of one year a limit of £10m will be applied and no maturity will exceed five years.

#### **AAA Rated Bonds Issued by Multilateral Development Banks**

- 5.16. These are bonds issued by supranational institutions such as the World Bank or the European Investment Bank.
- 5.17. Investments in AAA rated bonds issued by Multilateral Development Banks carry very little credit risk as they are backed by several Sovereign States. These bonds carry market risk as their price fluctuates from day to day. There is therefore the potential of capital loss if sold ahead of maturity. These bonds will be bought by the Council with the intention of holding them to maturity, thereby mitigating market risk. The maximum amount that will be invested in AAA rated bonds issued by Multilateral Development Banks is £10m with a maximum period of five years.
- 5.18. Any investments in these bonds would only be undertaken after careful consideration and with advice from our advisers to ensure security of our investments.

#### **AAA Rated Money Market Funds**

- 5.19. Investments in Money Market Funds will be limited to those funds rated as AAAMmf by Fitch, Aaa by Moody's or AAAM by Standard and Poor's. In the event that the Money Market Fund is rated by more than one credit rating agency, each rating must meet the set criteria.
- 5.20. In addition to the credit rating, Money Market Funds will also be assessed for suitability on fund size, the strength of the custodian and the stability of invested capital.
- 5.21. Selection of suitable Money Market Funds will be undertaken in consultation with our advisers.
- 5.22. Investments in Money Market Funds will be restricted to 0.5% of the Money Market Fund size and to no more than £10m in any individual Money Market Fund.
- 5.23. Investments in Sterling Government Money Market Funds which only invest in Sterling denominated debt securities issued by the UK Government will be restricted to 2% of the Money Market Fund size and to no more than £10m in any individual Money Market Fund.

#### **Loans to Third Parties**

- 5.24. Any new types of loans to third parties should be approved by Members through the appropriate Committee with full consideration of the service rationale behind the loan and the likelihood of partial or full default and the impact that this will have on service budgets.

#### **Liquidity Risk**

- 5.25. In order to manage liquidity risk, the Council will endeavour to maintain a minimum balance of £5m in bank accounts and money market funds with instant access

(same day notice account). This is dependent on these facilities continuing to be provided by the banks and subject to our minimum lending criteria.

- 5.26. In addition to retaining a balance of deposits on instant access, South Lanarkshire Council will maintain an appropriate overdraft facility.
- 5.27. Longer term investments will only be considered where the Council's liquidity requirements are ensured and an assessment of liquidity risk has been carried out. No more than £10m of investments at any one time will be for a period in excess of 364 days.

## **6. Borrowing In Advance**

- 6.1. Borrowing in advance may be taken if it is considered appropriate, for example if interest rates were expected to increase significantly.
- 6.2. 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 within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 6.3. The risks of holding increased levels of deposits and investments would be managed in accordance with section 5 above. The Council has unlimited access to using the DMO Deposit Facility where necessary. This facility offers the highest security for investments.

## **7. Investment Projection 2021/22 – 2023/24**

- 7.1. Over the period 2021/22 – 2023/24, it is estimated that an average level of investments of approximately £114m will be required to be managed, reflecting the level of reserves held plus an element of working capital. It is recognised that this is only an estimate and that this figure will vary according to cash flow movements and the timing and size of any borrowing taken.
- 7.2. Regardless of the level of deposits, the main consideration when investing surplus funds will be the security of the transaction. The Council must also meet its liquidity requirement and only invest for the period of time that is prudent. Finally, and only after consideration of security and liquidity, the yield that will be gained from the investment will be considered.

## **8. Prudential Indicators**

- 8.1. The regulations require that the Annual Investment Strategy contains details of the relevant prudential indicators for investments.
- 8.2. The Treasury Management Code requires local authorities to set an upper limit for each forward financial year period for investments longer than 364 days. The purpose is to contain the exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested.
- 8.3. No more than £10m may be invested for periods in excess of 364 days and that the maximum period for any investment is 5 years.

## **9. Common Good Investments**

- 9.1. The regulations require local authorities to identify separately the permitted investments relating to the Common Good.

9.2. All investments relating to the Common Good funds administered by South Lanarkshire Council are cash investments in South Lanarkshire Council. These investments are not considered to have any significant risk attached.

