SOUTHEND-ON-SEA CITY COUNCIL

ANNUAL TREASURY MANAGEMENT INVESTMENT STRATEGY 2025/26

1 Scope of this strategy

1.1 This investment strategy covers Treasury Management investments only. (Capital investments including service and commercial investments and loans are covered in the Capital Investment Policy which is Annex 1 to the Capital Investment Strategy.)

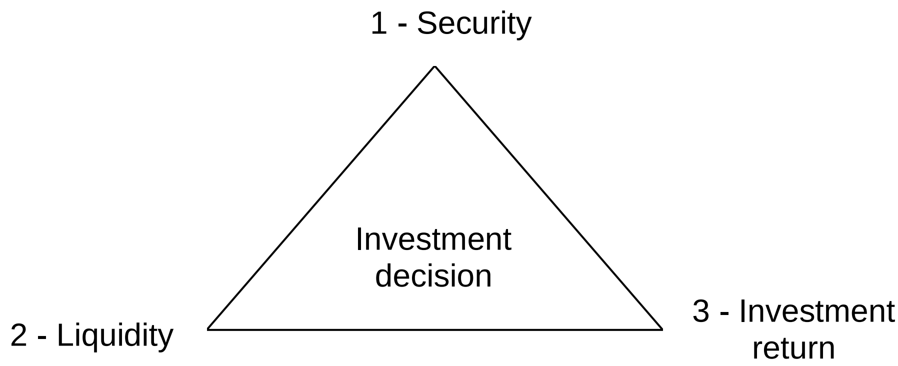
2 Treasury Management Investment Objectives

2.1 To secure the principal sums invested

2.2 To maintain liquidity (i.e. adequate cash resources)

2.3 To optimise the income generated by surplus cash in a way that is consistent with a prudent level of risk

2.4 Security and liquidity are placed ahead of the investment return. This is shown in the diagram below:



2.5 Subject to the above objectives being satisfactorily met, consideration will be given to environmental, social and governance (ESG) factors for the funds and financial institutions being invested in. This is still an area that is relatively new but is becoming more mainstream with more funds and financial institutions reporting on their ESG policies. It should be noted that high relevance to ESG-related considerations does not necessarily correlate to high credit quality.

3 Policy on use of external fund managers

3.1 The Council currently has monies placed with five external fund managers to use their knowledge and experience to invest on our behalf the medium and long-term funds that are, under normal circumstances, not required for day to day cash flow purposes. These funds are summarised below:

Type of fund	Fund manager	Estimated average balance in 2025/26 (£m)
Property Fund	UBS Asset Management (UK) Ltd	10.0
Property Fund	Patrizia Property Investment Managers LLP	18.0
Short Dated Bond Fund	AXA Investment Managers UK Limited	7.4
Short Dated Bond Fund	Royal London Asset Management	7.1
Enhanced Cash Fund	Payden & Rygel Global Limited	5.0
Total		**47.5**

3.2 Withdrawals may be made during 2025/26 so that a proportion of the council's debt can be repaid or the monies invested as part of the in-house managed funds. Conversely, monies may be placed with the existing and/or a new fund manager during 2025/26 to take full advantage of the knowledge and experience of fund managers in making investment decisions. As to whether monies are deposited or withdrawn, the reason and timing of the decision will have regard to the council's cash flow, relevant interest rates and advice from our treasury management advisers.

3.3 In consultation with our treasury management advisers and if appropriate the Section 151 officer will appoint one or more new fund managers in 2025/26 to enable investment of monies.

3.4 During 2025/26, if appropriate, the Section 151 officer will approve the placing of monies in Property Funds and will approve the direct investment in property. Any resulting updates to the capital investment programme would be submitted to Cabinet for approval.

3.5 During 2025/26, if appropriate, the Section 151 officer will approve the placing of monies in Short Dated Bond Funds or Enhanced Cash Funds.

4 Policy on investment of in-house managed funds

4.1 The remaining funds will be managed in-house with the investment period and amounts being determined by the daily cash flow requirements of the Council. Cash flow forecasts will be produced in order to inform in-house investment decisions.

