

Annual Investment Strategy

1. The Council holds significant invested funds, representing income received in advance of expenditure, balances and reserves. Investments are made with reference to the core balance, future cash flow requirements and the outlook for interest rates.
2. The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, as managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).
3. The Council's investment policy has regard to the following: -
 - MHCLG's Guidance on Local Government Investments ("the Guidance")
 - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
4. The Council's investment priorities will be Security first, portfolio Liquidity second and then Yield (the SLY principle). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to its risk appetite.
5. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -
 - Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings published by Fitch, Moody's, and Standard & Poor's rating agencies.
 - **Credit Default Swaps:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess 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 achieve this consideration the Council will engage with its advisors to maintain and monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
 - **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- The MHCLG 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.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Non-specified investments** are those with less high credit quality or may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
- **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury investments of £100m.
- This Council has engaged **external consultants** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite in the context of the expected level of cash balances and need for liquidity throughout the year.
- The Council will set a limit for its investments which are invested for longer than 364 days. For the year 2025/26, the proposed limit is £25m as set out in **table 11** of the TMSS.
- All investments will be denominated in **sterling**.

6. Investment Strategy

- In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider investments for periods up to 12 months with high credit rated financial institutions whilst investment rates remain elevated.
- Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns have historically been obtainable by investing for longer periods. However, with further cuts to the Bank of England base rate expected, markets are seeing an inverted yield curve that suggests this is not the case at present. Therefore, an agile investment strategy would be appropriate to optimise returns whilst maintaining the primary focus on security and liquidity.
- While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer

periods, the value to be obtained from longer-term investments will be carefully assessed.

7. Creditworthiness Policy

- This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies.
2. Credit Default Swap (CDS) spreads that may give early warning of changes in credit ratings.
3. Sovereign ratings to select counterparties from only the most creditworthy countries.

- This modelling approach combines credit ratings, any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested maximum duration for investments. The Council will, therefore, use counterparties within the following durational bands:

Yellow	5 years
Dark pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

- Typically, the minimum credit ratings criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available or other topical market information to support their use.

- 1.1 **Local Authority Investments** - The investment with Local Authorities can only be placed with the prior approval of the Council Leader, the Chief Executive and the Service Director of Finance (Section 151 Officer) or deputies in the case of leave. If a deposit is placed with a local authority that subsequently issues a Section 114 notice, is given a capitalisation directive or experiences any other untoward financial event then the incident will be reported to the Audit & Governance Committee at the earliest opportunity.

- **Buckinghamshire Council's Bank** - The Council frequently receives cash without prior notification from the sender. There is a possibility that a large receipt or several smaller receipts could be received once the daily treasury dealing process is complete resulting in overnight cash at the Council's bank exceeding the counterparty limit as defined in the treasury management strategy. If this occurs, the cash will be invested with other counterparties in line with the strategy on the following working day.
- **Limits** - Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.
 - **Country limit** - minimum sovereign credit rating of AA- from Fitch (or equivalent). This rating level is in line with the suggested minimum rating advised by Link Treasury Services Ltd. This will allow investments with financial entities domiciled in the following countries:
 - AAA : Australia, Denmark, Germany, Netherlands, Norway, Singapore, Sweden, Switzerland;
 - AA+ : Canada, Finland, USA
 - AA : Abu Dhabi (UAE), Qatar
 - AA- : Belgium, France, UK
 - This list will be kept under review and any proposed changes to the policy reported at the next meeting.
 - No more than £20m will be placed with any non-UK country at any time.
 - The aggregate investment limit for treasury deposits placed across all non-UK domiciled banks is £80m.
- Changes to the credit rating will be monitored and, in the event, that a counterparty is downgraded and does not meet the minimum criteria, the following action will be taken immediately:
 - No new investments will be made.
 - Existing investments will be recalled if there are no penalties.
 - Full consideration will be given to recall or sell existing investments which would be liable to penalty clause.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Money and/or % limit	Transaction limit	Time limit
Banks *	Yellow	£20m	£10m	5yrs
Banks	Purple	£20m	£10m	2yrs
Banks	Orange	£20m	£10m	1yr
Banks – part nationalised	Blue	£20m	£10m	1yr
Banks	Red	£10m	£5m	6 mths
Banks	Green	£10m	£5m	100 days
Banks	No Colour	Not to be used	-	-
Limit 3 category – Authority’s banker (where “No Colour”)	-	Minimal balances	Minimal balances	1 day
Debt Management Agency Deposit Facility (UK Govt.)	UK sovereign rating	Unlimited	£100m	6 months (max. duration offered)
Local authorities (sector limit £150m)	n/a	£10m	£10m	1 yr
Housing associations (sector limit £25m)	Colour bands	£5m	£5m	As per colour band

	Fund rating**	Money and/or % Limit		Time Limit
Money Market Funds CNAV	AAA	£30m	-	liquid
Money Market Funds LVNAV	AAA	£30m	-	liquid
Money Market Funds VNAV	AAA	£30m	-	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark Pink / AAA	£30m	-	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light Pink / AAA	£30m	-	liquid

* The yellow colour category is for UK Government debt.

** "fund" ratings are different to individual counterparty ratings

8. **Investment performance** - This Council will benchmark against 1-month SONIA (Sterling Overnight Index Average) rate to assess the performance of portfolio.
9. **External Fund Managers** - £20m of the Council's funds have been invested in an externally managed pooled local authority property fund by CCLA (Churches, Charities and Local Authorities). The Council meets with representatives of the fund manager on an annual basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.