

Treasury Management Strategy 2018/19 - Appendix 1 Annex 2

Cabinet

Date: 7th February 2018

Annex 2 – Credit and Counterparty Risk Management, Specified and Non- Specified Investments

1 Treasury Management Practices

- 1.1 The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy.
- 1.2 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. This Council adopted the Code on the 1st April 2008 and will apply its principles to all investment activity. In accordance with the Code, the Corporate Director, Resources and Growth has produced its Treasury Management Practices (TMPs). This part covering investment counterparty policy requires approval each year.
- 1.3 The key requirements of both the Code and the 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 which funds can be committed.
 - 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.

2 Specified/Non-Specified Investments

- 2.1 The main Investment guidelines are contained in the body of the Treasury Strategy statement. The paragraphs below detail the Council's use of Specified and Non Specified Investments
- 2.2 **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

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or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or Gilt with less than one year to maturity).
- Supranational bonds of less than one year's duration.
- A local authority, parish council or community council.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.
- A body that is considered of a high credit quality (such as a bank or building society) in accordance with the Councils creditworthiness Policy.

2.3 **Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The Council holds 4 types of non-specified investments:

- Cash deposits > 1 year (Category (e) below)
- Share Capital (Category (g) below)
- Loan Capital (Category (h) below)
- The Local Authority Property Fund (Category (j) below).

Other Non-specified investments that the Council could make would include any investments with:

| Non Specified Investment Category |
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| Supranational Bonds greater than 1 year to maturity (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 Reconstruction and Development Bank etc.). (b) A financial institution that is guaranteed by the United Kingdom 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. |
| (c) 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) |

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| above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. |
| (d) The Council's own banker if it fails to meet the basic credit criteria. In this instance any balances will be maintained on an instant access basis |
| (e) Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies but will take specific advice before doing so. |
| (f) Any bank or building society that complies with the Council's creditworthiness policy for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment). |
| (g) Share 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. See note 1 below. |
| (h) Loan capital in a body corporate. See note 1 below. |
| (i) Bond funds. See note 1 below. |
| (j) Property funds – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. |

Note 1: This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

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 Link Asset Services 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 and if required new counterparties which meet the criteria will be added to the list.