4.2 This authority has accepted the risk of placing funds with financial institutions, rather than solely with the UK government Debt Management Office. However, the risk is minimised by this Annual Treasury Management Investment Strategy, which restricts the types of investment, the counterparties used and the limits for these counterparties.

4.3 Government guidance recommends that specified and non-specified investments are identified in the Investment Strategies of local authorities. Specified investments have relatively high security and liquidity, with high credit quality and a maturity of no more than a year. Non-specified investments are investments that do not fall into this category. The types of investment in this strategy and whether they are specified or non-specified are set out in Annex A.

4.4 During 2025/26 the Section 151 officer will, if appropriate, approve the placing of monies in deposit accounts, fixed term deposits or certificates of sterling cash deposits up to five years, subject to the proposed banks and building societies satisfying the investment criteria in a combined matrix of credit ratings, and having regard to other market information available at the time.

4.5 During 2025/26 the Section 151 officer will, if appropriate, approve the placing of monies in Money Market Funds, term repurchase arrangements, Treasury bills, with other Local Authorities or the Debt Management Office. The regulations regarding Money Market Funds have changed and all references to Money Market Funds now relate to Low Volatility Net Asset Value (NAV) funds, Constant NAV funds and Variable NAV funds.

4.6 During 2025/26 the Section 151 officer will, if appropriate, approve the investment of monies into Joint Ventures or Development Companies (either partly or wholly owned by the Council) focused on regeneration and other infrastructure related projects, subject to the necessary due diligence being satisfactorily completed and in consultation with our treasury management advisers. The provision of loan facilities to such organisations would count as capital investment and any resulting updates to the capital investment programme would be submitted to Cabinet for approval.

4.7 Where credit ratings are used to assess credit risk, they will be checked when an investment is taken out to ensure that investment satisfies the criteria in this Treasury Management Investment Strategy. Our treasury management advisers provide alerts when credit ratings are changed by the three main rating agencies. If the credit ratings of an institution or investment no longer satisfy the criteria the monies will be withdrawn as soon as possible. This would depend on the maturity date or notice period.

4.8 During 2025/26 the Section 151 officer will, if appropriate, approve the short term borrowing of monies from other Local Authorities or the PWLB in order to manage the cash flow and maintain liquidity.

4.9 Fixed term deposits may be made directly with the banks and building societies or through the use of a broker. Monies will be placed with other

Local Authorities through the use of a broker. Investments in Certificates of Deposit and Treasury bills will be made through the use of a custodian account. The Council acknowledges that it retains responsibility for all investment decisions made whether they are made on its behalf or not.

4.10 When investing in-house managed funds, the following are considered; the type of investment, the individual counterparty, the amount that can be invested, the method of placement of monies. These are summarised in Annex A**.**

4.11 The services of a treasury management adviser will be used throughout 2025/26 to provide advice as well as credit rating and other market information regarding counterparties and types of investment. However, the Council recognises that responsibility for investment decisions remains with the authority at all times.

5 Investment Criteria for Funds Managed In-house

5.1 All financial institutions considered for investment will be assessed for credit worthiness against a combined matrix of pre-determined criteria using available credit ratings. Credit ratings are assessments by professional organisations of an entity's ability to punctually service and repay debt obligations. Credit ratings are used by investors as indications of the likelihood of getting their money back in accordance with the terms on which they invested.

5.2 The credit rating components used in the matrices comprise:

- Short term ratings.
- Long term ratings.

Ratings provided by all three credit rating agencies will be consulted and a counterparty will be considered for investment if it meets the ratings criteria of at least one of the agencies.

5.3 The short-term rating covers obligations which have an original maturity not exceeding one year. The short-term rating places greater emphasis on the liquidity necessary to meet financial commitments. All three credit rating agencies provide short term ratings. The ratings are expressed from F1+ (highest credit rating) through to D (highest default risk) for Fitch, from A-1+ (highest credit rating) through to D (highest default risk) for Standard and Poors, and from P-1 (highest credit rating) through to NP (highest default risk) for Moody's.

5.4 The long-term ratings generally cover periods in excess of one year. Due to the larger time horizon over which the rating is determined, the emphasis shifts to the assessment of the ongoing stability of the institution's prospective financial condition. All three credit rating agencies provide long term ratings. The ratings are expressed from AAA (highest credit rating) through to D (highest default risk) for Fitch and Standard and Poors and from AAA (highest credit rating) through to C (highest default risk) for Moody's.

