AUDIT COMMITTEE
22 JANUARY 2024

PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY REPORT 2024/25

SUMMARY REPORT

Purpose of the Report

1. This report requests Audit Committee to review and scrutinise the following prior to forwarding to Cabinet and Council for their approval and adoption:

   (a) The Prudential Indicators and Limits for 2024/25 to 2026/27 relating to capital expenditure and Treasury Management activity.

   (b) A policy statement relating to the Minimum Revenue Provision.

   (c) The Treasury Management Strategy 2024/25, which includes the Annual Investment Strategy for 2024/25

2. The report outlines the Council's prudential indicators for 2024/25 – 2026/27 and sets out the expected treasury operations for this period. It fulfils key legislative and guidance requirements:

   (a) The reporting of the **prudential indicators** setting out the expected capital activities and treasury management prudential indicators included as treasury indicators in the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice

   (b) The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year.

   (c) The **treasury management strategy** statement which sets out how the Council's treasury service will support capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators.

   (d) The key indicator is the **authorised limit**, the maximum amount of debt the Council could afford in the short term, but which is not sustainable in the longer term.

   (e) The **investment strategy** which sets out the Council's criteria for choosing the investment counterparties and limiting exposures to the risk of loss.

3. The information contained in the report regarding the Councils expenditure plans, Treasury Management and Prudential Borrowing activities indicate that they are:

   (a) Within the statutory framework and consistent with the relevant codes of practice.

(b) Prudent, affordable and sustainable.

(c) An integral part of the Council's Revenue and Capital Medium Term Financial Plans.

Recommendation

4. It is recommended that the Audit Committee examine the following and pass on any comments to Council via Cabinet in order that they approve them:

   (a) The Prudential Indicators and limits for 2024/25 to 2026/27 summarised in Tables 1 and 2.

   (b) The Minimum Revenue Provision (MRP) statement (paragraphs 36 – 43).

   (c) The Treasury Management Strategy 2024/25 to 2026/27 as summarised in paragraphs 47 to 80.

   (d) The Annual Investment Strategy 2024/25 contained in paragraphs 89 to 113.

Reasons

5. The recommendations are supported by the following reasons:

   (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities and the Department for Levelling Up, Housing & Communities (DLUHC) guidance on investments.

   (b) To comply with the requirements of the Local Government Act 2003.

   (c) To approve a framework for officers to work within when making investment decisions.

Elizabeth Davison
Group Director of Operations

Background Papers

(i) Annual Draft Statement of Account 2022/23
(ii) Draft MTFP (incl Capital MTFP 2024/25 to 2027/28)
(iii) Draft Capital Strategy
(iv) Link Asset Services Economic Report Dec 2023

Judith Murray: Ext 5204

S17 Crime and Disorder	This report has no implications for S 17 Crime and Disorder.
Health and Well Being	This report has no implications for the Council's Health and Well being agenda.
Carbon Impact and Climate Change	This report has no implications for the Council's Carbon Emissions.
Diversity	This report has no implications for the Council's Diversity agenda.
Wards Affected	All Wards
Groups Affected	All Groups
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision
Urgent Decision	For the purposes of call in this report is not an urgent decision.
Council Plan	This report has no particular implications for the Council Plan.
Efficiency	The report refers to actions taken to reduce costs and manage risks.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers.

MAIN REPORT

Information and Analysis

Background

6. CIPFA defines treasury management as:

"The management of the local authority's borrowing, 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."

7. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return

8. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

9. The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

10. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

Reporting requirements

Capital Strategy

11. The 2017 CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide the following:

    (a) A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services

    (b) An overview of how the associated risk is managed

    (c) The implications for future financial sustainability.

12. 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 reported separately to Council on an annual basis.

Treasury Management Reporting

13. The Council is required by legislation to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and Treasury Indicators and Treasury Strategy (this report)

14. The first, and most important report is forward looking and covers:

    (a) The capital plans (including prudential indicators);

    (b) A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);

    (c) The treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and

(d) An investment strategy, (the parameters on how investments are to be managed).

