Appendix A

Investment Strategy

Investment, Counterparty and Liquidity Framework

The Council's investment strategy primary objectives are firstly to safeguard the re-payment of the principal and interest of its investments on time, secondly to ensure adequate liquidity, with the investment return being a third objective. However, the revenue budget does include a line for investment returns and in the current financial climate it is important that these returns are maximised without increasing the risk to the security of the investments.

The Council must also maintain a policy covering the categories of investments it will invest in; the criteria for choosing counterparties and have in place processes for monitoring the credit risk associated with these counterparties.

Following the banking crisis of 2008, when central governments were forced to step in to bail out major banks, regulatory authorities have determined that governments should no longer stand behind the banks in the same way and that in the event of large losses, creditors will be bailed in instead.
There have been three major pieces of legislation affecting organisations in Great Britain and these leave only government (local and central), banks, pension/insurance funds and Money Market Funds uninsured and subject to the bail-in provisions. These changes were fully implemented by July 2015. Information from the Council's TM advisors appears to show that many councils are preparing to change their investment strategies to eliminate unsecured investments from their portfolios other than the amounts necessary for day-to-day cash management. This would mean that any remaining councils who have not changed their investment strategies would suffer bigger bail-ins in the event of bank failures. The investment strategy now includes categories of secured investments as a way of protecting the Council's assets.

The Strategic Director, Finance and Efficiencies will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

(1) Debt Management Office of the Treasury – unlimited

(2) Local Authorities (except rate-capped) – limit £10m

(3) Unsecured investments with all UK banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as:

Long term	A-

Limit - £5m

(4) Unsecured Investments in Building Societies

(a) Building societies with a rating (as for the banking sector) all have a lending limit of £3m.

(b) All building societies without a rating but with assets of £1b or more will have a lending limit of £3m and a time limit of 9 months.

(c) All building societies without a rating but with assets of £500m or more will have a lending limit of £2m and a time limit of 6 months.

(5) Money Market Funds (MMF)

It is recommended that all MMFs are approved for general use, with a limit of £2 million per fund. Currently it is not anticipated that these funds will be utilised but if market conditions change and it is necessary to have a vehicle to manage cash flow then the option is available.

(6) Secured Investments

Due to the uncertainty with Brexit the Council should have access to a range of financial instruments for investing surplus funds one such instrument is the Reverse Repurchase Agreement which may be utilised in 2019/20. The Council is in the process of arranging this type of investment. Repo/Reverse Repo is accepted as a form of securitised lending and should be based on the GMRA 2000 (Global Master Repo Agreement). These investments are secured on the bank's assets, which limits the potential loss in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required.

The council will take market advice on the baskets of assets to be required from banks, it is expected that these will be government stock and high quality commercial paper.

Lending limit for any single institution will be £5 million (this is in addition to the limit set for unsecured investments).

(7) Property Funds

The Council may, in consultation with the TM Advisors and with the agreement of the Strategic Director – Finance and Efficiencies and the Cabinet Member for Finance look at Property funds in 19/20. Property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

(8) The criteria set out above for choosing counterparties provide a sound approach to investment and are designed to reduce the financial risks to the Council of investing money on the money market. However, the criteria listed above is for general guidance, other factors are considered as to whether a counterparty is removed from the list for example a 'Negative Watch' or changes to an institutions balance sheet leverage as well. Other information sources are also used when making an assessment which will include the financial press and the share price. Counterparties are monitored closely by the Treasury Consultants and treasury staff will adjust activities at short notice to protect the Council's position. The controls detailed in the framework are subject to change according to the market conditions.

Credit Rating Agencies

Following the new legislation for the Banking sector with regards 'bail-in' the credit rating agencies have adopted a new approach to how they assess risk. Previously they would have assessed the risk of a bank entering administration and the level of government support that would be required. The new measure looks at the risk of particular obligations being bailed-in this then assists the investor when deciding with which institution to place funds.

Investment Strategy

The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our TM Advisors view is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

The level of investments held will be mainly for the purpose of ensuring there are funds available to manage the cash flow of the Council, to satisfy MiFID II criteria and any excess funds arising from reserves be used as a substitute for borrowing.

The Council's investment decisions will be made with reference to the counterparty list and other information that is relevant when assessing the credit quality of the counterparty. It is proposed that unsecured lending to Banks and Building Societies is restricted to cash flow and short periods up to 1 month. Any longer term investments will be made using secured lending, DMO and other Local Authorities.

Money Market Funds will be utilised if there is a requirement for cash flow purposes.

Treasury Management Prudential Indicators

Members are asked to approve the following Prudential Indicator: -

	2018/19	2019/20	2020/21
Minimum principal sums invested	£10m	£10m	£10m
Maximum principal sums invested	£30m	£30m	£30m

Investing on behalf of Trust Funds

Although this will not form part of the Investment Strategy for Conwy, as custodian, Conwy currently holds around £1million on behalf of Trust Funds. The Audit & Governance Committee should be aware that the intention is for these funds to be pooled together and invested longer term to provide a better return for the trustees. Conwy is currently looking at secure longer term investments to achieve this taking into account the individual Trusts requirements. Conwy's Treasury Advisors will be consulted before any funds are invested.

WELSH GOVERNMENT INVESTMENT GUIDANCE

The National Assembly for Wales issued Investment Guidance in April 2010, and this forms the structure of the Council's policy below relating to credit and counterparty risk management. A requirement of the guidance is that the Investment Strategy is approved by full Council.

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 the 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 24 January 2002 and which was updated in November 2011 and will apply its principles to all investment activity. In accordance with the Code, the Strategic Director – Finance and Efficiencies has produced its treasury management practices. TMP 1(5), covering investment counterparty policy requires approval each year.

CIPFA published its new edition of the CIPFA Treasury Management Code 2017 and Prudential Code 2017 in late December 2017. This report and the Capital Strategy report will be reported to Council prior to the start of the new financial year.

1. Annual Investment Strategy - Approved Instruments

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:

(i) The strategy guidelines for decision making on investments, particularly non-specified investments.

(ii) The principles to be used to determine the maximum periods for which funds can be committed.

(iii) Specified investments the Council will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.

(iv) 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.

The investment policy proposed for the Council is:

(i) **Strategy Guidelines** – The main strategy guidelines are detailed in the Investment Strategy outlined above with the emphasis on security and liquidity.

(ii) **Investment Periods** – The Council policy is to lend funds for a maximum of 364 days, if a longer period is required for a specific reason then approval will be required from the Strategic Director – Finance and Efficiencies and the Cabinet Member for Finance.

(iii) **Specified Investments** – These investments are sterling investments of not more than one-year maturity. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with the:

The Treasury Debt Management Office
Other Local Authorities (except rate capped)
All UK Banks and Building Societies with a high credit rating and less than 12 months term
Secured Investments – REPO's
Money Market Funds

(iv) **Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). This includes Building Societies with no rating and lending for more than 364 days. The limit for "non-specified" investments had been set at £10m, and it is considered prudent to retain this limit.

(v) The Council uses Treasury Management advisors (currently Arlingclose) to provide information on credit ratings using output from rating agencies. The advisors also provide weekly updates on a range of other indicators which allows the Council to assess risk using a number of criteria.

(vi) Training is provided for Treasury Management staff and relevant councillors in accordance with WG guidance.