5.5 In order to balance the objective of securing the maximum level of return on investments with a prudent level of risk a matrix of criteria will be adopted as a starting point to determine the acceptability of a potential investment.

5.6 These matrices are set out below:

If the short and long term ratings meet the following criteria from a minimum of one of the ratings agencies:

For Lending of <u>up to 6 months</u> to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A-	A-	A3

For Lending of <u>up to 12 months</u> to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A	A	A2

For Lending of <u>up to 3 years</u> to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	AA-	AA-	Aa3

For Lending of <u>up to 5 years</u> to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1+	A-1+	P-1
Long term rating minimum	AA+	AA+	Aa1

5.7 An example of the use of this credit ratings matrix as at 7 January 2025 is shown below (the long and short term ratings are Fitch, then Standard and Poors, then Moodys).

Financial Institution	**Long Term Rating**	**Short Term Rating**	**Maximum length of investment**
The Bank of New York Mellon	AA AA- Aa1	F1+ A-1+ P-1	5 years
National Bank of Canada	A+ A+ Aa2	F1 A-1 P-1	3 years
Standard Chartered Bank	A+ A+ A1	F1 A-1 P-1	12 months

5.8 The Council's treasury management advisers will continually review the appropriateness of our investment criteria and the resulting counterparty list.

5.9 The individual ratings for some banks and building societies are low which means that they do not meet the criteria in our credit ratings matrix. An example of the institutions meeting the criteria for the UK will therefore include:

- Bank of Scotland Plc (RFB)
- Barclays Bank Plc (NRFB)
- Goldman Sachs International Bank
- Lloyds Bank Corporate Markets Plc (NRFB)
- National Westminster Bank Plc (RFB)
- Nationwide Building Society
- Santander UK Plc (RFB)
- Standard Chartered Bank
- The Royal Bank of Scotland Plc (RFB)

5.10 The largest UK banks were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing" and is a regulatory initiative created in response to the global financial crisis to improve the resilience and resolvability of banks. The initials RFB and NRFB in paragraph 5.9 refer to whether the bank is the Ring-fenced Bank or the Non Ring-fenced Bank. Each part of the bank has an individual credit rating and for any potential investment the counterparty would be considered against the criteria in this strategy in the normal way.

5.11 Counterparties that are manually added back to the list will have a maximum length of investment of two years. Amendments to the counterparty list can happen at any point in time.

5.12 For practical purposes the Council's bank will form part of the counterparty list, whether or not it meets the criteria in our credit ratings matrix.

5.13 Regard will be given to forward looking rating warnings from the three main credit rating agencies (i.e. rating watches and outlooks) provided by our treasury management advisers.

5.14 The current advice from the Department for Levelling Up, Housing & Communities and from CIPFA is not to rely solely on the credit rating agencies and the Council recognises that ratings should not be the sole determinant of the quality of an institution. So regard will also be given to market information such as the financial press, and officers will engage with their advisers to maintain a monitor on market pricing (such as share and 'credit default swap' prices) and other such information pertaining to the banking sector. Where available credit information, other than credit ratings has been used, this will be documented when the investment decision is made.

5.15 Consideration will also be given to any rating methodology approach of our treasury management adviser, where counterparties are put into bands of risk. These reflect the differences in credit quality of suggested duration and counterparties are assigned a risk number/colour.

5.16 The achievement of an appropriate balance between short-term and longer-term deposits will be driven by the credit quality of counterparties, the council's cash flow requirements, and the need to achieve optimum performance from our investments consistent with effective management of risk.

6 Investment Limits for Funds Managed In-house

6.1 The ratings agencies produce a credit rating for each country, called a sovereign rating. The ratings are expressed from AAA (highest) to D (lowest). The following limits have been set for an investment with a bank or building society whose parent company is registered in a country with a sovereign rating from Fitch and Standard and Poors (S&P) of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1. Sovereign ratings provided by all three credit rating agencies will be consulted and the lowest rating will be taken.