A Mid-Year Treasury Management Report

15. This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether the treasury function is meeting the strategy or whether any policies require revision.

An Annual Treasury Report

16. This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

17. These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

Treasury Management Strategy for 2024/25

18. The strategy for 2024/25 covers two main areas:

(a) Capital Issues:

(i) The capital expenditure plans and the prudential indicators;
(ii) The minimum revenue provision (MRP) policy.

(b) Treasury Management Issues:

(i) The current treasury position;

(ii) Treasury indicators which will limit the treasury risk and activities of the Council;

(iii) Prospects for interest rates;

(iv) The borrowing strategy;

(v) Policy on borrowing in advance of need;

(vi) Debt rescheduling;

(vii) The investment strategy;

(viii) Creditworthiness policy; and

(ix) Policy on use of external service providers.

19. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

20. A summary of the key prudential indicators and limits are contained in Tables 1 and 2 and further details are contained further on in this report.

Table 1 – Capital Expenditure and Borrowing

	2023/24 Revised	2024/25 Estimated	2025/26 Estimated	2026/27 Estimated
Capital Expenditure Tables 3 and 4	77.610	70.088	33.707	25.774
Capital financing requirement - Table 5	241.020	260.106	261.805	268.495
Ratio of financing costs to net revenue stream – General Fund See paragraph 45 - Table 6	4.47%	4.16%	4.16%	3.92%
Ratio of financing costs to net revenue stream –HRA See paragraph 45 - Table 6	12.78%	12.42%	12.53%	11.55%
Operational boundary for external debt - Table 9	160.091	183.973	190.581	201.675
Authorised limit for external debt - Table 10	253.071	273.111	274.895	281.920

Table 2 – Treasury Management

	2024/25 Upper Limit	2025/26 Upper Limit	2026/27 Upper Limit
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	40%	40%	40%
Maximum principal sums invested > 364 days	£50m	£50m	£50m
Maturity Structure of fixed interest rate borrowing 2024/25			
		Lower Limit	**Upper Limit**
Under 12 months		0%	40%
12 months to 2 years		0%	50%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years and above		0%	100%

Training

21. The CIPFA code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training was undertaken by a number of Members during a session held in March 2023 and a session

has been arranged for 31st January 2024. Further training sessions will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

22. The Council uses Link Group, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service provider. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

23. It 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 officers of 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 subject to regular review.

The Capital Prudential Indicators 2024/25– 2026/27

24. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

25. This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 3 Capital Expenditure

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund	45.204	31.038	13.098	4.448
HRA	25.556	27.270	14.485	12.838
Estimated Capital Expenditure	**70.760**	**58.308**	**27.583**	**17.286**
Loans to Joint Ventures	6.850	11.780	6.124	8.488
Total	**77.610**	**70.088**	**33.707**	**25.774**

26. The financing need above excludes other long-term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

27. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 4 Financing of the Capital Programme

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund	45.204	31.038	13.098	4.448
HRA	25.556	27.270	14.485	12.838
Loans to Joint Ventures	6.850	11.780	6.124	8.488
Total Capital	**77.610**	**70.088**	**33.707**	**25.774**
Financed by:				
Capital receipts -General Fund	3.381	4.840	0.900	0.250
Capital receipts - Housing	0.000	0.303	0.303	0.303
Capital grants	41.312	4.198	4.198	4.198
JV Repayments	1.000	1.799	13.421	11.299
Self-financing - GF	0.000	22.000	8.000	0.000
Revenue Contributions (Housing)	24.322	13.455	12.668	12.535
Total excluding borrowing	**70.015**	**46.595**	**39.490**	**28.585**
Net financing need for the year	**7.595**	**23.493**	**-5.783**	**-2.811**

The Council's Borrowing Need (the Capital Financing Requirement)

28. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic 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 indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

29. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets' life, and so charges the economic consumption of capital assets as they are used.

30. The CFR includes any other long-term liabilities (e.g. PFI schemes & finance leases) brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £7.011m of such schemes within the CFR.

