Shropshire Council

Treasury Management Strategy 2023/24

February 2023

Introduction

The Council depends upon a strong foundation of proper management of its financial affairs in order to provide needed and valued services to the our community and to pursue the objectives set out in the Shropshire Plan.

This Treasury Management strategy sets out how we will proactively manage our banking and cash arrangements (including borrowing and investment activity) through 2023/24 in order to ensure that funding is available to the council when it is required, but also that the cost of managing this is kept as low as possible.

This strategy is fully aligned to the updated Medium Term Financial Strategy, which articulates how the Shropshire Plan objectives will be delivered in financial terms.

Gwilym Butler
Cabinet Member
for Finance

James Walton
Executive Director
of Resources

1 – Overview

The objectives and contents of the Treasury Management Strategy

The Council operates a balanced budget. Amongst other things, this means that cash received during the year is used to fund its cash expenditure – our cashflow. Primarily, council tax and business rates received from the local area, and grants received from government, are then used to pay for council activity in delivering services. Treasury Management operations ensure this cashflow is properly planned and managed.

The Council defines its treasury management activities as “the management of the authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks”. Cash flow management involves forecasting in- and out-flows of cash and ensuring that funds are available to meet expenditure needs. Any temporarily surplus monies can be invested in low-risk counterparties, sometimes providing a return on investment. In doing so, we prioritise

- Security first (that is, the investment will be repaid), then
- Liquidity (that is, we can afford to lose access to the sum invested for the period of the investment, without negatively impacting on wider council operations), and lastly
- Yield (securing a beneficial return on investments made).

Treasury Management also ensures that funds are available to support the Council’s capital investment plans, whether using government grants, developer contributions, or external borrowing. These plans forecast the borrowing requirements of the Council - essentially, longer-term cash flow planning.

Whilst any commercial initiatives or loans to third parties will be informed by the treasury strategy and appropriate advice, these activities are generally classed as non-treasury activities, and are separated from the day-to-day treasury management activities.

This Treasury Management Strategy includes the following sections

1. Overview of the strategy
2. Economic update
3. Updates to the CIPFA codes
4. Annual investment strategy
5. Prudential and treasury indicators
6. Minimum Revenue Provision policy
7. Specified and non-specified investments

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny. In January 2022, Link & Officers provided member training on treasury management and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

The Council will adopt the following reporting arrangements in accordance with the requirements of the Code:-

Area of Responsibility	Council/Committee/Officer	Frequency
Treasury Management Policy Statement	Full Council/Cabinet	As required
Treasury Strategy/Annual Investment Strategy/MRP Policy	Full Council/Cabinet	Annually before the start of the financial year
Capital Strategy	Full Council/Cabinet	Annually before the start of the financial year
Treasury Strategy/Annual Investment Strategy/MRP Policy – mid year report	Full Council/Cabinet	Mid-year
Treasury Strategy/Annual Investment Strategy/MRP Policy – updates or revisions at other times	Full Council/Cabinet	As required
Annual Treasury Report	Full Council/Cabinet	Annually by 30 September after the end of the financial year
Quarterly Treasury Management Update Reports	Executive Directors/Cabinet	Quarterly
Treasury Management Monitoring Reports	Reports prepared by Investment Officer to the Head of Treasury & Pensions who reports to the Section151 Officer	Monthly
Treasury Management Practices/Investment Management Practices	Section 151 Officer	As required
Scrutiny of Treasury Strategy	Audit Committee	Annually before the start of the financial year
Scrutiny of the treasury management performance	Audit Committee	Half yearly

<u>Compliance with best practice</u>

Best practice guidance is regularly reviewed and updated as necessary. This strategy has been prepared in accordance with CIPFA's Code of Practice on Treasury Management, and is approved annually by Full Council. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued Prudential and Treasury Management Codes.

The codes have clarified CIPFA's position on the role of the treasury management team and that there is a clear separation between treasury and non-treasury investments. Accordingly, periodic reporting by the treasury management team to members will focus solely on treasury investments. If non treasury investments are considered, a separate report will be presented for approval and any changes required to Prudential indicators incorporated within an updated Treasury Strategy if necessary.

The Local Government Act 2003 and supporting Regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable. This report incorporates the indicators to which regard should be given when determining the Council's Treasury Management Strategy for the next financial year.

As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund.

Annual investment strategy

The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This is attached in appendix 2 and includes a list of additional responsibilities for the Section 151 Officer role following the issue of the Treasury Management Code of Practice and Prudential Code.

The proposed Strategy for 2023/24 in respect of the following aspects of the treasury management function is based upon the Section 151 Officer's view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Link Asset Services.

Relationship of the Treasury Management Strategy to the Capital strategy

All local authorities are required to prepare a Capital Strategy which is intended to provide the following: -

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how associated risk is managed
- The implications for future financial sustainability

The aim of the Capital Strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy is separate from the Treasury Management Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy objectives realised in investments in local capital assets. The capital strategy sets out:

- The corporate governance arrangements for capital investments
- Any service objectives relating to the investments
- The expected income, costs and resulting contribution
- The debt related to the activity and the associated interest costs
- The payback period (implementing the MRP policy contained in the treasury management strategy)
- For non-loan type investments, the cost against the current market value
- The risks associated with each activity

Shropshire Council

2 - Economic context

Economic Update[1]

Overview

Treasury management needs to be undertaken with a clear understanding of the economic context. Factors such as the bank rate and inflation rates have a clear impact on likely interest charged on future borrowing and interest earned on potential investments.

The inflation outlook indicates a degree of increasing positivity – the outlook is for rates to fall across the next 12-18 months. This is positive because although inflation pressures increase the cost of council services delivery, those costs are not expected to continue rising in the medium term.

UK Government finances provide the framework in which HM Treasury will frame future public spending decisions, including funding for councils. In the short term, this looks to be positive, but the extent of borrowing indicates that the government is likely to seek to recover that borrowing position within the medium term – which may lead to reductions in planned spending and so reductions in grant allocations (or less real-terms growth than would otherwise be the case).

