

## **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	£10m
Total Investments without credit ratings (excluding MMFs)	£10m
Total Investments in foreign countries rated below AA+ (minimum A-)	£5m
Total Investments in counterparties rated below A- (minimum BBB+)	£32m

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

The Executive Director Resources 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:

<b>Credit Rating</b>	<b>Banks Unsecured</b>	<b>Banks Secured</b>	<b>Corporates</b>	<b>Registered Providers</b>
AAA	£8m 5 years	£16m 5 years	£8m 13 Months	£8m 5 years
AA+	£8m 5 years	£16m 5 years	£8m 13 Months	£8m 5 years
AA	£8m 4 years	£16m 5 years	£8m 13 Months	£8m 5 years
AA-	£8m 3 years	£16m 4 years	£8m 13 Months	£8m 5 years
A+	£8m 2 years	£16m 3 years	£8m 13 Months	£8m 5 years
A	£8m 13 months	£16m 2 years	£8m 13 Months	£8m 5 years
A-	£8m 6 months	£16m 13 months	£8m 13 months	£8m 5 years
BBB+	£4m 100 days	£8m 6 months	£4m 6 months	£4m 2 years
BBB or BBB-	£4m next day only*	£8m 100 days	n/a	n/a
None	£1m 6 months	n/a	n/a	£8m 5 years
Uk Government**		£ Unlimited – 50 Years		
Local Authorities		£8m – 25 Years		
Pooled funds		£8m per fund		

\*This only relates to institutions with which the authority performs its banking activities (I.E. HSBC). Unsecured investments will not be made with institutions rated lower than BBB+.

\*\*This relates to investments with the Debt Management Office, Treasury bills & gilts.

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

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£16m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£16m per group
Any group of pooled funds under the same management	£40m per manager
Negotiable instruments held in a broker's nominee account	£80m per broker
Foreign countries	£16m per country
Registered Providers	£40m in total
Unsecured investments with Building Societies	£16m in total
Loans to unrated corporates	£16m in total
Money Market Funds	£80m in total

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.

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 Executive Director Resources 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.

## **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.

## **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 Executive Director Resources 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, for example, in order to stimulate economic development and growth. Depending on the nature of the spend these can be accounted for as capital expenditure. Investments made in the past include Birmingham Airport Holdings Ltd, the Coventry and Solihull Waste Disposal Company and the creation of the Coventry Investment Fund.

Operational investments and loans will be assessed and reported on, on a case by case basis. This will include a full assessment of the risk, including credit risk, and how this will be managed.

An investment board makes decisions on which projects The Coventry Investment Fund should invest in with delegated responsibility from Council and Cabinet. A risk assessment for each project is performed and this is taken into account as part of the due diligence process. The Coventry Investment Fund also has an evaluation process that considers the following criteria:

- Business Rate Growth/Return on Investment
- Strategic Fit to Council's Vision and Aspirations
- Deliverability
- Jobs Created