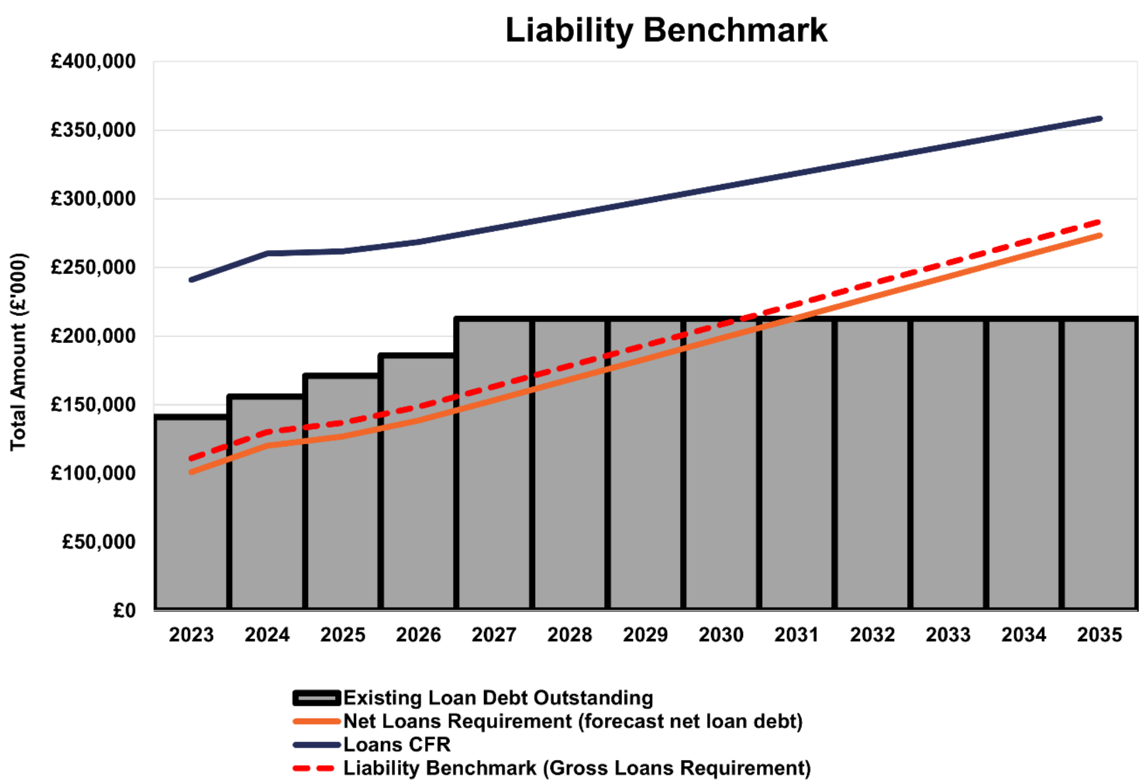
31. The Committee is asked to approve the CFR projections below:

Table 5 – CFR Projections

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
CFR – General Fund	147.244	148.208	149.225	150.748
CFR – PFI and Finance leases	7.011	5.912	4.817	3.722
CFR - housing	76.631	85.871	94.945	104.018
CFR - Loans to JV's	10.134	20.115	12.818	10.007
Total CFR	**241.020**	**260.106**	**261.805**	**268.495**
Movement in CFR		**19.086**	**1.699**	**6.690**

Liability Benchmark

32. A third prudential indicator is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.



33. There are four main components to the Liability Benchmark:-

(a) **Existing borrowing (loan debt outstanding)**: the Council's existing loans that are still outstanding in future years.

(b) **Loans CFR:** calculated in accordance with the loans CFR definition and projected into the future based upon estimated prudential borrowing and associated MRP

(c) **Net loans requirement (Forecast Net Loans Debt)**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

(d) **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short -term liquidity allowance.

34. The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

35. CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark (i.e., all balance sheet resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the Liability Benchmark, then this indicates a borrowing requirement thus identifying where the authority is exposed to interest rate, liquidity and refinancing risks. Conversely where external loans exceed the Liability Benchmark then this will highlight an overborrowed position which will result in excess cash in the organisation requiring investment thus exposing the authority to credit and reinvestment risks and a potential cost of carry.