Bank rates are a key driver of the cost of borrowing. The forecast indicates that these are likely to peak in about 12 months (Dec 23) before reducing. This is important should the council wish to secure external borrowing – and advice will be sought in that event to ensure that the most economic option is identified.

Inflation

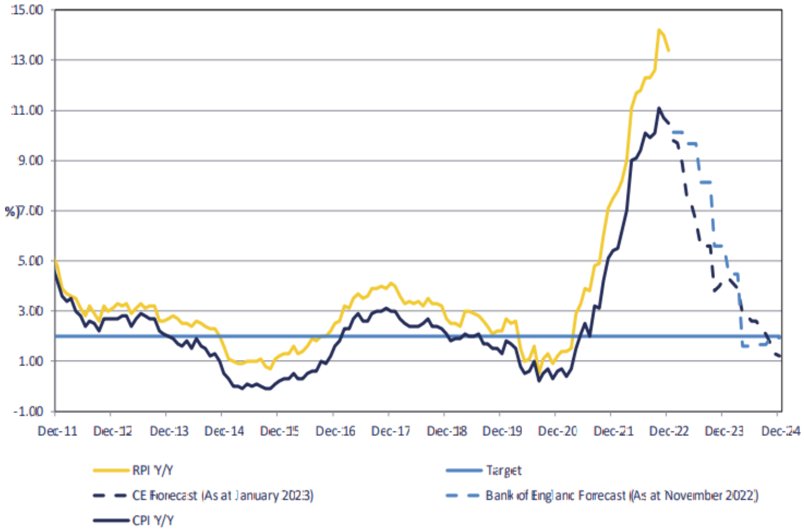
Annual inflation rate in the UK fell to 10.5% in December of 2022 from 10.7% in November, matching market forecasts. It marks a second consecutive month of slowing inflation and the lowest rate in three months, after a peak of 11.1% in October.

The largest downward contribution came from transport prices (6.5% vs 7.2%), namely motor fuels. Average petrol prices fell by 8.3 pence per litre between November and December. Prices also eased for clothing and footwear (6.5% vs 7.5%) and recreation and culture (4.9% vs 5.3%), mainly games, toys and hobbies.

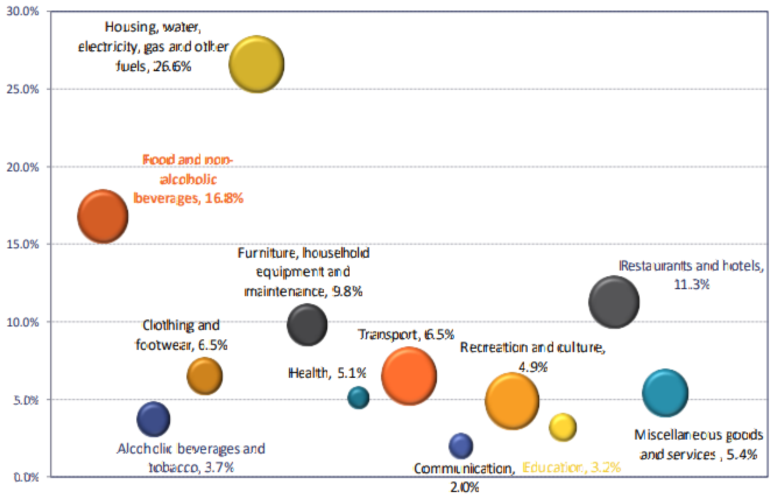
[1] With the exception of the overview, data in this section draws heavily on the Link Group 'Strategy Presentation for Shropshire Council' (25 January 2023).

UK Inflation

CPI & RPI (y/y)



UK CPI Breakdown – December (%) y/y



Average weekly earnings including bonuses in the UK increased by 6.4% year-on-year to £629 in the three months to November of 2022, the most since the three months to May, above an upwardly revised 6.2% gain in the three months to October, and topping market estimates of 6.2%. Regular pay which excludes bonus payment also went up 6.4%, the biggest increase since records began in 2001, excluding the height of the coronavirus pandemic, exceeding forecasts of 6.2% and after a 6.1% gain in the previous period.

Earnings growth was previously boosted by the effect of lower paid workers losing their jobs during the pandemic and the impact of the furlough scheme.

Annual inflation rate in the UK fell to 10.5% in December of 2022 from 10.7% in November, matching market forecasts. It marks a second consecutive month of slowing inflation and the lowest rate in three months, after a peak of 11.1% in October. The largest downward contribution came from transport prices (6.5% vs 7.2%), namely motor fuels. Average petrol prices fell by 8.3 pence per litre between November and December. Prices also eased for clothing and footwear (6.5% vs 7.5%) and recreation and culture (4.9% vs 5.3%), mainly games, toys and hobbies.

Bank of England Inflation Forecast

UK Government finances

Public sector net borrowing excluding public sector banks in the UK was £22 billion in November, £13.9 billion more than in November 2021 and the highest November borrowing since monthly records began in 1993. Figures came much higher than market forecasts of a £13.5 billion gap, as government measures to relieve households and businesses from soaring energy prices and higher debt interest payments weighed.

PSNB ex was £105.4 billion in the financial year to November; this was £7.6 billion less than in the same period last year, but £50.8 billion more than in the financial year to November 2019 (pre-coronavirus), and is the fourth highest financial year to November borrowing since monthly records began in 1993.

Public sector net debt excluding public sector banks (PSND ex) was £2,477.5 billion at the end of November, or around 98.7% of gross domestic product (GDP), which was an increase of £125.9 billion, or a decrease of 0.3 percentage points of GDP, compared with November 2021

Bank of England forecasts

The Bank of England voted by a majority of 6-3 to raise interest rates by 50 basis points to 3.5 percent during its December meeting, pushing the cost of borrowing to the highest level since late-2008, as policymakers try to contain inflation amid fears of a looming economic recession. Two MPC members preferred to maintain rates unchanged, and one member preferred to increase them by 75 bps, to 3.75 percent.

