EAST SUSSEX FIRE AUTHORITY

Meeting	Fire Authority
Date	11 February 2021
Title of Report	Treasury Management Strategy for 2021/22
By	Duncan Savage, Assistant Director Resources / Treasurer
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Background Papers	Fire Authority 13 February 2020 - Treasury Management Strategy for 2020/21 11 June 2020 - Treasury Management Stewardship Report 2019/20 Policy & Resources Panel - 12 November 2020 - Half year review for 2020/21 CIPFA Prudential Code CIPFA Treasury Management in the Public Services - Code of practice Local Government Act 2003 Local Government Investments - Guidance from the The Ministry of Housing, Communities and Local Government

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Appendices	1: Treasury Management Scheme of Delegation 2: The Prudential & Treasury Indicators 3: Minimum Revenue Provision (MRP) Policy Statement 4: Approved countries for investment 5: Comment from Link Asset Services on the outlook for 2021/22 6: Counterparty list 7: Investment Benchmarking 8: Glossary

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Implications

CORPORATE RISK		**LEGAL**	
ENVIRONMENTAL		**POLICY**	
FINANCIAL	✓	**POLITICAL**	
HEALTH & SAFETY		**OTHER (please specify)**	
HUMAN RESOURCES		**CORE BRIEF**	
EQUALITY IMPACT ASSESSMENT			

PURPOSE OF REPORT

To approve the treasury management strategy, policy statement and the Minimum Revenue Provision (MRP) Statement 2021/22

EXECUTIVE SUMMARY

This report contains recommendations about the borrowing limits, the prudential indicators and limits, the investment strategy and policy as required by Section 3 (1) of the Local Government Act 2003 and the Prudential Code for Capital Finance 2017.

The emphasis continues to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed). The strategy and limits are consistent with the proposed capital programme and revenue budget dealt with elsewhere on the agenda. As will be clear from the global events, it is impossible in practical terms to eliminate all credit risk. The Fire Authority seeks to be prudent.

The Authority is recommended to approve borrowing limits to give flexibility for any future consideration in undertaking new external long-term / replacement borrowing should the need arise or market conditions prove favourable.

The Fire Authority has always adopted a prudent approach on its investment strategy and, in the last few years, there have been regular changes to the list of the approved organisations used for investment of short term surpluses. During 2019/20, an option appraisal for the use of alternative investment options was completed. The option appraisal concluded that, given the Authority's planned steep reduction in reserves (resulting from its planned investment in its Capital Asset Strategy and Project 21), then investment options with a time horizon of up to 3 years would suit the Authority's cash profile and maximise returns at an appropriate level of risk.

Since March 2020 global economic events triggered by the COVID 19 pandemic have caused the Authority to pause consideration of entering into longer duration funds.

The 2021/22 Strategy counterparty list for specified and non-specified investment is set out in the Appendices 4 and 6 with an updated recommendation to note.

- To increase individual counterparty limits from £4m to £6m with a parameter included to ensure where practical to have no more than 25% of the total investment portfolio held with one single counterparty. This will be monitored by the Assistant Director Resources / Treasurer, and reported back to Authority where necessary or appropriate.

The Fire Authority is recommended to approve the 2021/22 investment strategy. The Fire Authority should note that any introduction of longer term instruments will result in an increased (but appropriate) level of risk to the investment portfolio.

The Fire Authority to the 31st December 2020 earned £91k in investment interest at an average rate of 0.45%. Return broadly consistent to recent available Investment benchmarking (Appendix 7).

The background information and the calculation of the Authorised Limit for borrowing for 2021/22 of £15.155m are set out in the attached Appendix 2 (Table 8).

Self-imposed Prudential and Treasury Management indicators that are set on an annual basis are shown in Appendix 2.

The framework in which treasury management operates was revised by the Ministry for Housing, Communities and Local Government (MHCLG) and CIPFA during 2017/18, with full implementation during 2019/20. The changes were largely in response to a growing number of authorities increasing their use of non-financial investments (such as commercial property portfolios) to generate income in response to reducing resources to deliver their core services. The revised codes and guidance sought to increase transparency and to provide a single place to assess the proportionality of this activity in comparison to an authority's core services. This report is fully compliant with the revised requirements, and a new, separate report (The Capital Strategy) is presented as part of the Fire Authority Service Planning Process for 2021/22 & beyond reported elsewhere in this Agenda. The purpose of the Capital Strategy is to drive the Authority's capital investment ambition, whilst also ensuring appropriate capital expenditure, capital financing and treasury management in the context of the sustainable, long term delivery of services.

The Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP) statement is set out in Appendix 2 and 3 to comply with best practice.

The Treasury Management policy statement for 2020/21 is set out in Section 5.

RECOMMENDATION

The Fire Authority is recommended to:

(i) approve the treasury management strategy and policy statement for 2021/22 (and adopt for the remainder of 2020/21);

(ii) determine that for 2021/22 the Authorised Limit for borrowing shall be £15.155m;

(iii) adopt the prudential indicators as set out in the attached Appendix 2; and

(iv) approve the Minimum Revenue Provision (MRP) Statement for 2021/22 as set out in the attached Appendix 3.

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1 INTRODUCTION

1.1 The CIPFA Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires authorities to set the Treasury Management Strategy Statement (TMSS) for borrowing and to prepare an Investment Strategy each financial year. CIPFA has defined Treasury Management as:

> "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 This strategy takes into account the impact of the Authority's Revenue Budget, Medium Term Capital Programme and the Balance Sheet position. The Prudential Indicators and the outlook for interest rates are also considered within the strategy.

1.3 The Treasury Management Strategy for 2021-22 covers the following areas:

- economic overview (section 2);
- the treasury position (section 3);
- the borrowing strategy to finance the capital plans (section 4);
- the investment strategy (section 5);
- the Minimum Revenue Provision (MRP) strategy (section 6); and
- policy on use of external service provider (section 7);

1.4 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The Treasury Management Scheme of Delegation is shown in Appendix 1.

2 ECONOMIC OVERVIEW

2.1 The Authority uses Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 1 below gives the Link Asset Services central view for short term (Bank Rate) and fixed term borrowing rates.

Table 1

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2021	0.10	0.80	1.50	1.30
Jun 2021	0.10	0.80	1.60	1.40
Sep 2021	0.10	0.80	1.60	1.40
Dec 2021	0.10	0.80	1.60	1.40
Mar 2022	0.10	0.90	1.60	1.40
Jun 2022	0.10	0.90	1.70	1.50
Sep 2022	0.10	0.90	1.70	1.50
Dec 2022	0.10	0.90	1.70	1.50
Mar 2023	0.10	0.90	1.70	1.50
Jun 2023	0.10	0.90	1.80	1.60

2.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16 December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

2.3 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Investment returns are likely to remain relatively low during 2021/22 and beyond;

- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during

most of the first half of 20/21. On the 25 November, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

- While the Fire Authority 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), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3 TREASURY MANAGEMENT POSITION

3.1 The Authority's projected treasury portfolio position at 31 March 2021, with forward estimates is summarised in Table 2 below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 2

	2020/21	**2021/22**	**2022/23**	**2023/24**
	Projected	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**
External Borrowing				
Borrowing at 1 April	10,773	10,698	10,298	13,385
New Borrowing	-	-	3,568	2,586
Loan Redemption	(75)	(400)	(481)	(400)
Actual borrowing at 31 March	**10,698**	**10,298**	**13,385**	**15,571**
***CFR – the borrowing need**	**10,698**	**10,298**	**13,385**	**15,571**
Under/(over) borrowing	**-**	**-**	**-**	**-**

**The Authority's Capital Financing Requirement (CFR) is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Authority's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.*

3.2 Within the set of prudential indicators there are a number of key tests to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its total borrowing, 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 current and next two financial years.

3.3 The CFR forecast at the end of 2021/22 is £10.298m. The Authority is required to repay an element of the CFR each year through a revenue charge called the minimum revenue provision (MRP).

3.4 The Authority has a number of long-term loans and could aim to reschedule these loans if interest rates increase and the premature repayment rates

become favourable.

3.5 Any future loans will be arranged giving consideration to the various debt repayment options, including an Equal Instalments of Principal (EIP) arrangement, where each payment includes an equal amount in respect of loan principal. Therefore the interest due with each payment reduces as the principal is eroded, and the total amount reduces with each instalment.