MRP Policy Statement

36. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP).

37. DLUHC regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

38. It is proposed that Darlington Borough Council's MRP policy statement for 2024/25 will be:

(a) For Capital expenditure incurred before 1 April 2008 and expenditure which was granted through credit approvals since that date MRP will be calculated on an annuity basis (2%) over 50 years or the useful life of the asset.

(b) Capital Expenditure from 1 April 2008 for all unsupported borrowing MRP will be based on the estimated life of the assets, repayments will be on an annuity basis (2%)

(c) Repayments relating to the PFI scheme will be based on the life of the asset of 60 years from 1 April 2008 on an annuity basis (2%).

39. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

40. Repayments included in annual PFI or finance leases are applied as MRP.

41. For capital expenditure on loans to third parties where the principal element of the loan is being repaid in instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

42. **MRP Overpayments** - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

43. Cumulative VRP overpayments made to date are £0.500m.

Affordability Prudential Indicators

44. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators.

Estimates of the ratio of financing costs to net revenue stream

45. This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

Table 6 - Ratio of financing costs to net revenue stream

	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	4.47%	4.16%	4.16%	3.92%
HRA	12.78%	12.42%	12.53%	11.55%

46. The estimates of financing costs include current commitments and the proposals in this year's MTFP report.

Treasury Management Strategy

Borrowing

47. The capital expenditure plans set out in the previous paragraphs provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require,

the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

Under Borrowing position

48. Over the last ten years the Council had maintained an underborrowed position i.e. the amount of our gross external borrowing has been less than our balance sheet Capital Financing Requirement. This strategy has served the Council well in a period where returns on investment have been low and borrowing costs have been relatively high. This has also meant that we have had less in the form of investments and so reduced counterparty risk. To support the MTFP it was agreed that longer term investments would be pursued as these would give a return over and above the cost of any additional borrowing that would be taken. Following due diligence the Council has 3 Property Funds with £10 million in each fund and these are expected to bring a gross return of between 2.50% and 3.50% over the life of the MTFP. In 2022/23 the funds returned £1.01m in dividends.

49. When the property funds investments were made, they were intended to be long term commitments as capital valuations fluctuate over time. In the current economic climate, it is expected that capital values will decrease due to many market factors including higher interest rates and high inflation, however, as has been seen previously property capital values do tend to increase over time.

50. During 2023/24 we were contacted by our Treasury Management advisors to inform that one of our funds (Lothbury) had received a large number of redemption requests from investors in the fund. It was assumed that these requests had been received due to a number of factors, including investors looking to rotate out of property in light of higher yields in other assets classes, changes to the funds management and possibly the need for more liquid funds. The view of our advisors was to put in a redemption request to ensure that our investment was treated in the same way as other investors should Lothbury cease to continue. We therefore submitted a redemption request.

51. Subsequent to this there has been a number of developments and the current position regarding Lothbury is that they are seeking to merge with the Triton fund. If approved it is hoped that the merger will be completed in March 2024.

52. The Triton Fund invests in similar properties to Lothbury but is 5 star rated and offers returns of around 3.2% over 5yrs. This is similar to what the Lothbury Fund was initially forecast to return.

53. Should Darlington wish to be involved in the merged fund we can transfer all or part or our current units into the fund. Therefore, we can receive a mix of new units and cash. Once the fund is operational there will be no lock in, so we can redeem our investment at any time.

54. If we decide not to be involved with the merger and withdraw from the fund we expect to receive less funding than our original investment based on the current market value of the units (which is to be determined, but currently trading at £2.2m less than our original

investment). We would also lose the dividend income, but we would be able to reinvest the returned funds elsewhere to offset this.

55. In line with previously agreed delegations the Treasury Management Strategy gives flexibility for Officers to manage the day to day operations of our investments including the property funds to maximise returns for the Council. Officers will continue to use this delegation to manage our options regarding Lothbury and report back to Members through the usual reporting processes.