In the MPC's November Monetary Policy Report projections, conditioned on the elevated path of market interest rates at that time, the UK economy was expected to be in recession for a prolonged period and CPI inflation was expected to remain very high in the near term. Inflation was expected to fall sharply from mid-2023, to some way below the 2% target in years two and three of the projection. This reflected a negative contribution from energy prices, as well as the emergence of an increasing degree of economic slack and a steadily rising unemployment rate. The risks around that declining path for inflation were judged to be to the upside.

UK Interest Rate Forecast

Bank Rate	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link Group	**3.50%**	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%	2.50%	2.50%
Capital Economics	**3.50%**	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%	-	-	-	-
5yr PWLB Rate	**NOW**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**
Link Group	**4.09%**	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%	3.40%	3.30%	3.20%	3.10%
Capital Economics	**4.09%**	4.00%	3.80%	3.70%	3.50%	3.50%	3.40%	3.30%	3.30%	-	-	-	-
10yr PWLB Rate	**NOW**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**
Link Group	**4.21%**	4.40%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%	3.40%	3.30%	3.30%
Capital Economics	**4.21%**	4.00%	3.80%	3.70%	3.60%	3.50%	3.40%	3.40%	3.30%	-	-	-	-
25yr PWLB Rate	**NOW**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**
Link Group	**4.55%**	4.60%	4.60%	4.50%	4.40%	4.20%	4.10%	4.00%	3.90%	3.70%	3.60%	3.50%	3.50%
Capital Economics	**4.55%**	4.40%	4.20%	4.00%	3.80%	3.80%	3.70%	3.60%	3.60%	-	-	-	-
50yr PWLB Rate	**NOW**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**
Link Group	**4.22%**	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%	3.50%	3.30%	3.20%	3.20%
Capital Economics	**4.22%**	4.10%	4.00%	3.90%	3.80%	3.80%	3.70%	3.60%	3.60%	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction from the new Standard Loan rate of 100bps over Gilts effective as of the 26th November 2020.

3 – Updates to the CIPFA treasury management code and the prudential code

CIPFA Treasury Management & Prudential Code Revision Update

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is required for the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes has the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;

- address ESG issues within the Capital Strategy;

- require implementation of a policy to review commercial property, with a view to divest where appropriate;

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);

- ensure that any long term treasury investment is supported by a business model;

- a requirement to effectively manage liquidity and longer term cash flow requirements;

- amendment to TMP1 to address ESG policy within the treasury management risk framework;

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

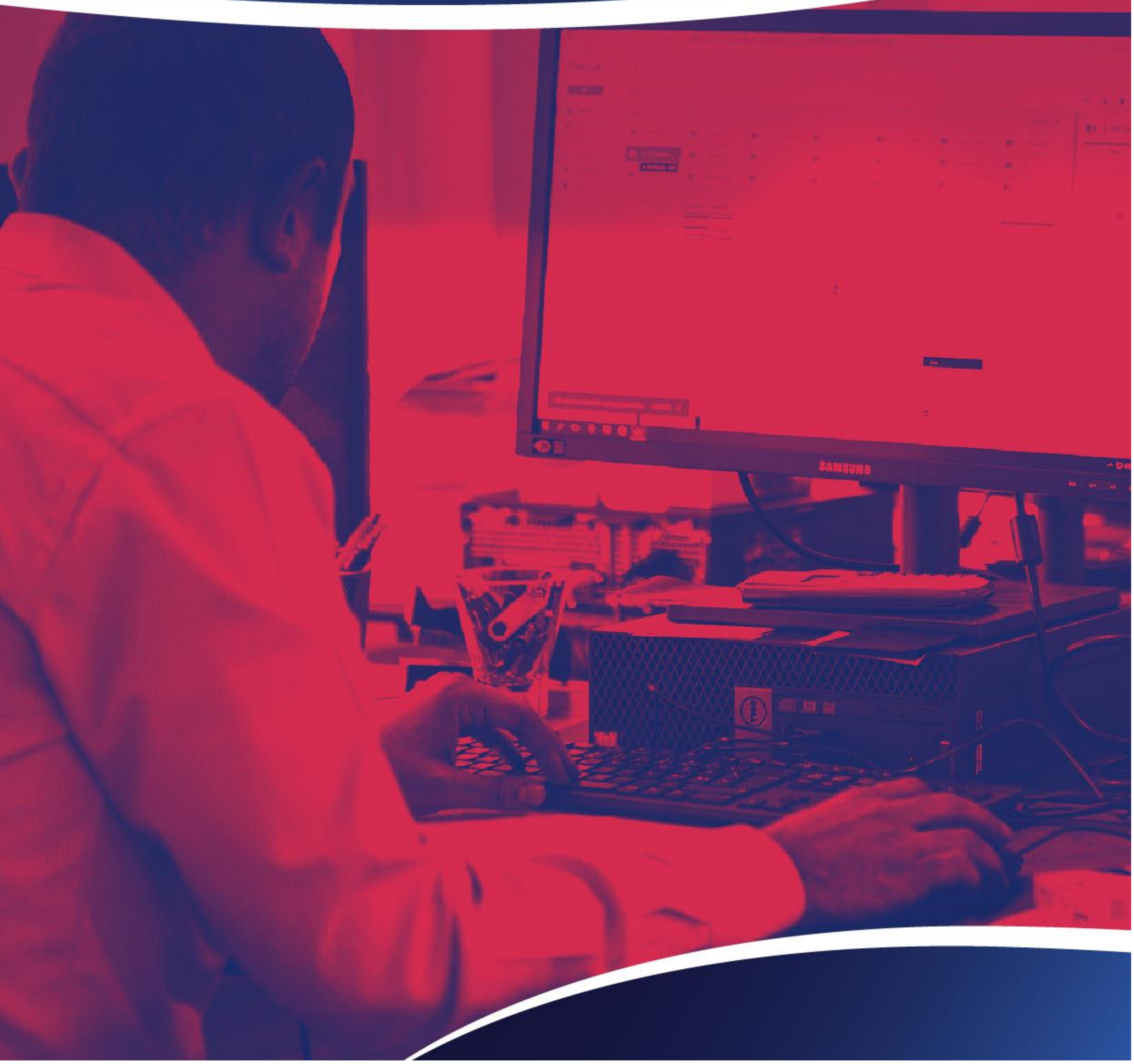
Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals soley with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 Treasury Management Strategy report.