4 BORROWING STRATEGY

4.1 The net borrowing requirement within Table 2 above shows that, based on current estimates, the Authority will need to consider recommencing borrowing in the short to medium term in order to fund its Capital Strategy. However any future new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of carrying this debt ahead of need, and interest rate forecasts set out above. The Assistant Director Resources / Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Policy on Borrowing in Advance of Need

4.2 The Authority will not borrow purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

4.3 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the reporting mechanism.

Prudential & Treasury Indicators

4.4 The Prudential Indicators in the revised Prudential Code 2017 included the following changes from the previous Code:

- Net Debt and the CFR prudential indicator have been updated to Gross Debt and the CFR (this had previously only been updated in the Prudential Code Guidance, 2013).
- The prudential indicator requirement to note the approval of the Treasury Management Code has been removed.
- The prudential indicators for the incremental impact on council tax and housing rents have been removed.

4.5 A full set of Prudential Indicators and borrowing limits is shown in Appendix 2.

Debt Rescheduling

4.6 Rescheduling of current borrowing in the current debt portfolio is unlikely to be an option during 2021/22. This is due to a difference between the rate used to calculate the premature redemption, and the rates used to take on new borrowing. This difference would create a premium that the authority would

have to pay that would make it more expensive to repay or restructure than retain the debt

4.7 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.8 Consideration will also be given to identifying 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.

4.9 All debt rescheduling will be agreed by the Assistant Director Resources / Treasurer.

Sensitivity of the Forecast and Risk Analysis

4.10 Treasury management risks are identified in the Authority's approved Treasury Management Practices, the main risks to the Authority's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- refinancing risks (impact of debt maturing in future years); and
- legal and regulatory risk (non-compliance with statutory and regulatory requirements, risk of fraud).

4.11 Officers, in conjunction with the treasury advisers, will monitor these risks closely. Particular focus will be applied to:

- the global economy – indicators and their impact on interest rates will be monitored closely. Investment and borrowing portfolios will be positioned according to changes in the global economic climate; counterparty risk – the Authority follows a robust credit worthiness methodology and continues to monitor counterparties and sovereign ratings closely particularly within the Eurozone.

5 INVESTMENT STRATEGY

5.1 The Authority's investment policy has regard to the MHCLG's Guidance on Local Government Investments (the Guidance), the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Link Asset Services Guidance Notes (including CIPFA TM Code). The Authority's investment priorities will be security first, liquidity second, and then return.

Changes to Investment Strategy

5.2 It is recommended to increase counterparty limits from the Authority's current approved options for Investment from £4m to £6m with the aim where possible not to allow 25% of the investment portfolio with any single counterparty. This will be monitored by the Assistant Director Resources / Treasurer, and reported back to Authority where necessary or appropriate.

5.3 In the current climate the additional flexibility of both changes will help broaden options and secure investment returns relative to the current bank of England base rate.

5.4 Investment instruments identified for use in the financial year are listed in section 5.19 and 5.20 under the 'Non-Specified and Specified' Investments categories. Counterparty limits will be as set through the Authority's Treasury Management Practices – Schedules.

Sovereign Credit Ratings

5.5 The Authority has determined that it will only use approved counterparties based in the UK. The UK currently holds an AA sovereign rating. However the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Credit Worthiness Policy

5.6 Officers regularly review the investment portfolio, counterparty risk and construction, market data, information on government support for banks and the credit ratings of that government support. Latest market information is arrived at by reading the financial press and through city contacts as well as access to the key brokers involved in the London money markets

5.7 Additionally, the Authority will make use of the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

5.8 The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative credit worthiness of counterparties. These colour

codes are used by the Authority to determine the duration for investments. The strategy provides scope to invest in AAA rated foreign banks. However the Authority proposes to only use counterparties (Appendix 6) within the following durational bands that are domiciled in the UK.

- Yellow 5 years
- Purple 2 years
- Blue 1 year (semi nationalised UK Bank – NatWest/RBS)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour Not to be used

Y	P	B	O	R	G	N/C
Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yrs	Up to 6 months	Up to 100 days	Not to be used

5.9 The Link Asset Services credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

5.10 Typically the minimum credit ratings criteria the Authority use, will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating 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.

5.11 All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services credit worthiness service.

- if a downgrade results in the counterparty or investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

5.12 The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with

adequate security, and monitoring their security. This is set out in the specified investment sections; and
- It has sufficient liquidity in its investments.

