APPENDIX 1

2018-19 TREASURY MANAGEMENT STRATEGY

INTRODUCTION

1. The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set prudential indicators for the next three years to ensure that capital investment plans remain affordable, prudent and sustainable.

2. The Act requires the Authority to prepare a Treasury Management Strategy (the Strategy) for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3. The Authority's strategy is prepared having regard to the Department of Communities and Local Government (DCLG) Guidance on Local Government Investments ("the Guidance"), which came into effect from 1 April 2010.

4. The strategy also includes the Authority's 2018-19 Minimum Revenue Provision Strategy.

5. CIPFA has recently reviewed and revised its Treasury Management Code of Practice and the Prudential Code. Changes are not wide ranging, most significant is the introduction of a capital strategy requirement which CIPFA acknowledges will be implemented by many organisations for the 2019/20 budget cycle. This is due to the requirement being introduced late in the current budget planning cycle. CIPFA has also made some changes to prudential indicators, which are now incorporated into this report along with other revisions and amendments to the codes.

6. The primary requirements of the Treasury Management Code are as follows:

(i) Creation and maintenance of a Treasury Management Policy Statement, which set out the policies and objectives of the Authority's treasury management activities.

(ii) Creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.

(iii) Reporting Requirements – the Authority is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

- Prudential and treasury indicators and treasury strategy:
- An annual treasury report – this provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy

- A mid-year treasury management report – this will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

(iv) Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

(v) Where appropriate, delegation by the Authority of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. The Authority currently retains this role for itself.

7. Up to the end of the 2017-18 financial year, Warrington Borough Council have acted as the Authority's advisor on Treasury Management supplemented with leading market forecasts provided by their own professional treasury advisor, Link Asset Services (formerly Capita Asset Services). From the 2018-19 financial year the new joint Police and Fire Finance team will manage all day to day Treasury Management supported directly by Link Asset Services to ensure the continuity of leading market forecasts and professional treasury advice. The suggested Treasury Management Strategy for 2018-19 is therefore informed by Link Asset Services and officers views on interest rates and other financial matters. The strategy covers two main areas:

Capital Issues

- the capital programme and the capital prudential indicators 2018-19 to 2020-21; and
- the minimum revenue provision (MRP) strategy.

Treasury management issues

- treasury prudential indicators;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling opportunities;
- the annual investment strategy;
- policy on use of external service providers; and
- treasury management scheme of delegation.

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

Capital Issues

The Capital Programme and Capital Prudential Indicators 2018-19 to 2020-21

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

Capital Expenditure Plan

10. This prudential indicator is a summary of the Authority's capital expenditure plan, both those agreed previously, and those forming part of this budget cycle.

2016-17 Actual £000	**2017-18 Estimate £000**	**Capital Expenditure**	**2018-19 Estimate £000**	**2019-20 Estimate £000**	**2020-21 Estimate £000**
13,047	3,085		6,356	5,790	2,104

11. The table below shows how the plan is being financed by capital or revenue resources. It is currently assumed that no capital grant will be available. Any shortfall of resources results in a funding borrowing need:

2016-17 Actual £000	**2017-18 Estimate £000**	**Capital Financing**	**2018-19 Estimate £000**	**2019-20 Estimate £000**	**2020-21 Estimate £000**
2,576	0	Capital Grants	0	0	0
51	0	Capital Receipts	110	55	56
10,420	3,085	Reserves & Contributions	1,246	1,735	2,048
13,047	**3,085**	**Total Capital Financing**	**1,356**	**1,790**	**2,104**
0	**0**	**Borrowing Requirement**	**5,000**	**4,000**	**0**

Capital Financing Requirement

12. The Capital Financing Requirement (CFR) indicator is a notional figure which shows the Authority's theoretical need to borrow to fund capital expenditure. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

13. The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need.

14. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes.

2016-17 Actual £000	**2017-18 Estimate £000**	**Capital Financing Requirement (CFR)**	**2018-19 Estimate £000**	**2019-20 Estimate £000**	**2020-21 Estimate £000**
8,195	**7,646**	CFR brought forward	**7,134**	**11,656**	**15,210**
		Movement in CFR represented by			
0	0	Net financing need for the year	5,000	4,000	0
(549)	(512)	Less MRP	(478)	(446)	(776)
7,646	**7,134**	CFR carried forward	**11,656**	**15,210**	**14,434**

Affordability prudential indicators

15. Prudential indicators are required to assess the affordability of the capital investment plan on the Authority's overall finances. The Authority is asked to approve the following indicators contained in this report.