4 - Annual investment strategy



Annual Investment Strategy

The Council's investment policy has regard to the DLUHC Guidance on Local Government Investments and the CIPFA Treasury Management Code of Practice which requires the Council to formulate a strategy each year regarding the investment of its revenue funds and capital receipts. Authorities are required to take the guidance into account under the terms of section 12 of the Local Government Act 2003.

In accordance with the guidance from DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.

The income and expenditure flow of the Council is such that funds are temporarily available for investment. Under the Annual Investment Strategy the Council may use, for the prudent management of its treasury balances, any of the investments highlighted under the headings of **Specified Investments** and **Non-Specified Investments** as detailed in the final section of this strategy.

Creditworthiness Policy

The Council uses the creditworthiness service provided by its treasury advisor, Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies Fitch, Moody's and Standard and Poor's. In addition, in line with the Treasury Management Code of Practice, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:-

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration of investments and are therefore referred to as durational bands. The Council is satisfied that this service gives the required level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by a selection of institutions down to a minimum durational band with Link's weekly credit list of worldwide potential counterparties.

The Link Asset Services creditworthiness service uses ratings from all three agencies and uses a wider array of information than just primary credit ratings to determine creditworthy counterparties. By using this approach and applying it to a risk weighted scoring system, it does not give undue over reliance to just one agency's ratings.

Monitoring of Credit Ratings

All credit ratings will continue to be monitored continuously and formally updated monthly if any changes are required. The Council is alerted to interim changes in ratings from all three agencies by Link Asset Services.

If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty will be withdrawn immediately. If a counterparty is upgraded so that it fulfils the Councils criteria, its inclusion will be considered for approval by the S151 Officer.

In addition to credit ratings the Council will be advised of information in movements in CDS against the iTraxx benchmark and other market data on a daily basis via the Passport website. Extreme market movements may result in the downgrade of an institution or the removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will monitor the financial press and also use other market data and information e.g. information on external support for banks.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities from the 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

The Council currently has investments with HSBC, Barclays & Lloyds. HSBC and Lloyds are classified as ring fenced banks and Barclays as non ring fenced. All these institutions appear on Link Asset Services approved lending list and meet the council's creditworthiness criteria.

Country Limits

The Council will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). It is recommended that UK institutions continue to be used unless the sovereign credit rating falls below A. Following the problems with Icelandic Banks lending is currently restricted to the UK which currently has a sovereign credit rating of AA and Sweden which has the highest possible sovereign rating of AAA. The S151 Officer has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with Link's revised creditworthiness policy if required.

Security of Capital

The Council's current policy is to not place investments with any Foreign banks. The only exception to this is a call account set up with the Swedish bank, Handelsbanken, but this is a highly rated institution and the sovereign rating of Sweden is AAA. Funds are also repayable immediately if required.

Following approval of the S151 Officer, lending to AAA rated Money Market Funds has also been recommenced. Lending to other Foreign banks which comply with Link's creditworthiness policy may be considered again but only with the express approval of the S151 Officer.

In addition, in order not to solely rely on an institution's credit ratings there have also been a number of other developments which require separate consideration, set out below.

Part Nationalised banks in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. This is because the Government owns significant stakes in the banks and this ownership is set to continue. Link are still supportive of the Council using these institutions with a maximum 12 month duration. For this reason Royal Bank of Scotland (RBS) and National Westminster Bank which are part of the RBS Group are included on the approved counterparty list.

Local Authorities are not credit rated but where the investment is a straightforward cash loan, statute suggests that the credit risk attached to local authorities is an acceptable one (Local Government Act 2003 s13). Local Authorities are therefore included on the approved list.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rated and Part Nationalised Institutions the maximum amount is currently limited to £20m. Any changes to the maximum limit must be approved by the S151 Officer.

DLUHC Investment Guidance

Guidance from the DLUHC requires Councils to give priority to the security and portfolio liquidity of investments over yield whilst still aiming to provide good returns. This is in line with the Council's current practice and it is recommended that the policy should be reaffirmed.

The guidance also requires Councils to categorise their investments as either “specified” or “non-specified” investments.

Specified Investments

Specified investments are deemed as “safer” investments and must meet certain conditions, i.e. they must:-

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital
- either: be invested in the UK government or a local authority or a body or investment scheme with a “high” credit quality.

The Council is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.

Of the investments currently authorised by the Council, deposits in the Debt Management Office Account and with other Local Authorities automatically qualify as specified investments as they are of less than 12 months duration and are denominated in sterling.

The classification of the other investments is dependent on the counterparty having high credit quality in line with Link's creditworthiness policy. The Council is alerted to any changes in an institutions credit rating by Link Asset Services.

Non Specified Investments

These are any investments which do not meet the specified investment criteria outlined above. The Council is required to look at non-specified investments in more detail. It must set out:

- procedures for determining which categories of non-specified investments should be used
- the categories deemed to be prudent
- the maximum amount to be held in each category

The Strategy must also set out procedures for determining the maximum period for committing funds.

