

Annual Investment Strategy

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

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime. The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with the Code, the Divisional Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

1.1 Annual Investment Strategy

The key requirements of both the Code and investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non specified investments.
- The principles to be used to determine the maximum periods for investing funds;
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

1.2 Strategy Guidelines

The main strategy guidelines are contained in the body of the treasury strategy statement.

1.3 Specified Investments

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be

repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- 1) The UK Government (such as the Debt Management Account Deposit Facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- 2) Supranational bonds of less than one year's duration.
- 3) A local authority, parish council or community council.
- 4) Pooled investment vehicles with a high credit rating. This covers pooled investment vehicles, such as money market funds, rated AAA by the rating agencies
- 5) A body that is considered of a high credit quality (such as a bank or building society).

For category 5 this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by the three rating agencies

1.6 Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Non Specified Investment Category	
a.	<p>Supranational Bonds greater than 1 year to maturity</p> <p>(a) Multilateral development bank bonds These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).</p> <p>(b) A financial institution that is guaranteed by the UK Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>

b.	Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
c.	The Council's own bank if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible. The Council's current bankers are Lloyds TSB which currently is supported by the UK government.
d.	Any bank or building society that has a minimum long term credit rating of AA- or equivalent, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).
e.	Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. There is a higher risk of loss with these types of instruments. This area is currently under consultation by the CLG and loan capital may not be deemed capital expenditure from 1 April 2012.
f.	Pooled property or bond funds – The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.

Within categories c and d, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. This criteria is set out in section 11.3 in the body of the report.

In respect of categories e and f, these will only be considered after obtaining external advice and subsequent Member approval.

1.7 The Monitoring of Investment Counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Sector as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Divisional Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

1.8 Use of External Fund Manager(s)

It is the Council's policy to use external fund manager(s) for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy. The terms of the fund managers' investment policies are detailed in the investment mandate agreement. The performance of each manager is reviewed at least quarterly by the Divisional Director of Finance and the managers are contractually required to comply with the annual investment strategy

1.9 Credit Quality Criteria and Allowable Financial Instruments

The table on the following page sets out the credit quality criteria for counterparties and allowable financial instruments for Council investments:

Specified Investments: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Counterparty / Financial Instrument	Minimum Credit Rating Criteria / Colour Band	Other Investment Criteria		Use	
		Maximum Duration	Counterparty Limit £m	In House	Fund Manager
Government Supported UK Bank Lloyds TSB: SIBA (Call) Accounts Term Deposits, CDs, Structured Deposits, Corporate Bonds	Blue	Up to 1 year	Lower of £40m or 40% of total investable cash	Y	Y
Government Supported UK Bank - RBS SIBA (Call) Accounts Term Deposits, CDs, Structured Deposits, Corporate Bonds	Blue	Up to 1 year	£30m	Y	Y
Other UK Banks & Building Societies * SIBA (Call) Accounts Term Deposits, CDs, Structured Deposits, Corporate Bond	Orange Red Green No Colour	Up to 1 year Up to 6 Months Up to 3 months Not for use	£20m	Y	Y
Multilateral Development Banks Corporate Bonds	AAA	12 months	£10m	Y	Y
Local Authorities: Term Deposits	High Security - not credit rated	12 months	£15m per authority	Y	Y
UK Government Treasury Bills Gilts DMADF	UK Sovereign Rating	N/A	N/A	Y N Y	Y Y Y
Money Market Funds	AAA	T+1	£15m per Manager	Y	Y
Managed Funds Gilt Funds/Bond Funds Collective Investment Schemes	Long Term rating for Fitch (AA), Moody's (Aa2), S&P (AA)	T+3	£15m	N Y	Y Y

Non-Specified Investments: These are any investments which do not meet the specified investment criteria and are held for longer than 365 days. A maximum of 40% will be held in aggregate in non-specified investment

	Minimum Credit Rating – Based on Fitch and S&P’s Ranking			Used By	Support Rating	Maximum Maturity Period	Maximum % of Total Council Investment
	Short-Term	Long-Term	Viability				
Term Deposits – Local Authorities (with maturity in excess of 1 year)	High Security – although not credit rated			In House		2 years	25%
Term deposits – Banks & Building Societies (with maturity in excess of 1 year, incl. structured products)	F1 or Equivalent	AA- or Equivalent		In-house	1	2 years	25%
Certificates of deposit issued by banks and building societies	F1 or Equivalent	AA- or Equivalent		Fund Managers	1	2 years	40%
UK Government Gilts with maturities in excess of 1 year	AAA			Fund Managers		3 years	40%
Pooled Funds (Various)	F1	AAA		Fund Managers			40%
Structured Deposits with variable rates and maturities (Callable & Flappable Deposits, range trades & snowballs)	F1	AAA	B	In-house	1	2 years	25%
Bonds issued by: Financial Institutions with explicit UK government guarantee Multilateral Development Banks	AAA			In-house and Fund Managers		3 years	40%
Sovereign Bond Issues (other than UK Government)	AAA			Fund Managers			
Bond Funds	AAA			Fund Managers			

Non-Specified Investments with Maturities of Any Period: From time to time in periods of volatile interest rates, the Council may invest in non-specified investments with variable rates and variable maturities:

Organisation	Minimum Credit Criteria	Use	Maximum Maturity Period & Limit
Local Authority mortgage guarantee scheme	AAA	Fund Manager In-house	5 years 25%

Key

Short Term Ratings F1 – Indicates the strongest capacity for timely repayment

Long Term Ratings A – Capacity for payment of commitments considered strong
 AA – Very strong capacity for payment of commitments
 AAA – Exceptionally strong capacity for payment of commitments

Individual Rating B – Strong organisation, no major concerns.
 C – Adequate organisation, some concerns regarding its profitability and Balance Sheet.

Support Rating 1 – There is an extremely high probability of external support.
 2 – High probability of external support
 3 – Moderate probability of support