5.13 The Link Asset Services methodology was revised in October 2014 and determines the maximum investment duration under the credit rating criteria. Key features of Link Asset Services credit rating policy are:

- a mathematical based scoring system is used taking ratings from all three credit rating agencies;
- negative and positive watches and outlooks used by the credit rating agencies form part of the input to determine a counterparty's time band (i.e. 3, 6, 9, 12 months etc.).
- CDS spreads are used in Link Asset Services creditworthiness service as it is accepted that credit rating agencies lag market events and thus do not provide investors with the most instantaneous and "up to date" picture of the credit quality of a particular institution. CDS spreads provide perceived market sentiment regarding the credit quality of an institution.
- After a score is generated from the inputs a maximum time limit (duration) is assigned and this is known as the Link Asset Services colour which is associated with a maximum suggested time boundary.

5.14 The Link Asset Services colours and the maximum time periods are shown para 5.9 above. In the Link Asset Services methodology if counterparty has no colour then they are not recommended for investment and this would remove these counterparties from the Authority's counterparty list.

5.15 Whilst the Link Asset Services methodology categorises counterparty time limits up to two years, the Authority's policy remains only to make investments up to a maximum of one year.

Specified Investments

5.16 An investment is a specified investment if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long term investment (i.e. up to 1 year);
- the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector bodies:
    - The United Kingdom Government;
    - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; and

- High credit quality is defined as a minimum credit rating as outlined in section 5.11 of this strategy.

5.17 **The use of Specified Investments** - Investment instruments identified for use in the financial year are as follows:

- Table 3 below sets out the types of investments that fall into each category, counterparties available to the Authority, and the limits placed on each of these. A detailed list of each investment type is available in the Treasury Management Practices guidance notes;

5.18 Criteria for Specified Investments:

Table 3

Counterparty	Country/ Domicile	Instrument	Min. Credit Criteria LAS/Colour band	Max. Amount*	Max. maturity period
Debt Management and Depost Facilities (DMADF)	UK	Term Deposits	UK Sovereign Rating	unlimited	12 months
Government Treasury bills	UK	Term Deposits	UK Sovereign Rating	unlimited	12 months
UK Local Authorities	UK	Term Deposits	UK Sovereign Rating	unlimited	12 months
Banks – part nationalised	UK	• TDs • Deposits on Notice • Certificates of Deposit (CDs)	Blue	£6m	12 Months
			Orange	£6m	12 Months
			Red	£6m	6 Months
			Green	£6m	100 Days
Banks	UK	• TDs • Deposits on Notice • CDs	Blue	£6m	12 Months
			Orange	£6m	12 Months
			Red	£6m	6 Months
			Green	£6m	100 Days
Individual Money Market Funds (MMF) CNAV and LVNAV	UK/Ireland/ EU domiciled	AAA Rated Money Market Fund Rating	N/A	£6m	Liquidity/ instant access
VNAV MMF's and Ultra Short Dated Bond Funds	UK/Ireland/EU domiciled	AAA Rated Bond Fund Fund Rating	N/A	£6m	Liquidity

**No more than 25% of the investment portfolio held with one single counterparty where practically possible.*

Non Specified Investments

5.19 Non Specified Investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments are set out in **Table 4** below:

Table 4	Minimum credit criteria	Period
Local Authorities	Government Backed	2 years
Mixed Asset Fund(s)	N/A	2 - 5 years
Short Dated Bond Fund(s)	N/A	2 - 5 years
Pooled Property Fund(s)	N/A	5+ years

The maximum amount that can be invested will be monitored in relation to the Authority's surplus monies and the level of reserves, the limit will be £2.5m across all non specified investments for 2020/21. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Authority will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Assistant Director Resources / Treasurer. A detailed list of specified and non-specified investments that form the counterparty list is shown in section 10.

Investment Position and Use of Authority's Resources

5.20 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years. Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future. Bank Rate forecasts for financial year ends (March) are:

- Q1 2022 0.10%
- Q1 2023 0.10%
- Q1 2024 0.10%

5.21 The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the pandemic and how quickly successful vaccines may become available and widely administered to the population.

5.22 The Link Asset Services suggested budgeted investment earnings rates for returns on investments placed for each financial year for the next four years are as follows:

- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%

5.23 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

5.24 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).

6 MINIMUM REVENUE PROVISION

6.1 The Authority is required to repay an element of the CFR through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required.