It is recommended that the following procedure be adopted for determining which categories of non-specified investments should be used:

- the Cabinet/Council should approve categories on an annual basis
- advice should be provided by the S151 Officer
- priority should be given to security and portfolio liquidity ahead of yield

It is recommended that for specified investments the range of maximum limits is set between £5m and £20m for the internal treasury team. For non specified investments it is recommended that the limit for the internal treasury team should be restricted to £70m of the total investment portfolio (excluding the Shrewsbury Shopping Centre acquisition). Any changes to the maximum limits must be approved by the S151 Officer.

Temporary Investment Strategy

The market is continually monitored for opportunities to lock in to higher, longer term rates in order to bring some stability to the returns going forward and add value. However, based on the interest rate assumptions outlined above, we do not expect to lock into longer term deals unless exceptionally attractive rates are available which make longer term deals worthwhile.

For the cash flow generated balances, we will seek to utilise instant access accounts, Money Market Funds and short dated deposits (1-3 months) in order to benefit from the compounding of interest.

The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. All investments will continue to be made in accordance with the Local Government Act 2003, and with those institutions on the authorised lending list. The credit status of institutions on the approved list is monitored continuously.

Policy on the use of external service providers

The Council currently uses Link Asset Services, as its external treasury management advisers. The Council recognises that the responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to review.

Scheme of Delegation

Full Council
- Approval of Treasury Strategy.
- Receiving and reviewing reports on treasury management policies, practices and activities including the Annual Treasury Report and Mid-Year Strategy Report.
- Budget consideration and approval

Cabinet
- Receiving & reviewing Treasury Strategy, Mid-Year Strategy Report, Annual Treasury Report and Quarterly Treasury Management Update Reports

Audit Committee
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Receiving & reviewing Treasury Strategy, Mid Year Report, Annual Treasury Report.

Role of the Section 151 Officer

The role of the S151 Officer in relation to treasury management is as follows:-
- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance.
- Approval of segregation of responsibilities.
- Approval of the Treasury Policy Statement and Treasury Management Practices.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.

- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers.

The above list of specific responsibilities of the s151 Officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both Codes, is a major extension of the functions of this role, especially in respect of non-financial investments:-

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

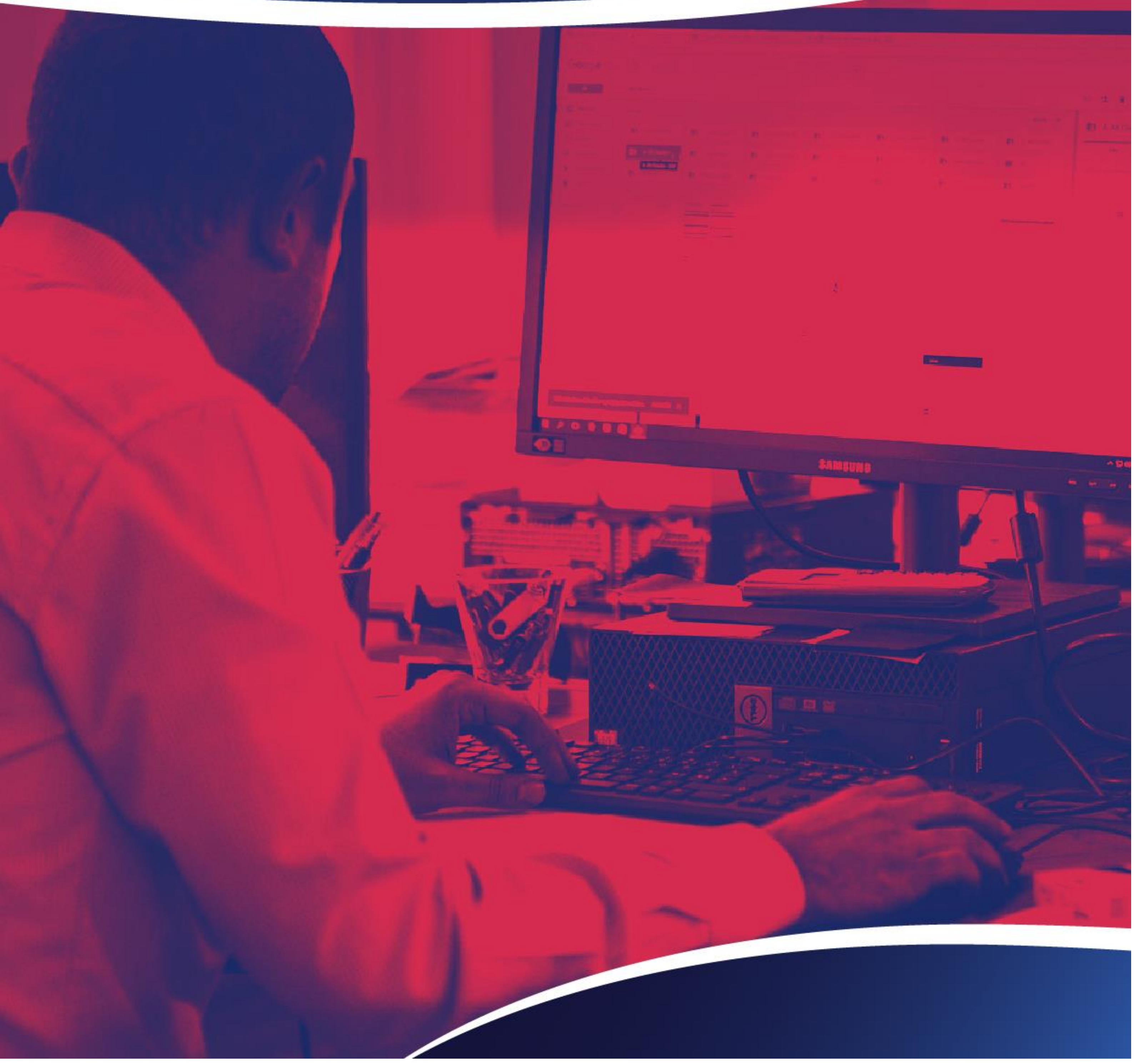
- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Pension Fund Cash

The Council complies with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and does not pool pension fund cash with its own balances for investment purposes.