Current Portfolio Position

56. The overall treasury management portfolio as at 31 March 2023 and for the position as at 31 December 2023 are shown below for both borrowings and investments.

Table 7 – Treasury Portfolio

TREASURY PORTFOLIO				
	Actual 31/03/2023 £m's	Actual 31/03/2023 %	Current 31/12/2023 £m's	Current 31/12/2023 %
Treasury Investments				
Banks	8.000	20.0	0.000	0.0
local authorities	0.000	0.0	0.000	0.0
money market funds	2.045	5.1	11.665	28.0
Total managed in house	**10.045**	**25.1**	**11.665**	**28.0**
Property funds	29.999	74.9	29.999	72.0
Total managed externally	**29.999**	**74.9**	**29.999**	**72.0**
Total treasury investments	**40.044**	**100.0**	**41.664**	**100.0**
Treasury external borrowing				
local authorities	17.000	12.3	20.000	14.2
PWLB	108.414	78.6	108.346	76.9
LOBO's	12.600	9.1	12.600	8.9
Total external borrowing	**138.014**	**100.0**	**140.946**	**100.0**
Net treasury borrowing	**97.970**		**99.282**	

57. The Council's expected treasury portfolio position at 31 March 2024, with forward projections is summarised below at Table 8. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 8 - Gross Borrowing to CFR

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt at 31 March	140.946	155.946	170.946	185.946
Loans to Joint Ventures	10.134	20.115	12.818	10.007
Other long-term liabilities (OLTL)	7.011	5.912	4.817	3.722
Gross Actual debt at 31 March	**158.091**	**181.973**	**188.581**	**199.675**
The Capital Financing Requirement from Table 5	**241.020**	**260.106**	**261.805**	**268.495**
Under / (over) borrowing	**82.929**	**78.133**	**73.244**	**68.820**

58. Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that the borrowing is not undertaken for revenue or speculative purposes.

59. The Group Director of Operations reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This takes into account current commitments, existing plans, and proposals within this budget report.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

60. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Table 9 - Operational Boundary

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt from Table 8 (incl JV's)	151.080	176.061	183.764	195.953
Other long-term liabilities	7.011	5.912	4.817	3.722
Prudential Borrowing for leasable assets	1.000	1.000	1.000	1.000
Prudential Borrowing under Directors Delegated Powers	1.000	1.000	1.000	1.000
Operational Boundary	**160.091**	**183.973**	**190.581**	**201.675**

The Authorised Limit for external debt

61. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term:

62. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

63. The Council is asked to approve the following Authorised Limit:

Table 10 – Authorised Limit

	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
CFR	241.020	260.106	261.805	268.495
Additional Headroom @ 5%	12.051	13.005	13.090	13.425
Authorised Limit	**253.071**	**273.111**	**274.895**	**281.920**

64. It is proposed that the additional headroom for years 2024/25 to 2026/27 is 5% above the CFR, this would allow for any additional cashflow needs throughout the years.

Prospects for Interest Rates

65. The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Asset Services's central view for future interest rates and the economic background to that view is shown at **Appendix 1.**

Table 11 – Interest rates

	Bank Rate %	PWLB Borrowing Rates % (including *certainty rate adjustment)			
		5 year	**10 year**	**25 year**	**50 year**
Dec 2023	5.25	5.00	5.10	5.50	5.30
Mar 2024	5.25	4.90	5.00	5.30	5.10
Jun 2024	5.25	4.80	4.80	5.10	4.90
Sep 2024	5.00	4.70	4.70	4.90	4.70
Dec 2024	4.50	4.40	4.40	4.70	4.50
Mar 2025	4.00	4.20	4.20	4.50	4.30
Jun 2025	3.50	4.00	4.00	4.30	4.10
Sep 2025	3.25	3.80	3.80	4.20	4.00
Dec 2025	3.00	3.70	3.70	4.10	3.90
Mar 2026	3.00	3.60	3.70	4.10	3.90
Jun 2026	3.00	3.50	3.60	4.00	3.80
Sep 2026	3.00	3.50	3.60	4.00	3.80
Dec 2026	3.00	3.50	3.50	4.00	3.80

** The certainty rate adjustment is a reduced rate by 0.20% for those councils like Darlington Borough Council who have submitted more detail on future borrowing requirement to the Treasury*

Investment and borrowing rates

66. Investment returns are likely to decrease towards the latter part of 2024/25 if both CPI inflation and wage/employment data support a fall in the bank rate. There is however a likelihood of the overall economy enduring a at least a mild recession over the coming months although most recent economic data has suprosed with its robustness.

