

### Annual Investment Strategy

1. The Council holds significant surplus funds, representing income received in advance of expenditure, plus balances and reserves. Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and in order of importance to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.
2. Council will also consider long term investments to secure better yield. This will be subject to cash-flow requirements and will ensure that it is prudent and sustainable.
3. In accordance with the above guidance and to minimise the risk to investments, the Council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties which will provide security of investments, enable diversification and minimise risk. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. The Treasury Management Adviser monitors counterparty ratings on a real time basis with knowledge of any changes advised electronically as the agencies notify modifications.
4. Further, the officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to assess continually and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its adviser to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
5. The aim of the strategy is to generate a list of highly creditworthy counterparties which will provide security of investments, enable diversification and minimise risk.

#### **Creditworthiness policy**

6. The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
  - a. It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
  - b. It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. .
7. The Head of Finance and Commercial will maintain a counterparty list in compliance with the criteria set out in the table at paragraph 20. The counter parties must meet the minimum criteria from all the three rating agencies. Any

revision to the criteria will be submitted to Council for approval as necessary.

8. **Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.
9. Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria listed in the table below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

#### **Specified and Non-specified investments**

10. The DCLG Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on Local authorities around the use of specified and non-specified investments. A specified investment is defined as an investment which satisfies all of the conditions below:
  - a. The investment and any associated cash flows are denominated in sterling;
  - b. The investment has a maximum maturity of one year;
  - c. The investment is not defined as capital expenditure; and
  - d. The investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.
11. A non-specified investment is any investment that does not meet all the conditions above. For any such investments, specific proposals will be considered by the s151 Officer after taking into account:
  - a. cash flow requirements
  - b. investment period
  - c. expected return
  - d. the general outlook for short to medium term interest rate
  - e. creditworthiness of the proposed investment counterparty
  - f. other investment risks.
12. The value of non-specified investments will not exceed their Investment allocation. The Council must now formulate a strategy that allocates its cash in the most effective manner to short, medium and long term non-specified investments.



### **Country limits**

13. Due care will be taken to consider the country, group and sector exposure of the Council's investments. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in the table below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy

### **Investment Strategy**

14. After a decade, Bank Rate was increased from 0.25% to 0.50% in November 2017. It is forecast there will be a further increase of 0.25% in the last quarter of 2018. Bank Rate forecasts for financial year ends (March) are:

2017/18	0.50%
2018/19	0.75%
2019/20	1.00%
2020/21	1.25%

15. Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 3 months during each financial year are as follows

2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	.1.50%
2022/23	1.75%

16. As the interest rates are expected to remain low during 2018/19, strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. However, caution will be taken into account to ensure that the Council is not disadvantaged by locking for too longer period to take advantage of the future rates rises.
17. In order to diversify a portfolio largely invested in cash, investments will be placed with a number of approved counterparties over a range of maturity periods which meets the credit criteria set out in the schedule below. Money market funds (MMFs) will be utilised to provide good diversification, better yield and liquidity.
18. The investment returns will be benchmarked against the 3 months LIBOR (London Interbank Offered Rate) rate.

### **Investment time limits**

19. In view of the limited investment returns currently being experienced on short term cash-based investments and the substantial positive cash-flow position over the medium term (see paragraph 7.2 in the main report), it is suggested that for 2018/19 and future years the Council considers increasing its limit on longer term investments to £40m for the next five years. This limit also has regard to the

Council's liquidity requirements and to reduce the need for early sale of an investment.

### Schedule of Credit Criteria for investments

20. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments is:

Investments	Minimum Credit Rating Required (S&P/Moody's/Fitch)	Maximum Counterparty Limit (£m)	Maximum Tenor
Debt Management Office (DMO) and Gilts	Government Backed	Unlimited	25 years
Supra-nationals and Multilateral development Banks & European Agencies	Government Backed	£6m each £3m each	1 year 2 years
UK Local Authorities	N/A	£7.5m each	3 years
Money Market Funds (MMF) & Enhanced Money Funds	LT:AAA/Aaa/AAA	£7.5m per fund £40m in aggregate	Up to 7 day notice
Pooled Property Funds	Internal and External due diligence	£7.5m per single fund	Up to 5 years
UK Banks and Building Societies	LT:A+/A1/A+ & above  LT:A-/A3/A- & above	£3m each  £6m each	>1 Year to 5 Years  Up to 1 Year
Nationalised and Part Nationalised Banks		£4m each	1 Year
Non-UK Bank Maximum of £10m per country	LT:A+/A1/A+ & above SR:AAA  LT:A/A2/A & above SR:AA	£3m each  £6m each	>1 Year to 5 Years  Up to 1 Year
Direct Property Investments – Councils decision of 9 October 2017	Internal and External due diligence	£7.5m	Up to 5 years
<b>Sovereign approved list:</b> Australia, Belgium, Canada, Denmark, Finland, France, Germany, Netherlands, Qatar, Singapore, Sweden, United Arab Emirates, Switzerland, United States			