Country Sovereign Rating	Limit * All except UK (£ million)
AAA/Aaa	20
AA+/Aa1	5
Lower than AA+/Aa1	0

* These limits relate to the principal sums invested and do not include any accrued interest on that principal.

6.2 These limits will also apply to supranationals (international organisations whereby member states transcend national boundaries or interests to share in the decision-making and vote on issues pertaining to the wider grouping). An example of a supranational is the European Investment Bank.

6.3 Fitch has set the UK's sovereign rating at AA-, S&P have set it at AA and Moodys have set it at Aa3. Therefore, to ensure the continued use of UK institutions that fall within our investment criteria, the country sovereign rating limits exclude the UK. The limit will therefore remain at £20 million for all counterparties where the parent company is registered in the UK.

6.4 Where the parent company of a bank is not registered in a country with a sovereign rating from Fitch and S&P of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1 but that bank's UK operations are ring-fenced to the UK (as is the case for Santander UK), if these banks are included in the counterparty list they will have a counterparty limit of £20 million.

6.5 £20 million is 17% of the authority's estimated amount of investments for 2025/26 of £120m. £5m is 4% of the total estimated investments. These are upper limits and would only be fully used in exceptional circumstances as, under normal circumstances, diversification is sought to reduce counterparty risk. These limits are deemed appropriate by our Treasury Management advisers.

6.6 To minimise counterparty risk, the limit on any investment with a bank or building society (with the exception of the Council's bank which is currently Barclays Bank) will be determined in the following way:

- consider the country in which the parent company of the bank or building society is registered
- use the sovereign rating of that country to apply the limits above
- consider the cumulative balance of funds already held in various investment products with that bank or building society
- consider the cumulative balance of funds already held in various investment products for any related group of financial institutions
- determine the remaining amount that can be placed with that bank or building society

For example, the limit on an investment with Lloyds Bank Plc would be determined in the following way:

Steps to determine limit: (*for illustrative purposes only and not an indication of actual investments)*	**Remaining limit available at each stage:**
Lloyds Bank Plc is part of the Lloyds Banking Group which is registered in the UK	£20 million
£4 million already placed in an instant access account with Lloyds Bank Plc	£16 million
£5 million already placed in a fixed term deposit with Lloyds Bank Plc	£11 million
£6 million already placed in a notice account with Bank of Scotland Plc (part of the Lloyds Banking Group)	£5 million
Therefore the maximum investment would be £5 million	

6.7 The Council's bank is the exception to these investment limits however, and under normal circumstances our intention would be to comply with a counterparty limit of £30 million, to enable the efficient and effective management of the Council's cash flow.

6.8 The limit on deposits in Money Market Funds will be £20 million with any one AAAm/AAAf rated (or equivalent) liquidity fund. These work in the same way as a deposit account but the money in the overall fund is invested in a number of counterparties, therefore spreading the counterparty risk.

6.9 There are products being developed that are similar to, but not the same as Money Market Funds, such as 'term repurchase arrangements'. The risk associated with these funds is somewhere between a fixed term deposit and a Money Market Fund. The Section 151 officer will approve the placing of monies in these types of fund up to a maximum of £20 million per fund, if deemed appropriate and in consultation with our treasury management advisers.

6.10 Given the prevailing financial market conditions, financial institutions will inevitably devise various investment products to offer enhanced returns. The Council's Section 151 Officer will consider these in consultation with our treasury management advisers and will approve the placing of monies in such investment products with appropriate limits, only after the options and their associated risks have been fully analysed by the treasury management team and our treasury management advisers.

6.11 To maximise flexibility, there is no limit on deposits with the UK Government (e.g. Debt Management Office, HM Treasury bills). These deposits will have a maximum duration of 6 months.

6.12 The limit on deposits with other Local Authorities will be £40 million which is 33% of the authority's estimated amount of investments for 2025/26 of £120m. These deposits will have a maximum duration of 5 years. This is an upper limit and would only be fully used in exceptional circumstances. The limit is higher than the limit for other counterparties such as banks and other financial institutions due to the lower counterparty risk generally associated with Local Authorities. Before placing any deposit with another Local Authority, appropriate due diligence would be undertaken to consider the appropriateness of the counterparty. These limits are deemed appropriate by our Treasury Management advisers.