6.2 MHCLG Regulations have been issued which require the Authority to approve an MRP Statement in advance of each year. A variety of options is provided to authorities, so long as there is a prudent provision. The Authority is recommended to approve the MRP Policy in Appendix 3.

6.3 The Authority, in conjunction with its Treasury Management advisors, has considered the MRP policy to be prudent.

7 POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

7.1 The Authority uses Link Asset Services as its external treasury management advisors.

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

7.3 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.

8 UPDATE TO ACCOUNTING REQUIREMENTS

8.1 **IFRS 9 – Financial Instruments**

- **IFRS9 – local authority override – English local authorities**

  The MHCLG enacted a statutory over-ride from 1 April 2018 for a five year period until 31 March 2023 following the introduction of IFRS 9 and the requirement for any capital gains or losses on marketable funds to be chargeable in year. This has the effect of allowing any capital losses on funds to be held on the balance sheet until 31 March 2023, allowing councils to initiate an orderly withdrawal of funds if required.

- **FRS 16 – Leasing**
- The CIPFA Code of Practice will incorporate the requirement to account for all leases onto the council's balance sheet. There have been indications that the implementation date for this is going to be set back to

2022/23 due to pressures on staff from the COVID Pandemic.

- Once implemented, this has the following impact to the Treasury Management Strategy:
- The MRP Policy sets out how MRP will be applied for leases bought onto the balance sheet;
- The Council's Capital Financing Requirement authorised limit and operational boundary for 2022/23 onwards has been increased to reflect the estimated effect of this change. These limits can be amended during 2021/22 if required and bought to full Council to amend with the TMSS Mid-Year report if the limits need to be increased following some more detailed work on the leases to be bought onto the balance sheet.

APPENDIX 1

Treasury Management Scheme of Delegation

1. Fire Authority

1.1 In line with best practice, The Fire Authority is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are:

a) Prudential and Treasury Indicators and Treasury Strategy (This report)
The first and most important report covers:

- the capital plans (including prudential indicators);
- the Capital Strategy
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

b) A Mid-Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and indicating whether the treasury strategy is meeting the strategy or whether any policies require revision.

c) An Annual Treasury Management Stewardship Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2. The Treasury Management Role of the Section 112 Officer

2.1 The Section 112 (responsible) Officer (the fire service equivalent to the S151 Officer in local government):

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.

3. Training **-** Treasury Management training for Authority members will be delivered as required to facilitate more informed decision making and challenge processes.

APPENDIX 2

1. The Prudential and Treasury Indicators

1.1 The Fire Authority's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1.2 **Capital Expenditure**. This prudential Indicator shows the Authority's capital expenditure plans; both those agreed previously, and those forming part of this budget cycle. Capital expenditure excludes spend on PFI and leasing arrangements, which are now shown on the balance sheet.

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

Table 5

Description	**2020/21 Projected**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£m	**£m**	**£m**	**£m**
Capital Expenditure	2.295	6.105	7.682	3.673
Capital receipts	(1.939)	(5.991)	(0.233)	-
Capital grants & Contributions	-	-	-	-
Revenue Financing	-	-	(0.452)	(0.452)
Capital Reserves	-	-	(3.209)	(0.500)
Other Reserves	-	(0.086)	(0.289)	-
Borrowing Need	**0.356**	**0.028**	**3.499**	**2.721**

1.4 The Authority's borrowing need (the Capital Financing Requirement) - The second prudential indicator is the Authority'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 Authority's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

1.5 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

1.6 Following accounting changes, the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought on the balance sheet. 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. The Authority has no finance leases or PFI Schemes.

Table 6

	2020/21 Projected	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
Capital Financing Requirement				

	£m	£m	£m	£m
Opening CFR	10.773	10.698	10.298	13.385
Borrowing Need (table 5 as above)	0.356	0.028	3.499	2.721
MRP	(0.431)	(0.428)	(0.412)	(0.535)
Closing CFR	**10.698**	**10.298**	**13.385**	**15.571**

1.7 **The Operational Boundary.** This is the limit beyond which external borrowing 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 borrowing.