67. Borrowing interest rates are also forecast to fall by the end of 2024/25 although these still remain higher than what has been the case in previous years. Naturally timing on this matter will remain one of fine judgement, cut too soon and inflationary pressures may build up further, cut too late and any downturn or recession may be prolonged.

68. While the Council will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry (the difference between higher borrowing costs and lower investment returns), so any new short or medium-term borrowing will incur a revenue cost.

Borrowing Strategy

69. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is Bank Rate remains elevated through to the second half of 2024.

70. Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Group Director of Operations will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

    (a) If it was felt that there was a significant risk of a sharp FALL in borowing rates (eg due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

    (b) If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projectred to be in the next few years.

71. Any decisions would be reported to the appropriate Committee at the next available opportunity.

Treasury Management Limits on Activity

72. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any 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:

    (a) Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

    (b) Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

    (c) Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Table 12 Interest Rate Exposure

	2024/25	2025/26	2026/27
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity Structure of fixed interest rate borrowing 2024/25			
		Lower	**Upper**
Under 12 months		0%	40%
12 months to 2 years		0%	50%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years and above		0%	100%

Policy on Borrowing in Advance of Need

73. 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 of need 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 through its investment strategy.

74. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

75. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates,

76. If there was a possibility the reasons for any rescheduling to take place will include:

    (a) The generation of cash savings and / or discounted cash flow savings;

    (b) Helping to fulfil the treasury strategy;

    (c) Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

77. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

78. If rescheduling was done it will be reported to Committee at the earliest meeting following its action.

New Financial Institutions as a source of borrowing

79. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and Non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

    (a) Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)

    (b) Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a 'cost of carry' or to achieve refinancing certainty over the next few years)

    (c) Municipal Bond Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

80. Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Annual Investment Strategy

Investment and Creditworthiness Policy

81. The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

82. The Council's investment policy has regard to the following:

    (a) DLUHC's Guidance on Local Government Investments ("the Guidance")

    (b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")

    (c) CIPFA Treasury Management Guidance Notes 2021

83. The Council's investment priorities will be security first, liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

84. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

85. The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

(a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentrtation risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

(b) Other information: 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 achieve this consideration 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.

(c) Other information sources used will include the financial press, share prices and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

(d) This Council has defined the list of types of investment instruments that the treasury management team are authorised to use. There are 2 lists in **Appendix 2** under the categories of 'specified' and 'non-specified' investments.

(i) Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

(ii) Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

(e) Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in Table 13.

(f) Transaction limits are set for each type of investment in Table 13.

(g) This Council wil set a limit for the amount of its investments which are invested for longer than 365 days.

(h) Investments will be placed with counterparties from countries with a specified minimum sovereign rating.

(i) This Council has engaged external consultants, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.

(j) All investments will be denominated in sterling.

(k) As a result of the change in accounting standards for 2022/23 under International Financial Reporting Standard (IFRS) 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018 the Ministry of Housing, Communities and Local Government [MHCLG], conlcuded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for 5 years ending 31 March 2023). This has recently been extended by Government for a further 2 years to 31 March 2025.

86. However, this Council will also pursue value for money in treasury mangement and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

87. The above criteria are unchanged from last year.

Investment Counterparty Selection Criteria

Creditworthiness policy

88. This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

(a) 'Watches' and 'Outlooks' from credit rating agencies;

(b) CDS spreads that may give early warning of changes in credit ratings;

(c) Sovereign ratings to select counterparties from only the most creditworthy countries.