5 - Prudential and Treasury Indicators



Specified and Locally Adopted Prudential Indicators

The Prudential Code and CIPFA Code of Practice on Treasury Management require the Council to set a number of Prudential and Treasury Indicators. In addition to the specified indicators, we have set further internal indicators for Treasury Management, regarding lower limits on interest rate exposure for both borrowing and investments.

These are summarised below, and details are set out in the following paragraphs.

1. Ratio of financing costs to net budget
2. Gross Debt and CFR
3. Estimates of capital expenditure and actual capital expenditure
4. External debt – authorised upper limit
5. External debt – planned operational boundary
6. External debt - estimated and actual debt
7. External debt - Interest rate exposure; Borrowing (fixed rate and variable rate debt)
8. External investment - Interest rate exposure; investments (fixed rate and variable rate investments)
9. External debt – maturity structure (profile of when debts become due in coming years)
10. External debt – maturity limits
11. Maturity limits – investments
12. Liquidity benchmark – a new indicator for 2023/24 outlining the net borrowing requirement plus a liquidity allowance

It should be noted that these indicators should not be used for comparison with indicators from other local authorities as Treasury Management policies and practices vary with local circumstances.

Prudential Indicator 1 - The ratio of financing costs indicator shows the trend in the cost of financing capital expenditure as a proportion of the Authority's net revenue. This indicator also shows the ratio of the HRA financing costs to the HRA net revenue stream.

[NOTE – these values relate to the current Treasury Management Strategy; they will be updated for the revised Capital Strategy once this is confirmed and approved.]

Financing costs to net revenue stream	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	%	%	%	%
Non HRA ratio of financing costs to net revenue stream	7.6	7.3	9.1	9.7
HRA ratio of financing costs to HRA net revenue stream	38.7	37.9	39.0	38.7

	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	%	%	%	%
Non HRA ratio of financing costs (net of investment income) to net revenue stream	6.5	6.3	8.2	8.9

Prudential Indicator 2 - that gross external borrowing should not exceed the capital financing requirement (CFR), except in the short term, The capital financing requirement is the maximum we would expect to borrow based on the current capital programme. Compliance with the indicator will mean that this limit has not been breached. Gross borrowing includes debt administered on behalf of Telford and Wrekin Council, Magistrates Courts and Probation Service. It also includes the debt transferred from Oswestry Borough Council and North Shropshire District Council on the 1st April 2009. In accordance with the Code the HRA Capital Financing requirement has been calculated separately and has been updated due to the HRA reform which took place on the 28 March 2012.

Gross borrowing less than CFR	2021/22 Actual	2022/23 Estimate	202324 Estimate	2024/25 Estimate	202526 Estimate
Net Borrowing & Capital Financing Requirement:	**£ m**	**£ m**	**£ m**	**£ m**	**£ m**
Non HRA Capital Financing Requirement	390	442	462	488	500
HRA Capital Financing Requirement	87	94	105	115	115
Commercial activities/non-financial investments Capital Financing Requirement	3	11	21	31	30
Total CFR	**480**	**547**	**589**	**635**	**645**
Movement in CFR	2	**68**	**42**	**46**	**10**
Movement in CFR represented by					
Net financing need for the year (above)	7	33	39	49	18
Less MRP/VRP and other financing movements	-5	35	3	-3	-7
Movement in CFR	**2**	**68**	**42**	**46**	**10**
Gross Borrowing (including HRA)	292	335	445	561	613
Investments	164	90	140	140	140
Net Borrowing	**128**	**245**	**305**	**293**	**473**

Prudential Indicator 3 - The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2021/22, and the estimated expenditure for 2022/23, 2023/24 and 2024/25. This indicator also includes details on the financing of capital expenditure.

Estimated capital expenditure	**2021/22 Actual**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
	£ m	**£ m**	**£ m**	**£ m**	**£ m**
Non HRA Capital expenditure	74.1	124.7	126. 0	150.4	145.6
HRA Capital expenditure	8.1	17.9	20.5	15.1	13.3
Commercial activities/non-financial investments	0.1	9.2	10.6	11.0	0.0
Total Capital expenditure	**82.3**	**151.8**	**157.1**	**176.5**	**158.9**
Financing of capital expenditure					
Capital receipts	2.6	12.3	14.1	15.0	13.1
Capital grants	57.7	48.0	58.9	71.6	30.5
Other Contributions	4.6	16.3	9.6	9.7	24.4
Major Repairs Allowance	3.3	4.1	4.8	4.8	5.0
Alternative Funding Options	0.0	1.6	1.8	7.8	45.5
Revenue	2.0	5.9	1.1	0.0	3.3
Net financing need for the year	**12.0**	**63.6**	**66.8**	67.7	**37.1**
Commercial activities/non-financial investments	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
	£ m	**£ m**	**£ m**	**£ m**	**£ m**
Capital expenditure	0.1	9.2	10.6	11.0	0.0
Financing Costs	0.4	0.4	0.6	0.9	1.2
Net financing need for the year	**-0.3**	**8.8**	**10.0**	**10.1**	**-1.2**
Percentage of total net financing need	-299%	96%	94%	92%	100%

Prudential Indicator	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£ m	**£ m**	**£ m**	**£ m**
HRA CFR	94	105	115	115

Prudential Indicator 4 - The authorised limit is the maximum borrowing limit set for Shropshire Council and includes the HRA borrowing. This indicator shows the maximum permitted amount of outstanding debt for all purposes. It includes three components:

1. The maximum amount for capital purposes;
2. The maximum amount for short term borrowing to meet possible temporary revenue shortfalls;
3. The maximum permitted for items other than long term borrowing i.e. PFI & leasing.