Table 7

Description	2020/21 Projected	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m
Borrowing	11.166	10.766	13.853	16.039
PFI/Leases	-	-	-	-
Total	**11.166**	**10.766**	**13.853**	**16.039**

1.8 **The Authorised Limit for external borrowing**. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- 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 authority's plans, or those of a specific authority, although this power has not yet been exercised; and
- The Authority is asked to approve the following Authorised Limit:

Table 8

Description	2020/21 Projected	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m
Borrowing	13.555	13.155	16.242	18.428
PFI/Leases	-	-	2.000	2.000
Total	**13.555**	**13.115**	**18.242**	**20.428**

2. Treasury Management Limits on Activity

2.1 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 or improve performance. The indicators are:

- upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Table 9

Maturity structure of fixed interest rate borrowing 2021/22 All Fire Authority borrowing is at a Fixed Rate			
	Lower	**Upper**	**Actual**
Under 12 months	0%	25%	4%
12 months to 2 years	0%	40%	4%
2 years to 5 years	0%	60%	12%
5 years to 10 years	0%	80%	21%
10 years to 20 years	0%	80%	22%
20 years to 30 years	0%	80%	3%
30 years to 40 years	0%	80%	33%
40 years to 50 years	0%	80%	0%

Table 10

Principle sums invested for periods longer than 365 days			
	2021/22 £m	**2022/23 £m**	**2023/24 £m**
Limit	2.50	2.50	2.50

The above limits are deemed prudent and will be reviewed in future years.

2.2 **Affordability Prudential Indicators -** 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 Authority's overall finances. The Authority is asked to approve the following indicators:

2.3 **Actual and estimates of the ratio of financing costs to net revenue stream**. 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. The estimates of financing costs include current commitments and the proposals in this budget report.

Table 11

Description	**2020/21 Projected**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	%	**%**	**%**	**%**
Ratio	2.07	2.16	2.12	2.49

3. Treasury Management Budget

Table 12

Description	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Interest Payable	0.496	0.668	0.645	0.705
Interest Receipts	(0.075)	(0.040)	(0.030)	(0.020)
Minimum Revenue Provision	0.431	0.397	0.462	0.584
TOTAL	**0.852**	**1.025**	**1.077**	**1.269**

APPENDIX 3

Minimum Revenue Provision Policy Statement

1. Policy Statement

1.1 The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment has been replaced with a more flexible statutory guidance. A variety of options is provided to authorities to replace the existing Regulations, so long as there is a prudent provision.

1.2 The statutory duty is that a local authority shall determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous prescriptive requirement that the minimum sum should be 4% of the Authority's Capital Financing Requirement (CFR).

1.3 To support the statutory duty the Government also issued a guidance, which requires that a Statement on the Authority's policy for its annual MRP should be submitted to The Fire Authority for approval before the start the financial year to which the provision will relate. The Authority is therefore legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the MHCLG guidance on Investments.

1.4 The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that The Fire Authority should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

1.5 The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this Annual Treasury Management Strategy.

1.6 The move to International Financial Reporting Standards (IFRS) involves Private Finance Initiative (PFI) contracts and potentially some leases (being reclassified as finance leases instead of operating leases) coming onto the Balance Sheet as long term liabilities. The accounting treatment would impact on the Capital Financing Requirement with the result that an annual MRP provision would be required.

1.7 To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their "Statutory MRP Guidance" which allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments to PFI Operators. There are no implications for the Authority's MRP policy.

The policy for 2021/22 is therefore as follows:-

1.8 For capital expenditure incurred before 1 April 2008 or which in the future will be Government Supported Capital Expenditure, the MRP policy will be:

- Based on based on the non-housing CFR, i.e., The Authority currently set aside a Minimum Repayment Provision based on basic MRP of 4% each year to pay for past capital expenditure and to reduce its CFR.

1.9 From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option will be applied for any expenditure capitalised under a Capitalisation Direction).

- Asset Life Method (annuity method) The Authority will also be adopting the annuity method, - MRP calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. The policy is being adopted as a result of any PFI's assets coming on the balance sheet and any related MRP will be equivalent to the "capital repayment element" of the annual service charge payable to the PFI Operator and for leases, MRP will also be equivalent to the "capital repayment (principal) element" of the annual rental payable under the lease agreement. It should be noted that the Authority do not currently have any PFI assets or finance leases.

Under both methods, the Authority has the option to charge more than the statutory MRP each year through a Voluntary Revenue Provision (VRP).

