

Investment Classification

The 2004 Investment Guidance encourages forms of investment offering high security and liquidity. This achieved by making a distinction between 'specified and 'non-specified' investments. Generally Equity type investments are defined as capital expenditure, the effect of which is a reduction of the authority's scope for funding capital projects. The exemption if the shares and bonds are acquired through collective investment schemes such as unit trusts. The Council is part of a collective group of Council's who have investment properties in the old GLA.

The classification of investments as specified and non-specified is constantly reviewed. The Chief Financial Officer ensures that investment products are fully understood and the risks and compliance with CIPFA Code of Practice on Treasury Management is full appraised and understood.

The choice of minimum credit rating criteria has been set in consultation with the Council's treasury management advisers and regard to the Revised CIPFA guidance.

The Council relies on the credit ratings of the three main agencies in addition to other factors. Ratings are reviewed on a weekly basis with daily changes to counterparty ratings also monitored.

Specified Investments:

All investments which fall under the classification of specified investments will be sterling denominated and have maturities up to maximum of 364 days, meeting the Council's minimum 'high' rating criteria at the time of investment.

Organisation/Instrument	Minimum Credit Criteria										MAX PERIOD	USE
	FITCH				MOODY			STANDARD & POOR		CDS DATA		
	Fitch S/T	Fitch L/T	FITCH INDV SUPP	FITCH SUPP STATUS	M L/T	M S/T	M FRS	S&P L/M	S&P S/T			
Term deposits – banks and building societies (including nationalised banks and banks with Government guarantee)	F1+	A+	C	1	Aa	P-1	C-	A+	A-1	In Range/ Monitoring	12 months	In-house
Term deposits – banks and building societies (including nationalised banks and banks with Government guarantee)	F1+	A+	D	1	Aa	P-1	C-	A+	A-1	In Range/ Monitoring	12 months	Fund Managers
Development Banks	F1+	AAA	N/A	N/A	Aaa	P-1	N/A	AAA	A-1+	N/A	12 months	Fund Managers
Certificates of deposits issued by banks and building societies	F1+	AA	C	1	Aa	P-1	C-	A+	A-1	In Range/ Monitoring	12 months	Fund Managers
Structured deposits	F1+	AA	B	1	Aa	P1	A	AAA	A-1+	In Range/ Monitoring	12 months	In-house and Fund Managers
Term deposits – UK government	Government Backed - Not Credit Rated											In-house and Fund Managers
Term deposits – other Local Authorities	High Security - Although not Credit Rated											In-house
Term deposits – UK Nationalised banks and building societies	F1+	AA-	D/E	1	Aa3	P-1	A	A+	A-1	In Range/ Monitoring	12 Months	In-house and Fund Managers
Debt Management Agency Deposit Facility	Government Back Agency – Not Credit Rated											In-house and Fund Managers
Money Market Funds	F1+	AAA	N/A	N/A	Aaa			AAA				In-house and Fund Managers
UK Government Gilts	AAA											Fund Managers
Gilt Funds and Bond Funds	AA											Fund Managers
UK Treasury Bills	Government Backed Instruments – Not Credit Rated											Fund Managers
Short term funds	AAA											In-house and Fund Managers
Pooled funds	AAA											In-house and Fund Managers

Where bank has government backing then the Council will use Counterparties whose credit rating meets its other minimum criteria but has Moody's FRS of D or E.

Non-Specified Investments:

Where investments are held for longer than 365 days they are classified as Non-specified Investments. Strong credit quality is a major factor in the choice of lender.

A maximum of 40% will be held in aggregate in non-specified investments

Organisation	Minimum Credit Criteria			Use	Max. maturity period
	Short-term	Long-term	Individual		
Term deposits – UK government (with maturities in excess of 1 year)	Govt Backed-Not Credit Rated			In-house	2 Years
					25%
Term deposits – other LAs (with maturities in excess of 1 year)	High Security – although not Credit rated			In-house	2 Years
					25%
Term deposits – banks and building societies (with maturities in excess of 1 year)	F1+	AA or equivalent	B	In-house	2 Years
					2
Certificates of deposits issued by banks and building societies	F1,or equivalent			Fund managers	2 Years
					2
UK Government Gilts with maturities in excess of 1 year	AAA			Fund Managers	3 Years
					40%
Structured deposits with variable rates and variable maturities – callable and flappable deposits, range trades and snowballs	F1+	AA or equivalent	B	In-house	2 Years
					2
Pooled Funds various	F1+	AA or equivalent	B	Fund Managers	2 Years
					2
Bonds issued by multilateral development banks	AAA		Government guarantee	In-house on a 'buy-and-hold' basis. Also for use by fund managers	3 Years

			managers	40%
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	2 Years	
			40%	
Sovereign bond issues (i.e. other than the UK govt)	AAA	Fund Managers	2 Years	
			40%	
Bond Funds	AAA	Fund Managers	25%/2 years	

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	Max. maturity period			
				Short-term	Long-term	Individual
Fixed term deposits with variable rate and maturities (structured deposits) – banks and building societies (with maturities in excess of 1 year)	F1+	AA or equivalent	B	In-house/ Fund Manager	2 Years	
				2 /Fund Manager	25%	
Commercial Paper issuance by UK banks covered by UK Government guarantee	F1,or equivalent	AA / government guarantee		Fund managers	2 Years	
				2	25%	
Commercial Paper other	F1+	AA or equivalent	B	In-house	2 Years	
				2	25%	
Local Authority mortgage guarantee scheme	AAA	Fund Manager./ In-house	5 Years			
			25%			

The Council will not trade in corporate bonds issued by either banks covered by UK Government guarantee or other banks, floating rate notes and invest the Council's funds in property funds as these investments could constitute capital expenditure.

Alternative Credit ratings available from Moody's & Standard & poor
Eg Fitch F1- Moody's P1 , Fitch A – Moody's Aa3

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 2 – High probability of external support

3 – Moderate probability of support