Ratio of financing costs to net revenue stream

16. One of the indicators of affordability is the estimated ratio of the Authority's general fund capital financing costs to its net revenue stream in percentage terms. This indicator shows the proportion of the revenue budget spent on capital financing costs; if the ratio is increasing rapidly over time then a larger proportion of revenue resources is being taken up by capital financing costs, which could be used for other elements of the Authority's budget.

2016-17 Actual %	**2017-18 Estimate %**	**Ratio of financing costs to net revenue stream**	**2018-19 Estimate %**	**2019-20 Estimate %**	**2020-21 Estimate %**
1.15	1.21		1.30	1.53	2.34

Minimum Revenue Provision (MRP) Strategy

17. The Authority is required to make an annual provision from revenue to contribute towards the repayment of borrowing. This requirement arises under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, which simplifies earlier MRP requirements by placing a duty on the Authority to determine each year an amount of minimum revenue provision, which it considers to be prudent. In order to assist the Authority with this determination, guidance for assessing what would represent a prudent provision has been issued under Section 21 (1A) of the Local Government Act 2003 (The Guidance). The Authority is required to have regard to the Guidance when considering the amount of their annual "prudent" MRP.

18. It is proposed that the Authority continues to set the MRP at 6.7% of the opening Capital Financing Requirement (CFR) in respect of its existing CFR. This is considered to be a prudent and sustainable approach, however the 6.7% level remains subject to review.

19. Any future new borrowing will, under delegated powers (known as prudential borrowing), be subject to MRP under option 3 of the Government Guidance. It will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, borrowing in respect of capital expenditure on the new Training Centre Project will be related to the estimated life of that asset.

20. The use of this option for certain schemes will also result in a nil MRP charge until the year after that in which all expenditure on the scheme, project or other item of capital expenditure has been fully accrued under proper accounting practices, regardless of the extent of such expenditure that has not been accrued at the end of

the previous financial year. Estimated life periods will be determined using appropriately qualified Officers professional judgement.

21. Based on the current projected capital outturn position for 2017-18, it is expected that this will equate to a charge of approximately £478k for 2018-19.

22. The policy will be reviewed on an annual basis. If it is proposed to vary the strategy during the year, a revised statement will be submitted to the Authority.

Treasury Management Issues

23. The capital expenditure plan above shows the capital funds required by the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this requirement. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant Treasury Prudential indicators, (including the current and projected debt positions) and the borrowing and annual investment strategy.

Treasury Prudential Indicators: limits to borrowing activity

Gross borrowing requirement

24. Within the code there is a key indicator of prudence that ensures that, over the medium term, gross borrowing is only for a capital purpose. This is shown below, and compares gross external borrowing to the total CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. Gross external borrowing should not exceed this limit except in the short term.

2016-17 Actual £000	**2017-18 Estimate £000**	**Gross Borrowing Requirement**	**2018-19 Estimate £000**	**2019-20 Estimate £000**	**2020-21 Estimate £000**
		External Debt			
2,247	1,914	Debt at 1 April	1,903	6,892	10,012
(333)	(11)	Expected change in Debt	4,989	3,120	0
1,914	1,903	External Debt at 31 March	6,892	10,012	10,012
48	37	Finance Lease	25	13	0
(11)	(12)	Expected change in Finance Lease	(12)	(13)	0
1,951	1,928	Actual Gross Debt at 31 March	6,905	10,012	10,012
7,646	7,134	Capital Financing Requirement	11,656	15,210	14,434
5,695	**5,206**	**Under / (over) borrowing**	**4,751**	**5,198**	**4,422**

25. The Head of Finance does not envisage the position indicated above leading to future difficulties for the Authority. This view takes into account current commitments, existing plans, and the proposals in the budget report.

The operational boundary

26. This is the limit 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.

2016-17 Actual £000	2017-18 Estimate £000	Operational Boundary	2018-19 Estimate £000	2019-20 Estimate £000	2020-21 Estimate £000
2,051	2,028	Debt	7,005	10,112	10,112
60	60	Other long term liabilities	60	60	60
2,111	**2,088**	**Total**	**7,065**	**10,172**	**10,172**

Authorised Limit for external debt

27. This indicator demonstrates a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. 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.

2016-17 Actual £000	2017-18 Estimate £000	Authorised limit for external debt	2018-19 Estimate £000	2019-20 Estimate £000	2020-21 Estimate £000
3,951	4,028	Borrowing	9,005	12,112	12,112
100	100	Other Long Term Liabilities	100	100	100
4,051	**4,128**	**Total Authorised Limit**	**9,105**	**12,212**	**12,212**

28. In agreeing these limits, it should be noted that the Authorised Limit for 2018-19 will be 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 authorities' plans, or those of a specific authority, although this power has not yet been exercised.