7 Fund Managers investment criteria

7.1 Investments undertaken by external fund managers on behalf of the Council can only be placed in certain types of investment as permitted under the Local Government Act. The types of investment, counterparties and limits used by each fund manager are set out in their Investment Management Agreement.

7.2 The Council's Section 151 Officer is authorised to amend these Investment Management Agreements as appropriate to reflect the needs of the Council, after fully considering the options and their associated risk and in consultation with the Council's treasury management advisers. Subject to the relevant due diligence being undertaken, the Investment Management Agreements could include investment in asset classes such as gilts, corporate bonds, property or equities, or investment in a multi asset fund.

7.3 The limit on deposits in Property Funds will be £30 million with any one fund that passes the selection process.

7.4 The limit on deposits in Short Dated Bond Funds will be £20 million with any one fund that passes the selection process.

7.5 The limit on deposits in Enhanced Cash Funds will be £20 million with any one fund that passes the selection process.

7.6 The performance and associated risk will be assessed on an on-going basis through half yearly strategy meetings with each fund manager and the Council's treasury management advisers. Any appropriate action would be identified and taken in consultation with those advisers.

8 Markets in Financial Instruments Directive (MiFID II)

8.1 MiFID is the framework of European Union legislation for investment intermediaries that provide services to clients around financial instruments such as shares, bonds, units in collective investment schemes and derivatives and the organised trading in such financial instruments.

8.2 This was revised by MiFID II to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. It recognises that investors have different levels of knowledge, skill and expertise. The application of specific regulatory obligations under MiFID depends on a client's 'regulatory' category.

8.3 Local Authorities are categorised as retail clients by default but may 'opt up' to become elective professional clients if certain criteria are satisfied. This Council satisfies the criteria to become an elective professional client and has 'opted up' where appropriate to ensure that it can continue to be eligible to invest in the current range of counterparties and investment products, as some are not available to retail clients.

8.4 MiFID II does not cover simple term deposits as it is only focussed on regulated products. This includes our investments in Money Market Funds, enhanced cash funds, short-dated bond funds and property funds. The Council is classed as an elective professional client for all its relevant counterparties except for certain Money Market Funds where the fund has confirmed there is no requirement to 'opt up' as the products can continue to be used as a retail client. The Council's designation under MIFID II will be regularly reviewed to ensure it remains appropriate.

Type of Treasury Management Investment	Individual Counterparty	Limit	Method of placement	Specified/non-specified
Deposit accounts	Bank or building society that meets the criteria of our combined matrix of credit ratings	Per bank or building society, based on country sovereign rating	Directly or through a broker	Specified (if 1 year or less), Non-specified (if more than 1 year)
Fixed term deposits			Directly or through a broker	
Certificates of sterling cash deposits			Custodian account	
Money Market Funds	AAAm/AAAf rated* (or equivalent) liquidity fund	Per fund	Directly or via an on-line site for managing money market funds	Specified
Property Funds	Via selection process	Per fund	Directly or through a broker	Non-specified (more than 1 year)
Short Dated Bond Funds	Via selection process	Per fund	Directly	Non-specified (more than 1 year)
Enhanced Cash Funds	Via selection process	Per fund	Directly	Non-specified (more than 1 year)
Term repurchase arrangements	AAAf/S1 rated#	Per fund	Directly	Specified (if 1 year or less), Non-specified (if more than 1 year)
Other Local Authorities	Depends on which Local Authorities want to borrow money at that time	For total invested with other Local Authorities	Through a broker	Specified (if 1 year or less), Non-specified (if more than 1 year)
Debt Management Office	UK Government	For total invested with UK Government	Directly	Specified
Treasury Bills			Custodian account	

* A fund with a principal stability rating of 'AAAm/AAAf' (or equivalent) has an extremely strong capacity to maintain stability and to limit exposure to losses of the principal sums invested due to credit, market and/or liquidity risks.

A fund with a credit quality rating of ‘AAAf’ has a portfolio holding that provides extremely strong protection against losses from credit defaults. A fund with a volatility rating of S1 possesses low sensitivity to changing market conditions.