Permitted Investment	Treasury Risks	Mitigating Controls	Limits
Deposits with the Debt Management Account Deposit Facility	<p>This is a deposit with the UK Government and so credit risk is very low.</p> <p>Liquidity risk has to be considered as deposits can only be broken with the agreement of the counterparty and penalties may apply.</p> <p>There is no market risk as the principal sum invested is not affected by market prices.</p>	There are no mitigating controls required.	<p>There is no maximum monetary limit.</p> <p>A maximum term of deposit of six months as set by the Debt Management Office.</p>
Deposits with UK Local Authorities and other bodies defined as local authorities in the Local Government Scotland Act 2003 (And Equivalent English Act)	<p>These are considered to be quasi UK Government investment and as such credit risk is very low.</p> <p>Liquidity risk has to be considered as deposits can only be broken with the agreement of the counterparty and penalties may apply.</p> <p>There is no market risk as the principal sum invested is not affected by market prices.</p>	There are no mitigating controls required.	<p>The maximum deposit with any local authority will be £20m for deposits less than one year.</p> <p>Deposits in excess of one year will be subject to a maximum term of deposit of three years and be limited to £10m.</p>
Deposits with Banks and Building Societies	<p>These tend to be low risk but credit risk will be higher than deposits placed with the DMO or UK local authorities.</p> <p>Liquidity risk has to be considered as deposits can only be broken with the agreement of the counterparty and penalties may apply.</p> <p>There is no market risk as the principal sum invested is not affected by market prices.</p>	<p>The counterparty selection criteria restricts lending only to high quality counterparties, measured initially by credit ratings from Fitch, Moody's and Standard and Poors.</p> <p>Additional indicators of creditworthiness will also be considered prior to placing any deposits.</p> <p>Liquidity risk can be controlled by the use of instant access call accounts.</p>	<p>The maximum deposit with any bank or building society will be £20m.</p> <p>A maximum term of deposit of 364 days.</p>

<p>Certificates of Deposit with Banks and Building Societies</p>	<p>These are short to medium term dated marketable securities issued by financial institutions.</p> <p>These tend to be low risk investments but credit risk will be higher than deposits placed with the DMO or UK local authorities.</p> <p>Liquidity risk is lower than placing a deposit with a Bank or Building Society as these can be sold on the market.</p> <p>There is a risk of capital loss arising from selling ahead of maturity.</p>	<p>The counterparty selection criteria restricts lending only to high quality counterparties, measured initially by credit ratings from Fitch, Moody's and Standard and Poor's.</p> <p>Additional indicators of creditworthiness will also be considered prior to using this type of instrument.</p> <p>Market risk would be mitigated by holding the instrument to maturity.</p>	<p>The maximum investment with any bank or building society will be £20m.</p> <p>A maximum period of investment of 364 days.</p>
<p>UK Government Gilts and Treasury Bills</p>	<p>These are marketable securities issued by the UK Government and as such credit risk is very low.</p> <p>Liquidity risk is very low as there is a huge market for Gilts and Treasury Bills</p> <p>There is a risk of capital loss arising from selling ahead of maturity.</p>	<p>There are no mitigating controls required for credit risk as the investment is with the UK Government.</p> <p>Market risk would be mitigated by holding the instrument to maturity.</p>	<p>There is no maximum limit to investments in UK Gilts or Treasury Bills for maturities less than one year and a limit of £10m for maturities greater than one year.</p> <p>The maximum period of investment will be five years.</p>
<p>AAA Rated Bonds Issued by Multilateral Development Banks</p>	<p>These are bonds issued by supranational bodies such as the European Investment Bank or World Bank and as a result are backed by several sovereign states and as such credit risk is very low.</p> <p>Liquidity risk is very low as there is a large market for Supranational Bonds.</p> <p>There is a risk of capital loss arising from selling ahead of maturity.</p>	<p>As the investment is effectively spread across a number of sovereign states, the Council will mitigate the credit risk of holding such bonds by considering the sovereign rating of the underlying sovereign states and only holding bonds that have a AAA rating.</p> <p>Market risk would be mitigated by holding the instrument to maturity.</p>	<p>The maximum amount that will be invested in AAA Rated Bonds issued by Multilateral Development Banks is £10m.</p> <p>The maximum period of investment will be five years.</p>

<p>AAA Rated Money Market Funds</p>	<p>Money market funds are pooled funds that invest in short-term money market instruments and other debt instruments.</p> <p>The underlying investments are diversified and Credit risk, liquidity risk and market risk are all very low.</p> <p>Investments in these MMFs are highly liquid (same day liquidity).</p>	<p>Money Market Funds will only be used where they have obtained a AAA rating from the credit rating agencies.</p> <p>In addition to the credit rating, Money Market Funds will also be assessed for suitability on fund size, the strength of the custodian and the stability of invested capital.</p>	<p>Investments in Money Market Funds will be limited to 0.5% of the Money Market Fund Balance and to no more than £10m in any one Fund.</p> <p>Investments in Sterling Government Money Market Funds which only invest in Sterling denominated debt securities issued by the UK Government will be restricted to 2% of the Money Market Fund size and to no more than £10m in any individual Money Market Fund.</p>
<p>Loans to Third Parties</p>	<p>These are service investments which may exhibit credit risk and are likely to be highly illiquid.</p>	<p>Any new types of loans to third parties should be approved by Members through the appropriate Committee with full consideration of the service rationale behind the loan and the likelihood of partial or full default and the impact that this will have on service budgets.</p>	