Maturity structure of debt

29. It is recommended that the Authority sets upper and lower limits for the maturity structure of its debt for the forthcoming year as follows:

Maturity Structure of Authority Borrowing	Lower Limit %	Upper Limit %
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	50%
5 years to 10 years	0%	60%
10 years and above	5%	100%

30. The above percentages are the ranges for the projected borrowing maturing in each year out of the total projected borrowing. The indicator is designed to be a control over the Authority having large concentrations of fixed interest rate debt needing to

be replaced at any one time and thus being at risk of having to borrow large amounts when interest rates may be unfavourable.

Fixed interest rate exposure

31. The table below shows the Authority's upper limit for fixed interest rate exposure for the next three years. This indicator shows the percentage of borrowing that can be undertaken at fixed interest rates. Up to 100% of borrowing can be at fixed interest rates. Again, this indicator is set at levels to reduce the risk from interest rate movements.

Upper Limit – Fixed Interest Rate Exposure	**2018-19 %**	**2019-20 %**	**2020-21 %**
Fixed Interest Rates	100	100	100

Variable interest rate exposure

32. The following indicator shows the percentage of borrowing that can be undertaken at variable interest rates. The purpose of the indicator is to restrict variable rate borrowing in order to reduce the risk from sudden movements in interest rates. The Authority sets its upper limit for borrowing at variable rates at 40%.

Upper Limit – Variable Interest Rate Exposure	**2018-19 %**	**2019-20 %**	**2020-21 %**
Variable Interest Rates	40	40	40

Prospects for Interest Rates

33. Link Asset Services (formerly Capita Asset Services), via our 2017-18 appointed Treasury advisors (Warrington Borough Council), have assisted the Authority to formulate a view on interest rates.

Link Asset Services' interest rate forecast

34. The following table gives their central view:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

35. As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

36. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Federal Reserve has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

37. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

38. From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

39. Economic and interest rate forecasting remains difficult with so many external I influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

40. The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

41. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

42. The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

Borrowing Strategy

43. The capital expenditure plan provides details of the capital requirement of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this requirement. This will involve both the organisation of the cash flow and, where the capital plan requires, the organisation of appropriate borrowing facilities.

44. In general, the Authority will borrow for one of two purposes – to finance cash flow in the short-term or to fund capital investment over the longer term. The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high.

45. A key aim of the Treasury Management Strategy is to minimise the cost of the Authority's loan portfolio whilst ensuring that the obligation to repay the loan is spread over a period of time. This reduces the impact on the revenue budget of interest payments.

46. Currently the average rate of interest on the Authority's loan portfolio is 4.51%.

47. The Authority is projecting a minimum long term borrowing requirement of £9 million during the life of its Medium Term Financial Plan to 2020-21. The Authority will meet this requirement by borrowing from either the Public Works Loans Board (PWLB), the bond market or other Local Authorities during the strategy period.

48. The Head of Finance will monitor interest rates in financial markets in conjunction with Link Asset Services and adopt a pragmatic approach to changing circumstances, when determining the timing of new borrowing:

    - If it were felt that there was a significant risk of a sharp rise in short and long-term rates, perhaps arising from a greater than expected increase in world economic activity or inflationary pressure, the debt portfolio would be reviewed with the potential action of increasing borrowing to cover the under borrowed position or future known commitments or repayments while rates were still relatively low; and

    - If it were felt that there was a significant risk of a sharp fall in short and long-term interest rates due to a weakening of economic factors; then longer-term borrowing will be postponed until rates were deemed at their lowest and a review of current debt would be undertaken to ascertain the benefit of rescheduling to more competitive loans.

49. Any decisions will be reported to the Fire Authority at the next available opportunity.

Policy on Borrowing in Advance of Need

50. The Authority will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in

advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds.

51. In determining whether borrowing will be undertaken in advance of need the Authority will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio, which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the impact of borrowing in advance on temporarily increased investment cash balances, which would lead to an increase in exposure to counterparty risk.

Debt Rescheduling

52. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

53. The reasons for any rescheduling to take place will include:

(a) The generation of cash savings and / or discounted cash flow savings;
(b) Fulfilment of the borrowing strategy outlined above;
(c) Enhancement of the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

54. 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.

55. All rescheduling will be reported to the Fire Authority at the earliest meeting following this action.

Annual Investment Strategy

56. The aim of our investment strategy is to:

- Maintain capital security;
- Maintain policy flexibility.