Authorised borrowing limit	2023/24	2024/25	2025/26
External Debt	**£ m**	**£ m**	**£ m**
Authorised Limit for External Debt:			
Borrowing	546	535	536
Other long term liabilities (PFI)	92	88	91
Commercial activities/ non-financial investments	11	11	0
Total	**649**	**634**	**627**

Prudential Indicator 5 – The operational boundary is the expected borrowing limit. This is calculated on the same basis as prudential indicator number 4, however, this is the limit which external debt is not normally expected to exceed

Operational Boundary	2022/23	2023/24	2024/25
External Debt	**£ m**	**£ m**	**£ m**
Operational Boundary:			
Borrowing	475	483	489
Other long term liabilities (PFI)	92	88	91
Commercial activities/ non-financial investments	11	11	0
Total	**578**	**582**	**580**

Prudential Indicator 6 - The estimated external debt is based on the capital programme for 2021/22

Estimated external debt	2021/22 Actual	2022/23 Estimate
External Debt	**£ m**	**£ m**
Borrowing	292	292
Other long term liabilities (PFI)	94	92
Total	**386**	**384**

Prudential Indicator 7 – Interest rate exposure – borrowing limits. The Prudential Code requires the Council to set interest rate exposure limits for borrowing and investments.

Interest rate exposure	2022/23	2023/24	2024/25
Borrowing Limits	**£ m**	**£ m**	**£ m**
Upper Limit for Fixed Interest Rate Exposure	528	534	543
Upper Limit for Variable Interest Rate Exposure	264	267	271
Lower Limit for Fixed Interest Rate Exposure	264	267	272
Lower Limit on Variable Interest Rate Exposure	0	0	0

These indicators seek to control the amount of debt exposed to fixed and variable interest rates. Variable rate debt carries the risk of unexpected increases in interest rates and consequently increases in cost. The upper limit for variable rate exposure has been set following advice from Link, however, this limit is unlikely to be reached due to authority's objective to have no more than 25% of outstanding debt at variable interest rates.

Calculation of indicators is set out below

- Upper limit for fixed rate exposure; A maximum of 100% of the Authorised Limit (£528m in 2022/23) exposed to fixed rates is consistent with the Authority's objective to have a long term stable debt portfolio.
- Upper limit for variable rate exposure; For efficient management of the debt portfolio it is considered prudent by Link to permit up to 50% (£264m in 2022/23) of the Authorised Limit to be borrowed at variable interest rates.
- Lower limit for fixed rate exposure; Upper limit for fixed rate exposure less the maximum permitted borrowing at variable interest rates
- Lower limit for variable rate exposure; Calculation: To be consistent with the Authority's objective to have a long term stable portfolio all of the debt portfolio could be at a fixed rate therefore the lower limit for variable rate exposure should be nil.

Prudential Indicator 8 – Interest rate exposure – investment limits

Interest rate exposure	**2022/23**	**2023/24**	**2024/25**
Investment Limits	**£ m**	**£ m**	**£ m**
Upper Limit for Fixed Interest Rate Exposure	250	250	250
Upper Limit for Variable Interest Rate Exposure	250	250	250
Lower Limit for Fixed Interest Rate Exposure	0	0	0
Lower Limit on Variable Interest Rate Exposure	0	0	0

These indicators seek to control the amount of investments exposed to fixed and variable interest rates. Variable rate investments are subject to changes in interest rates, but have a higher degree of liquidity and action can be taken at short notice in response to interest rate changes.

- Upper limit for fixed rate exposure: Maximum amount of fixed rate investments in order to maintain a stable investment portfolio.
- Upper limit for variable rate exposure: For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £250m in 2022/23 is recommended.
- Lower limit for fixed rate exposure: A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.
- Lower limit for variable rate exposure: A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

Prudential Indicator 9 and 10 - The upper and lower limit for the maturity structure of debts (borrowings) is detailed below.

Limits for the maturity structure of debts (borrowings)	**Upper Limit**	**Lower Limit**
Maturity Structure of Fixed/Variable Rate Borrowing During 2022/23 **	**%**	**%**
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years & within 10 years	75	0
10 years & within 20 years	100	0
20 years & within 30 years	100	0
30 years & within 40 years	100	0
40 years & within 50 years	100	0
50 years and above	100	0

** Internal limit is to have no more than 15% of total outstanding debt maturing in any one financial year. This is to ensure that the risk of having to replace maturing debt at times of high interest rates is controlled.

Prudential Indicator 11 – Maturity limits. The Council is required to set maximum levels for investments over 365 days for both the internal treasury team and an external fund manager if appointed

Maturity limits > 365 days	**2022/23**	**2023/24**	**2024/25**
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 365 days:			
Externally Managed (if appointed)	50	50	50
Internally Managed	70	70	70

Prudential Indicator 12 - Liquidity benchmark. This is a new requirement for 2023/24 and identifies the net borrowing requirement of a local authority plus a liquidity allowance. This is a more complex calculation and therefore the Council’s Treasury Advisors, LINK are assisting the Council to produce the information using a complex model. The calculation of this liquidity benchmark is still awaiting agreement with LINK.

6 – Specified investments

LOCAL GOVERNMENT INVESTMENTS (England)

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Maximum period
Term deposits with the UK government (e.g. DMO Account) or with local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although most LAs not credit rated.	No	In-house and by external fund manager	1 year
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes – Minimum colour band green	No	In-house and by external fund manager	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) up to 1 year. *Custodial arrangement required prior to purchase*	No	Yes	Yes – Minimum colour band green	No	In house buy and hold and External fund managers	1 year
Banks nationalised by high credit rated (sovereign rating) countries – non UK	No	Yes	Minimum Sovereign Rating AA-	No	In house and external fund managers	1 year
UK Nationalised & Part Nationalised banks	No	Yes	Yes – Minimum colour band green	No	In House and external managers	1 year
Government guarantee (explicit) on all deposits by high credit rated (sovereign rating) countries	No	Yes	Yes – Minimum Sovereign Rating AA- / UK Sovereign Rating	No	In house and external fund managers	1 year
Bonds issued by multilateral development banks (Euro Sterling Bonds as defined in SI 2004 No 534) **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail** *Custodial arrangement required prior to purchase*	No No	Yes Yes	AAA UK sovereign rating	No No	In-House on a buy and hold basis after consultation/advice from Link also for use by External fund manager	1 year

