

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 has 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 sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

The type of investments that can be used by the Authority are:-

Investment	Specified	Non-Specified
Term and call deposits with banks and building societies	✓	✓
Term deposits, call deposits and bonds with other UK local authorities	✓	✓
Investments with Registered Providers (former Registered Social Landlords)	✓	✓
Certificates of deposit with banks and building societies	✓	✓
UK Government Gilts	✓	✓
UK Government Treasury Bills (T-Bills)	✓	x
UK Government Debt Management Account Deposit Facility (DMADF)	✓	x
Bonds issued by Multilateral Development Banks/Supranational banks	✓	✓

Commercial Paper	✓	×
Corporate Bonds	✓	✓
Money Market Funds and Collective Investment Schemes	✓	✓

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

The Director of Finance and Legal Services 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 directly by the City Council:

Investments	Limit £m	Minimum Short Term Rating	Minimum Long Term Rating	Minimum Sovereign Rating (non UK)
UK Government, including gilts, t-bills and DMADF	unlimited			
Bonds issued by Multilateral Development Banks/Supranational banks	£12m			
Local Authorities, including single purpose authorities	£12m			
Registered Social Landlords	£6m			
Money Market Funds and Collective Investment Schemes*	£12m		AAA	
Term and call deposits with banks and building societies	£12m	F1	A-	AA+

* These are "pooled" investments which entail taking a small share of a pool of investments. As such risk is spread across a number of investments. Some Money Market Funds and Collective Investment Schemes are not given a credit rating, reflecting the practice within the financial services industry. Where this is the case the limit will be £3m and investments will only be made consistent with the advice of the City Council's Treasury Advisers.

Investment limits apply at the time the investment is made.

In the event of the City Council's own banker falling below the minimum criteria, balances held at the bank would be minimised as far as possible. In particular, no fixed term deposits would be made with the bank. In such circumstances any balances held would then be classified as non specified investments.

The total limit for all non specified investments is £15m.

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. However, in light of any uncertainty, the Director of Finance and Legal Services will, as appropriate, restrict further 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.

Separately, the City Council holds share or loan investments for policy reasons. Where the acquisition of such share or loan capital represents capital expenditure of the authority it is reported on as part of the capital monitoring process.

5. 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 Director of Finance and Legal Services 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.