1.10 This approach also allows the Authority to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy. Half-yearly review of the Authority's MRP Policy will be undertaken and reported to Members as part of the Half-yearly Treasury Management Strategy review.

APPENDIX 4

The list below shows the countries that would currently meet these criteria:

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland

AA+

- Canada

AA

- U.K.

Note: There are three other countries with AA, but the Authority will only be using UK because of the best understanding of the UK market.

APPENDIX 5

Economic Overview

Provided Link Assets Services (our Treasury advisors) January 2021

1. The UK

1.1 The key quarterly meeting of the Bank of England Monetary Policy Committee kept Bank Rate unchanged on 5 November 2020. However, it revised its economic forecasts to take account of a second national lockdown from 5 November to 2 December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".

1.2 Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expected there to be excess demand in the economy by Q4 2022.
- CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

1.3 Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

1.4 However, the minutes did contain several references to downside risks. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. Upside risks included the early roll out of effective vaccines.

1.5 COVID-19 vaccines. We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9 November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January,

though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

1.6 These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

1.7 Public borrowing was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

1.8 Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5 November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

2. Link Asset Services forward view January 2021

2.1 There has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5 January 2021 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some

months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

2.2 Brexit. While the UK has been gripped by the long running saga of whether or not a deal would be made by 31 December 20, the final agreement on 24 December, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis.

2.3 **The balance of risks to the UK**

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

2.4 **Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**

- UK government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- UK - Bank of England takes action too quickly, or too far, 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.

2.5 **Upside risks to current forecasts for UK gilt yields and PWLB rates**

- UK - a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

APPENDIX 6

Bank with duration colour	Country	Fitch Ratings				Moody's Ratings		S & P Ratings		CDS Price	ESFA Duration	Link Duration Limit	Money Limit
Specified Investments:		L Term	S Term	Viab.	Supp.	L Term	S Term	L Term	S Term		(Months)	(Months)	(£m)
Lloyds Banking Group:													
Lloyds Bank	UK	A+	F1+	a	5	A1	P-1	A+	A-1	33.85	6	6	6
Bank of Scotland	UK	A+	F1	a	5	A1	P-1	A+	A-1	54.82	6	6	
RBS/NatWest Group:													
NatWest Bank	UK	A+	F1	a	5	A1	P-1	A	A-1	-	12	12	6
Royal Bank of Scotland	UK	A+	F1	a	5	A1	P-1	A	A-1	-	12	12	
HSBC Bank	UK	AA-	F1+	a	1	Aa3	P-1	A+	A-1	33.32	12	12	6
Barclays Bank	UK	A+	F1	a	5	A1	P-1	A	A-1	54.82	6	6	6
Santander (UK)	UK	A+	F1	a	2	A1	P-1	A	A-1	-	6	6	6
Goldman Sachs IB	UK	A+	F1	-	1	A1	P-1	A+	A-1	50.47	6	6	6
Standard Chartered Bank	UK	A+	F1	a	5	A1	P-1	A	A-1	32.32	6	6	6
Handelsbanken (UK) PLC	UK	AA	F1+	-	1	-	-	AA-	F1+	-	12	12	6

Yellow	***Purple***	***Blue***	***Orange***	***Red***	***Green***	***No Colour***
Up to 5yrs	*Up to 2yrs*	*Up to 1yr (semi nationalised UK banks)*	*Up to 1yr*	*Up to 6 months*	*Up to 100 days*	*Not to be used*

Non Specified Investments:	**Minimum credit criteria**	**Period**
Local Authorities	Government Backed	2 years
Mixed Asset Fund(s)	N/A	2 - 5 years
Short Dated Bond Fund(s)	N/A	2 - 5 years
Pooled Property Fund(s)	N/A	5+ years