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Maximum period
Gilt Funds and Bond Funds (including Ultra-Short Dated Bond Funds)	No	Yes	AAA	No	In House and by external fund managers	1 year
Gilts : up to 1 year *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed UK Sovereign Rating	No	In House on a buy and hold basis and for trading by external fund manager subject to the guidelines and parameters agreed with them	1 year
Money Market Funds (CNAV), Enhanced Money Market Funds (LVNAV & VNAV) & Government Liquidity Funds (including CCLA Fund)	No	Yes	Yes AAA rated & UK sovereign rating. Enhanced MMFs minimum colour Dark Pink/Light Pink & AAA rated	No	In-house and by external fund managers subject to the guidelines and parameters agreed with them	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements. Deposits are repayable at call.
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*] *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed UK Sovereign Rating	No	In House or external fund managers subject to the guidelines and parameters agreed with them	1 year

Monitoring of credit ratings:

All credit ratings will be monitored continuously and formally updated on a monthly basis if required. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.

Any intra-month credit rating downgrade which the Council has identified that affects the Council's pre-set criteria will also be similarly dealt with.

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated (with the exception of the WME US dollar account).

Investment	**(A) Why use it? (B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating**	**Capital Expen-diture?**	**Circumstance of use**	**Max % of overall investments**	**Maximum maturity of investment**
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year *Custodial arrangement required prior to purchase*	(A) tradable more liquid than fixed term deposits (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD. (ii) Although in theory tradable, are relatively illiquid.	No	Yes	UK Sovereign rating	No	In house on a buy and hold basis after consultation/advice from Link & external cash fund manager(s) subject to the guidelines and parameters agreed with them.	50%	*Suggested limit :* Average duration in the portfolio not to exceed 5 years
Collateralised deposit	Deposits are backed by collateral of AAA rated local authority	No	Yes	UK Sovereign rating	No	In house & External Manager	25%	*5 years*
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	A. (A)((i) Excellent credit quality. (ii)Very Liquid). (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	UK Sovereign rating	NO	In house on a buy & hold basis following advice from Link and for trading by external cash fund manager subject to the guidelines and parameters agreed with them	50%	*Suggested limit :* Average duration in the portfolio not to exceed 5 years
Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen-diture?	Circumstance of use	Max % of overall investments	*Maximum maturity of investment*

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Capital Expen-diture?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Term deposits with UK government, other Local Authorities, and credit rated deposit takers (banks and building societies) including callable deposits with maturities greater than 1 year	A)(i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	Minimum colour band purple	NO	In-House For trading by external cash fund manager subject to the guidelines and parameters agreed with them	£40 million 50%	*Suggested limit:* *3 years*
Sovereign bond issues ex UK Government Gilts: any maturity	A. (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk B. (i) "Market or interest rate risk" : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	No	Yes	AAA	No	For trading by external cash fund manager only subject to the guidelines and parameters agreed with them	50%	*Suggested limit:* *5 years*
Bonds issued by multilateral development banks (Euro-Sterling Bonds) or issued by a financial institution guaranteed by UK government **Custodial arrangement required prior to purchase**	A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk B) (i) "Market or interest rate risk" : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	AAA	No	In house on a buy and hold basis after consultation/advice from Link. Also for use by external fund managers	10% 50%	*5 years*

Investment	**(A) Why use it? (B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating**	**Capital Expen-diture?**	**Circumstance of use**	**Max % of overall investments**	**Maximum maturity of investment**
Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen-diture?	Circumstance of use	Max % of overall investments	*Maximum maturity of investment*
Corporate Bonds & Corporate Bond funds (the use of these investments would constitute capital expenditure although this is currently under review)	(A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B)(i) “Market or interest rate risk”: Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	Minimum Sovereign rating AA-	Yes	To be used by external fund managers only	50%	*Suggested limit:* *5 years*
Jersey Property Unit Trust (JPUT)	Required to facilitate the acquisition of the Shrewsbury Shopping Centres via a Jersey based Property Unit Trust – required only subject to full Council approval of the acquisition method on 14th December 2017.	No	No	No Minimum Credit rating – assets held within the fund to undergo annual valuation to determine value of Units within the Trust.	Yes	In House use following specialist technical and legal advice.	£60m	*5 years*
Pooled property funds – including CCLA Local Authorities Property Fund	Enhanced return but increased risk, only to be used following advice from Link	No	Yes	No Minimum Credit rating need to assess underlying assets within fund following advice taken from Link	No	In House Use & External Fund managers following advice from Link	20%	*5 years*
Floating Rate notes	(A)(i) Rate of return tied to some measure of current interest rates, so when interest rates are expected to go up they offer protection to investors against such rises (ii) In some circumstances may have access to banks which meet minimum	Yes	Yes	Minimum Colour band green	No	In House Use & External Fund managers following advice from Link	10%	*3 years*

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Capital Expen- diture?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
	credit criteria but generally don't take small fixed term deposit cash amounts (B)(i) Credit quality : if financial health of issuer deteriorates, investors will demand a greater yield and the price of the bond will fall							
US Dollar Deposits (WME Only)	US dollar account to be utilised as a part of West Mercia Energy prudent management of income and expenditure, ensuring that ongoing US dollar commitments can be hedged, thus extinguishing any adverse risk of exposure to movements in the exchange rate and guaranteeing a known cashflow for West Mercia Energy. The account is only to be used for this purpose and not for the purpose of speculative or trading transactions.	No	Yes	Minimum Colour band green	No	West Mercia Energy Only	N/A	*3 Months*