89. This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this 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 suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands:

(a)	Yellow	5 years
(b)	Purple	2 years
(c)	Blue	1 year (applies to nationalised or semi-nationalised UK Banks)
(d)	Orange	1 year
(e)	Red	6 months
(f)	Green	100 days
(g)	No colour	not to be used

90. The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

91. Typically, the minimum credit ratings criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

92. All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

    (a) If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

    (b) In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

93. Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

94. Any investment in Property Funds/ Corporate Bond Funds/ Asset Backed Investment Products will be subject to due diligence for each and every fund considered. The maximum amount invested in any one fund will be £20million with a maximum of £50million total for all funds.

Table 13 – Time and monetary limits applying to investments

	Colour (and long-term rating where applicable)	Transaction Limit	Time Limit
Banks	Yellow	£5m	5 years
Banks	Purple	£4m	2 years
Banks	Orange	£3m	1 year
Banks 2 category – part nationalised	Blue	£5m	1 year
Banks	Red	£4m	6 months
Banks	Green	£4m	100 days
Banks	No Colour	Not to be used	
Banks 3 category – Council's banker (where 'No Colour')		£4m	1 day
DMADF (Debt Management Office)	Uk sovereign rating	unlimited	6 months
Other institutions limit			1 year
Local authorities	n/a	£5m per Local Authority	2 years
Money market Funds (CNAV, LVNAV & VNAV) and Ultra Short Dated Bond Funds	AAA	£5m per Fund	Liquid
Property Funds, Corporate Bond Funds and other Asset backed Investment products	AAA	£20m per Fund	

95. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

96. The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 3**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

97. The proposed criteria for Specified and Non-Specified investments are shown in Appendix 2 for approval.

Investment Strategy

In-house funds

98. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 so an agile investment strategy would be appropriate to optimise returns.

99. Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash flows can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations

100. The current forecast shown in paragraph 65, includes a forecast for Bank Rate to be maintained at 5.25% in quarter 2 2024.

101. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:-

(a)	2023/24 (remainder)	5.30%
(b)	2024/25	4.70%
(c)	2025/26	3.20%
(d)	2026/27	3.00%
(e)	2027/28	3.25%
(f)	Years 6 to 10	3.25%
(g)	Years 10+	3.25%

102. As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment treasury indicator and limit

103. Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

104. The Committee is asked to approve the treasury indicator and limit: -

Table 14 – Maximum Principal sums invested

	2023/24	2024/25	2025/26
Principal sums invested greater than 365 days	£50m	£50m	£50m

105. For its cash flow generated balances, the Council will seek to utilise its instant access accounts, 30+ day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Investment Risk Benchmarking

106. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. They relate to Investments that are not Property Funds. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

107. Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

0.077% historic risk of default when compared to the whole portfolio.

108. Liquidity – in respect of this area the Council seeks to maintain:

(a) Bank overdraft - £0.100m

(b) Liquid short-term deposits of at least £3.000m available with a week's notice

(c) Weighted Average Life benchmark is expected to be 1 year.

109. Yield - local measures of yield benchmarks are:

(a) Investments – internal returns above the 7-day Sterling Overnight Index Average (SONIA) compounded rate

(b) Investments – Longer term – capital investment rates returned against comparative average rates

110. In addition that the security benchmark for each individual year is:

Table 15 - Security Benchmark

	1 year	2 years
Maximum	0.077%	0.077%

Note: This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

111. The above reported benchmarks for Security Liquidity and Yield all relate to Deposits with Banks and Money Market Funds but would not relate to Property Funds.

112. It is proposed that property funds will be benchmarked for performance against the IPD All Balanced Fund index which is the universe of all property funds, data for this can be provided by our Treasury Management advisors Link Group.

End of year investment report

113. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Outcome of Consultation

114. No consultation was undertaken in the production of this report.

APPENDIX 1

Economic Background provided by Link Group

1. The first half of 2023/24 saw:
    - Interest Rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
    - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
    - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
    - Core CPI CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
    - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

2. The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

3. The fall in composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

4. The 0.4% m/m rebound in retail sales volume in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in may, suggesting much of the resilience in retail activity in the first half of the year has faded.