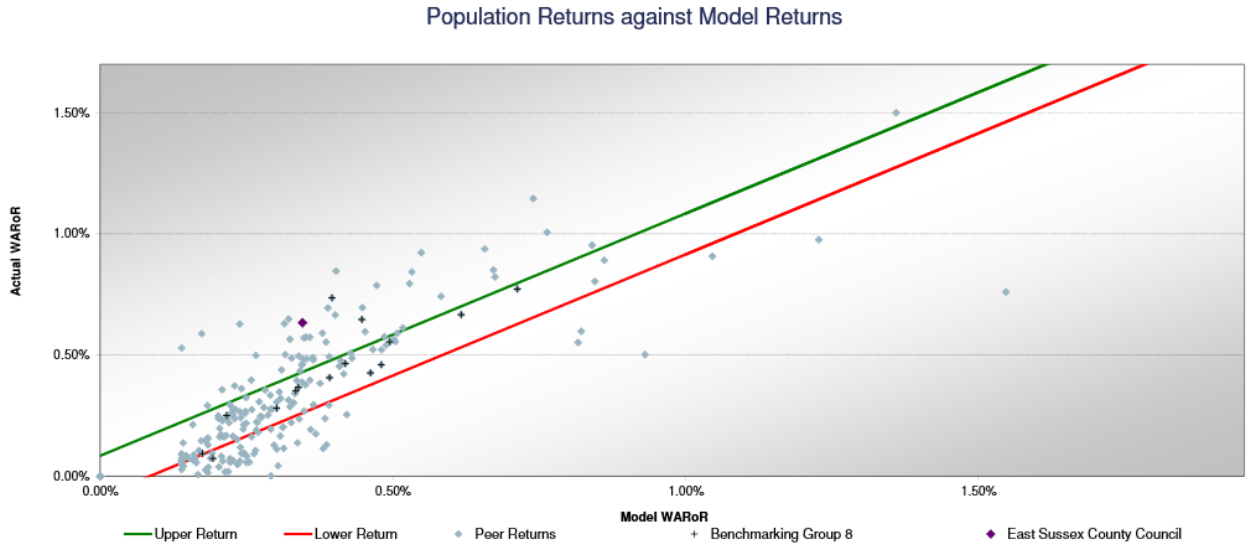
APPENDIX 7

Investment Benchmarking

1 Investment Benchmarking

1.1 The Authority has access to Investment benchmarking results from its Treasury Advisors Link Asset Services (LAS). Officers attend two annual meetings to review performance and compare to peers within the South East Region (group 8).

1.2 Local Authority Investment benchmarking returns to September 2020.



1.3 The cluster graph above shows that the rate of return grouping for Local Authorities is within a range of 0.20 -0.60% which is broadly consistent with returns achieved by this Authority. As at December 2020 £91k was earned in investment interest at an average rate of 0.45%.

1.4 Fire Authority Investment returns 2020/21 to date:

2020/21	Return (%)	Base Rate (%)	+/- (%)
April	0.60	0.10	+0.50
May	0.62	0.10	+0.52
June	0.55	0.10	+0.45
July	0.50	0.10	+0.40
August	0.43	0.10	+0.33
September	0.38	0.10	+0.28
October	0.34	0.10	+0.24
November	0.32	0.10	+0.22
December	0.33	0.10	+0.23

APPENDIX 8

Investment Product Glossary

Bank / Building Society: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Bank / Building Society Secured (Covered Bonds): These investments are secured on the bank's assets, which limit the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

Corporate Bonds: Bonds issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Enhanced Cash / Ultra Short Dated Bond Funds: Funds designed to produce an enhanced return over and above a Money Market Fund. The manager may use a wider range of alternative options to try and generate excess performance. These could include different counterparties, instruments as well as longer dated investments.

Equity Fund: Equity funds are pooled investment vehicles that will focus investments primarily in UK equities.

Government: Loans, bonds and bills issued or guaranteed by UK government, local authorities and supranational banks. These investments are not subject to bail-in, and there is a minimal risk of insolvency.

Money Market Funds: An open ended fund that invests in short term debt securities, offers same-day liquidity and very low volatility.

Mixed Asset Funds: Rather than focus on a particular asset class, these funds will look to invest across a broader range of classes in an effort to provide investors with a smoother performance on a year-to-year basis. Primarily, the asset classes will be equities and fixed income, but the latter will include both corporate and government-level investments.

Pooled Property Funds: Shares in diversified property investment vehicles. Property funds offer enhanced returns over the longer term, but are more volatile in the short term. The funds have no defined maturity date, but are available for withdrawal after a notice period

Short Dated Bond Funds: Funds designed to produce an enhanced return over and above an Ultra Short Dated Fund. The manager may use a wider range of alternative options to try and generate excess performance. These could include different counterparties, instruments as well as longer dated and a proportion of lower rated investments. The return on the funds are typically much higher, but can be more volatile than Ultra-Short Dated bond funds, so a longer investment time horizon is recommended.