

Treasury Management Practice (TMP)1 (5)- Credit and Counterparty Risk Management

1. The Office of the Deputy Prime Minister (now DCLG) issued investment guidance on 12th March 2004, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds, which are regulated by a different regulatory regime.
2. 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 this Council to have regard to CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 21st March 2002 (Min. Ref. 63/Mar/2002 refers) and will apply its principles to all investment activity. In accordance with the Code, the Director of Corporate Services has produced its Treasury Management Practices (TMP's) and this part TMP 1 (5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy

3. The key requirements of both the Code and the investment guidance are to set an annual investment strategy as part its annual Treasury Management strategy for the following year, covering the identification and approval of the following:
 - (a) The strategy guidelines for decision making on investments, particularly non-specified investments.
 - (b) The principles used to determine the maximum periods for which funds can be committed.
 - (c) Specified investments the Council will use. These are high security (i.e. high credit rating, although this defined by the Council, and no guidelines are given), and high liquidity of investments in sterling with a maturity of no more than a year. This will need to define broad categories of investment and regularity of monitoring.
 - (d) Non-specified investments, clarifying the greater risk implications, identifying and 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.
4. Specified and non-specified investments are both approved under the new guidance and both should normally form part of the Council's policy.
5. Throughout this Strategy the investments that will be used are Sterling fixed term or Variable deposits of up to 5 years with Banks and Building Societies, UK Government and other local authorities.
6. This Strategy is to be approved by Council.

Strategy Guidelines

7. The main principle governing the Council's investment criteria is the security and liquidity of its investments before yield, although yield or return on the investment will be a consideration, subject to adequate security and liquidity. After this main principle the Council will ensure:

- a) It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may be prudently committed. These procedures also apply to the Councils prudential indicators covering maximum principal sums invested.
 - b) It maintains a policy covering both 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.
8. The Director of Corporate Services will maintain counterparty list in compliance with these criteria and will revise the criteria and submit it to Council for approval as necessary. The current proposed criteria are shown below

Liquidity of Investments

9. The Council will carefully balance the use of specified investments and non-specified investments into the future to ensure there is appropriate operational liquidity. In the normal course of the Council's cash flow operations it is expected that both specified and non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.
10. The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified category. These instruments will only be used where the Council's liquidity requirements are safeguarded. An estimate of term investments is included in the main body of this report. The following estimates for longterm investments were included for the next three years 2007/08 £10m, 2008/09 £10m and 2009/10 £10m

Specified Investments

11. These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. These would include investments with:-
- a) The UK Government (such as the Debt Management Office, UK Treasury Bills or gilts).
 - b) Supranational bonds.
 - c) A local authority, parish council or community council.
 - d) An investment scheme that has been awarded a high credit rating by a credit rating agency. This covers money market funds rated AAA by Standard and Poors, Moody's or Fitch rating agencies
 - e) A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society) This covers bodies with a minimum rating of :-
 - i) Short Term Rating- F1 (or equivalent) from Fitch, Moody's or Standard & Poors
 - ii) Long Term Rating- A or equivalent from Fitch, Moody's or Standard & Poors

Bank / Building Society	F1	-	-	-	P-1				1 year
Building Society					P-2				9 months
MMF	AAA							-	1 year
DMADF	-							-	1 year
Non-Specified									
Un-rated BS	-	-	-	-	-	-	-	>£1bn	6 months
Long term Bank / BS	F1	A-	C	3	P-1	A3	C		2 years
	F1	AA-	B	2	P-1	Aa3	B		4 years
	F1	AAA	B	1	P-1	Aaa	B		5 years

The Monitoring of Investment Counterparties

16. The credit rating of counterparties is monitored regularly. The Council receives credit rating advice from its advisers, Butlers, on a daily basis as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria, will be removed from the list immediately by the Director of Corporate Services, and if required new counterparties which meet the criteria will be added to the list.