

COUNCIL INVESTMENT STRATEGY AND POLICY

1. Governance

In respect of investments, the key requirement of the government's "Guidance on Local Government Investments" initially issued on 12th March 2004 by the ODPM, and revised by Communities and Local Government (CLG) in April 2010, is for local authorities to draw up an annual investment strategy for the management of its investments. The strategy is to be approved by full Council.

2. Principles Governing Investment Criteria

The fundamental principle governing the City Council's investment criteria is the security of its investments, although investment return will be a consideration. The Council will ensure:

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counter parties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments, taking into account known and potential cashflow requirements.

3. Types of Investments Available to the City Council

Government guidance on local authority investments categorises investments as either specified or non-specified. Specified investments are:

- denominated in sterling;
- due to be repaid within 12 months;
- not deemed capital expenditure investments under statute;
- invested in one of: UK Government, UK local authority or a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a non UK country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

All other investments are classified as non-specified.

The total limit for all non-specified investments is £50m, with specific "sub" limits of:

	£m
Total Long Term Investments	£30m
Total Investments without credit ratings or rated below A- (minimum BBB+)	£10m
Total Investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+ (minimum A-)	£10m

4. Counterparties and Investments to be Used by the City Council

The Section 151 officer will maintain a counterparty list based on the criteria set out below. The credit rating criteria stated below are those determined by the Fitch crediting rating agency. In addition, the Council also has regard to the 2 other agencies that undertake credit

ratings: Standards and Poor's and Moody's, in determining the lowest acceptable credit quality.

The following investments can be used by the City Council:

Credit Rating	Banks Unsecured	Banks Secured	Corporates	Registered Providers
AAA	£10m 5 years	£20m 20 years	£10m 20 Years	£10m 20 years
AA+	£10m 5 years	£20m 10 years	£10m 10 Years	£10m 10 years
AA	£10m 4 years	£20m 5 years	£10m 5 Years	£10m 10 years
AA-	£10m 3 years	£20m 4 years	£10m 4 Years	£10m 10 years
A+	£10m 2 years	£20m 3 years	£10m 3 Years	£10m 5 years
A	£10m 13 months	£20m 2 years	£10m 2 Years	£10m 5 years
A-	£10m 6 months	£20m 13 months	£10m 13 months	£10m 5 years
None	£1m 6 months	n/a	£10m 5 years	£10m 5 years
Uk Government*	£Unlimited - 50 Years			
Local Authorities	£Unlimited - 50 Years			
Pooled funds and real estate investment trusts	£20m per fund			

*This relates to investments with the DMO, Treasury bills & gilts.

In addition to the following category or group limits will apply:

	Cash limit
Any single organisation, except the UK Central Government	£20m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£50m per manager
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries	£20m per country
Registered Providers	£50m in total
Unsecured investments with Building Societies	£20m in total
Loans to unrated corporates	£20m in total
Money Market Funds	£100m in total
Real estate investment trusts	£50m in total

Investment limits apply at the time the investment is made.

In addition to credit rating information, in line with best practice, the authority will, through its treasury advisers, consider other information when assessing credit risk and determining organisations with whom the authority will invest. Such information will include:

- Credit Default Swaps (an indicator of risk based on the cost of insuring against non-payment);
- Sovereign support mechanisms;
- Share prices;
- Corporate developments;
- Financial media reviews and commentaries.

The table above sets out the *maximum* limits that provide a sound approach to investment. In order to manage risk, the Section 151 officer will restrict investment activity as appropriate, for example by:-

- limiting investment activity to those counterparties considered of higher quality than the minimum. Examples of such precautionary restrictions can include limiting investments to specific organisations, their duration or both. In addition, country limits, whereby investments in certain foreign regulated institutions are restricted will be used to manage risk;
- reducing the overall limits beyond those set out in the tables above, where there is a significant reduction in the total level of City Council investments.

5. Investment Instruments to be Used by the City Council

The City Council may lend or invest money using any of the following financial instruments:

- interest-bearing bank accounts;
- fixed term deposits and loans;
- callable deposits where the Authority may demand repayment at any time (with or without notice);
- callable loans where the borrower may demand repayment at any time;
- certificates of deposit;
- bonds, notes, bills, commercial paper and other marketable instruments; and
- money market funds and other pooled funds.
- Local Authority Bills
- Real estate investment trusts

6. The Monitoring of Investment Counter parties

The credit rating of counter parties will be monitored regularly. The Council receives credit rating information from its advisers, Arlingclose, on a weekly basis. As and when ratings change, the Council will be notified immediately by Arlingclose by telephone and email. There will be a minor time delay between rating changes and the Council receiving notification, and on occasion ratings may be downgraded when an investment has already been made. Any counter party failing to meet the criteria will be removed from the list immediately by the Section 151 Officer and new counter parties which meet the criteria will be added to the list.

In addition, Arlingclose, the City Council's treasury advisers, provide analysis and advice that pulls together credit rating and other information. This facilitates the management of credit risk on a broader base than would credit ratings alone.

7. Financial Derivatives

Due to some uncertainty over Councils' legal powers to use stand alone financial derivative instruments, and the risks associated with their use, the City Council does not intend to use such investment derivatives.

8. Operational Investments and Loans

Separately, the City Council holds long-term investments or provides loans for operational or policy reasons, these investments are covered by the commercial investment strategy (**appendix 6**)