57. The Head of Finance, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks.

58. The Authority invests surplus cash balances only with certain approved organisations, as security of funds is of primary importance. All investments will be made in accordance with the Authority's investment policies and prevailing legislation and regulations.

Investment Policy

59. The Authority will have regard to the Communities and Local Government's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes (the CIPFA TM Code). The Authority's principal objectives for investments are security first, liquidity next and finally yield.

60. In accordance with the above guidance and codes and in order to minimise the risk to investments, the Authority sets out in paragraphs 65-69 the minimum acceptable credit quality of counterparties for inclusion on the approved lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies (Fitch, Standard & Poor and Moodys) with a full understanding of what these reflect in the eyes of each agency. Using the Link Asset Services ratings service, potential counterparties are monitored on a real-time basis with knowledge of any changes notified electronically as the agencies publish amendments.

61. 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 Authority will engage with its Treasury Management advisors to monitor market influences and pricing such as 'credit default swaps' where appropriate and available. This forms a fully integrated credit methodology provided by Link Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

62. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector and other financial institutions in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

63. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoid any concentration of risk. The intention of this strategy is to provide security of investment and minimisation of risk.

64. Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' investments categories. Counterparty limits will be as set through the Authority's Treasury Management Practices Statement and are currently at £10m per organisation/group.

Specified Investments (maturities up to one year)

- Bank and Building Society Term Deposits
- Other Local Authority Term Deposits
- Debt Management Agency Deposit Facility
- Money Market Fund
- Government Liquidity Fund

Non-specified Investments (maturities over one year)

- Bank and Building Society Term Deposits
- Other Local Authority Term Deposits
- Money Market Funds

Other Non-specified Investments

- Fixed term deposits with variable rate and variable maturities
- Local Authority Mortgage Schemes

Counterparty Limits

	Maximum Limit
1. Specified Investments (limit per counterparty)	
UK Government	Unlimited
Local Authorities	£10.0m
Money Market Funds with a minimum rating AAA	£10.0m
Term Deposits with Banks	£10.0m
Term Deposits with Building Societies	£2.5m
2. Non-specified Investments (limit per counterparty)	
Investments for more than 365 days	£5.0m
Other non specified investments	£5.0m
3.Other limits (on day of investment)	
Aggregate value of non specified investments	£10.0m

Creditworthiness Policy

65. The Authority utilises the creditworthiness service provided by Link Asset Services as his Treasury Management advisers. This service employs a sophisticated modelling approach incorporating credit ratings from the three main credit rating agencies – Fitch, Moodys and Standard and Poor. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) to give early warning of likely changes in credit ratings;

- Sovereign ratings to select counterparties from only the most creditworthy countries.

66. This modelling approach combines credit ratings, credit watches and credit overlooks 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 standing of counterparties. These colour codes are used by the Authority to determine the suggested duration of investments. The Authority will use counterparties within the following durational bands:

Blue	1 year (only applies to nationalised or semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	Not to be used

67. As this methodology uses a wide range of information beyond basic credit ratings, it ensures that no one source of information is given undue credence. All ratings and colour codes are monitored weekly via Link's credit listings and in-between via business press. The Authority is alerted to changes to any ratings via email from Link.

68. In response to changes to the ratings, the Authority will take the following action:

- If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, no further investments will be made and any current investments will be reviewed for potential movement.

69. Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and information, information on government support for banks and the credit ratings of that government support.

<u>Country Limits</u>

70. The Authority has determined that it will continue to use UK banks, and only use approved counterparties from countries outside of the UK with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list will be added to, or deducted from, should ratings change.

<u>Liquidity of Investments</u>

71. The maximum period of investment of Authority money will be two years. There will be no more than £5m committed for a period over 1 year.

Policy on the use of External Service Providers

72. The Authority currently uses Warrington Borough Council as its external treasury management advisers. They in turn use Link Asset Services to advise them. From the 2018-19 financial year the new joint Police and Fire Finance team will manage all day to day Treasury management services on behalf of the Authority, supported

directly by Link Asset Services to ensure the continuity of leading market forecasts and professional treasury advice.

73. The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

74. 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 Authority 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 regular review.

75. The Authority will also use the service of specialist professional Treasury Broker’s to assist in identifying day to day market investment options. These may include Tradition (UK) Ltd, BGC Brokers L.P., ICAP Global Holdings Ltd and Tullett Prebon Group Ltd.

Treasury Management Scheme of Delegation

76. The scheme of delegation is detailed in the Authority’s Treasury Management Practices which will be reported to the Fire Authority on an annual basis.