**APPENDIX 2**

Approved Investment Counterparties:

| Credit Rating | Banks/Bldg Societies Unsecured | Banks/Bldg Societies Secured | Government | Corporates | Registered Providers |
|---|---|---|---|---|---|
| UK Govt | N/A | N/A | £unlimited 50 years | N/A | N/A |
| AAA | £5m 5 years | £10m 20 years | £10m 50 years | £5m 20 years | £5m 20 years |
| A+ | £5m 5 years | £10m 10 years | £10m 25 years | £5m 10 years | £5m 10 years |
| AA | £5m 4 years | £10m 5 years | £10m 15 years | £5m 5 years | £5m 10 years |
| AA- | £5m 3 years | £10m 4 years | £10m 10 years | £5m 4 years | £5m 10 years |
| A+ | £5m 2 years | £10m 3 years | £5m 5 years | £5m 3 years | £5m 5 years |
| A | £5m 1 year | £10m 2 year | £5m 5 years | £5m 2 years | £5m 5 years |
| A- | £5m 13 months | £10m 13 months | £5m 5 years | £5m 13 months | £5m 5 years |
| BBB+ | £2.5m 6 months | £5m 6 months | £2.5m 2 years | £2.5m 6 months | £2.5m 2 years |
| BBB | £2.5m 100 days | £5m 100 days | N/A | N/A | N/A |
| BBB- | £2.5m 100 days | £5m 100 days | N/A | N/A | N/A |
| None | £2.5m 6 months | N/A | £5m 25 years | N/A | N/A |
| Pooled Funds | Decision made on each individual case | | | | |

The above limits are the maximum that the Council would expect to have in place at any time. However, in practice the actual duration limits in place are continually assessed in conjunction with Arlingclose and will be much shorter than the limits in the above table.

Credit ratings: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks/Building Societies Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks/Building Societies Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements. 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. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multi development banks. These investments are not subject to bail-in and there is an insignificant risk of insolvency. Investments with the UK Central government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but, are exposed to the risk of the company going insolvent.

Other Organisations – The Council may also invest cash with other organisations, for example making loans to small businesses as part of a diversified pool in order to spread the risk widely. Because of the higher perceived risk of unrated businesses such investments may provide considerably higher rates of return.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Community Agency and as providers of public services they retain a high likelihood of receiving Government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of nay of the above investment types plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks coupled with the services of a professional fund manager in return for a fee. Money market funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but, are more volatile in the short term. These allow authorities 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 authorities investment objectives will be monitored regularly.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the authorities treasury advisers who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made
- Any existing investment that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade so that it may fall below the approved rating criteria then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The authority understands that credit ratings are good, but, not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but, can be seen in other market measures. In these circumstances, the authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the authorities cash balances then the surplus will be deposited with the UK Government via the Debt Management Office or invested in treasury bills for example or with other local authorities. This will cause a reduction in the level of investment income earned, but, will protect the principal sum.

Specified Investments

Specified investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of one year
- meets the ''high credit quality'' as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- The making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate)

The authority defines 'high credit quality' organisations and securities as those having a credit rating of BBB- or higher that are domiciled in the UK or a foreign 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

Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares

Non-Specified Investment Limits

| | Cash Limit |
|---|---|
| Total Long Term Investments | £30m |
| Total Investments without credit ratings or rated below A- | £30m |
| Total Investments in foreign countries rated below AA+ | £10m |
| Maximum total non-specified investments | £70m |

Investment Limits

The maximum that will be lent to any one organisation (except the UK Government) is £5m. A group of banks under the same ownership, a group of funds under the same management, brokers nominee accounts, foreign countries and industry sectors will all have limits placed on them as in the table below:

| | Cash Limit |
|---|---|
| Any single organisation, except the UK Central Government | £5m each |
| UK Central Government | unlimited |
| Any group of organisations under the same ownership | £10m |
| Any group of pooled funds under the same management | £30m |
| Negotiable instruments held in a brokers nominee account | £10m |
| Foreign countries (total per country) | £15m |
| Registered Providers in total | £10m |

| | |
|---|---|
| Building Societies in total (excluding overnight investments) | £25m |
| Loans to small businesses | £10m |
| Money Market Funds | £25m |

## Liquidity Management

The Council maintains a cash flow spreadsheet that forecasts the Council's cash flows into the future. This is used to determine the maximum period for which funds may be prudently committed. The forecast is compiled on a pessimistic basis, with receipts under estimated and payments over estimated to minimise the risk of the Council having to borrow on unfavourable terms to meet its financial commitments.