5. As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

6. The tightness of the labour F market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000

decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

7. But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

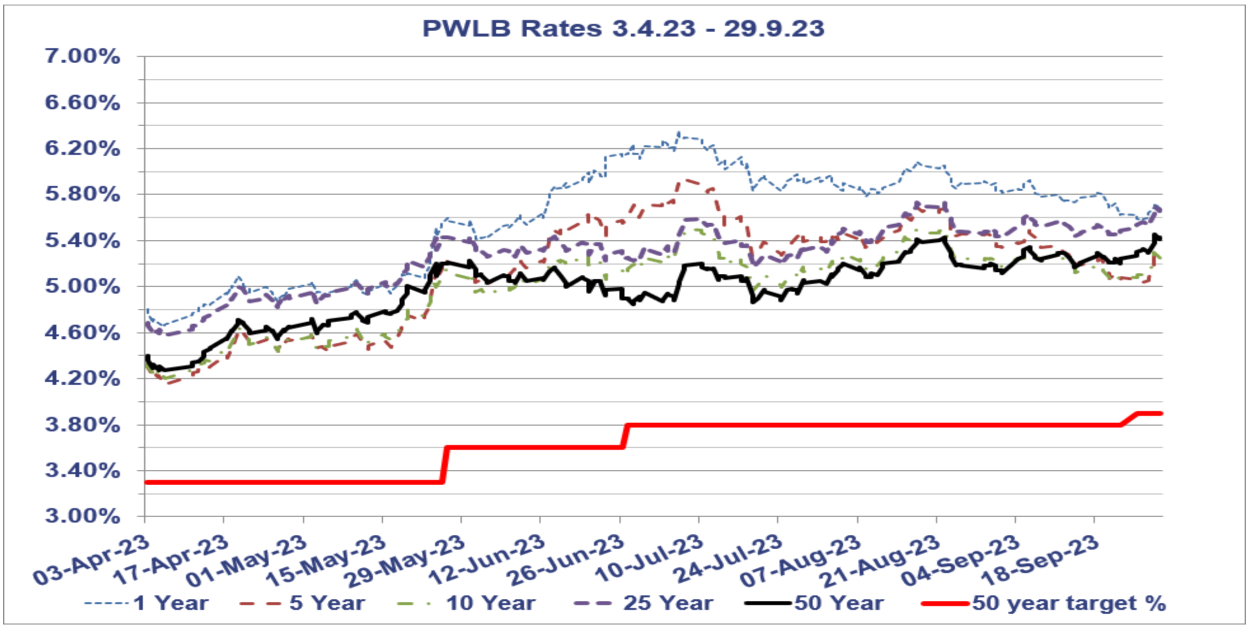
8. CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

9. In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

10. Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

11. This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

12. In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

13. The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

14. The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

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15. Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

16. Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

APPENDIX 2

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Specified Investments

1. All such investments will be sterling denominated, with maturities up to a maximum of 1year, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months).

Non-Specified Investments

2. These are any investments which do not meet the specified investment criteria.

3. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

4. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	Max % of total investment / £ limit per institution	Max. maturity period
Debt Management Account Deposit Facility (DMADF) – UK Government	Yellow	100%	6 months (max is set by DMO)
UK Gilts	Yellow		5 years
UK Treasury Bills	Yellow		364 days (max is set by DMO)
Bonds issued by multilateral development banks	Yellow		5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local Authorities	Yellow	100%	5 years
Term Deposits with Housing Associations	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
CD's or Corporate Bonds with Banks and Building Societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Gilt Funds	UK Sovereign rating		

* DMO – is the Debt Management Office of HM Treasury

APPENDIX 3

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA:

(a) Australia
(b) Denmark
(c) Germany
(d) Netherlands
(e) Norway
(f) Singapore
(g) Sweden
(h) Switzerland

AA+:

(a) Canada
(b) Finland
(c) U.S.A.

AA:

(a) Abu Dhabi (UAE)

AA-:

(a) Belgium
(b) France
(c) Qatar
(d) U.K.