**APPENDIX 1**

**Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management**

The Department of Communities and Local Government (CLG) issued Investment Guidance in 2010, and this forms the structure of the Council’s policy below.

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 Councils to have regard to the CIPFA publication *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced Treasury Management Practices (TMPs). This part, TMP 1, covering investment counterparty policy requires approval each year.

**Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are that Councils set an annual Investment Strategy, as part of their Treasury Strategy for the following year*,* covering the identification and approval of the following:

* The guidelines for choosing and placing investments, particularly non-specified investments.
* The principles to be used to determine the maximum periods for which funds can be committed.
* Specified investments the Council will use.
* Non-specified investments the Council will use, clarifying the greater risk implications, and the overall amount of various categories that can be held at any time.

Maturity periods are defined as the remaining length of an investment period. Arranging a deal in advance by up to four weeks is not considered to add to the duration of the investment.

In addition to the investments identified below as specified and non-specified investments, the Council may provide loans to a company in which the Council has an interest. These loans are outside the limits specified in the tables below and may be matched by equivalent external borrowing. The loans will then be given at a rate that at least covers the Council’s costs and that is compliant with State Aid requirements.

**Specified Investments** – These investments are sterling investments that do not exceed a maturity period of one year, or where the maturity period is longer, the Council has the right to be repaid within twelve months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or Gilts with less than one year to maturity).
2. Supranational bonds of less than one year’s duration.
3. A Local Authority, Parish Council, Community Council, Fire or Police Authority
4. Pooled investment vehicles that have been awarded a high credit rating by a credit rating agency, e.g. money market funds, rated AAA by Standard and Poor’s, Moody’s or Fitch rating agencies*.*
5. A body that is considered of a high credit quality (such as a bank or building society) meeting the minimum ‘high’ quality criteria where applicable.

Additionally, and in accordance with the Code, the Council has set duration and value limits as follows:

**Specified Investments - Limits on value and period**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Minimum credit criteria/colour banding** | **Max % of total investments/ £ limit per institution** | **Max maturity period** |
| Debt Management Office – UK Government | Not applicable | 100% | 364 days |
| UK Government Gilts | UK Sovereign rating | 20% | 364 days |
| UK Government Treasury Bills | UK Sovereign rating | 20% | 364 days |
| Bonds issued by multilateral development banks | UK Sovereign rating | 20% | 6 months |
| Money Market Fund | AAA | £25m | Liquid |
| Local Authorities, Fire and Police Authorities  |  | 20% | 364 days |
| Term deposits with banks and rated building societies | BlueOrangeRedGreen | £15m or 20% of total investments whichever is the greater | Up to 1 yearUp to 1 yearUp to 6 MonthsUp to 100 days |
| Certificate of Deposit or corporate bonds with banks and building societies | BlueOrangeRedGreen | £10m or 20% of total investmentswhichever is the greater | Up to 1 yearUp to 1 yearUp to 6 MonthsUp to 100 days |
| Enhanced Cash funds |  | 20% | 6 months |
| Corporate bond funds |  | 20% | 6 months |
| Gilt Funds | UK sovereign rating | 20% | 6 months |

The colour ratings above for the Term deposits with banks and rated building societies and Certificates of Deposit or corporate bonds with banks and building societies link the durations in the right hand column to colour coding used in Capita’s Credit List i.e. blue and orange coloured institutions recommend investments of upto a year according to the Capita Credit List

**Non-Specified Investments** – Non-specified investments are any other type of investment not defined as Specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Overall Non-specified investments (excluding loans to a company in which the Council has an interest) will not exceed more than 25% of the previous year’s total investment portfolio. If the Council’s average investment balance increases further over the medium term, decisions will need to be made on the viability of undertaking additional Non-specified Investments. The level of investment in a particular counterparty will be measured based on the amount of the initial investment. Non specified Investments would include any sterling investments with:

**Non-Specified Investments - Limits on value and period**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Minimum Credit Criteria** | **Max % of total investments/£ limit per institution** | **Max maturity period** |
| Local Authorities, Fire and Police Authorities  |  | 15% of total investments | Up to 2 years |
| Fixed term deposits with variable rate and variable maturities | Orange | 15% of total investments | Up to 1 year |
| Fixed term deposits with variable rate and variable maturities | YellowPurple | £10m or 20% of total investments | Up to 5 yearsUp to 2 years |
| Commercial paper issuance covered by a specific UK Government (explicit) guarantee |  | 10% of total investments | Up to 1 year |
| Fixed term deposits with unrated Building Societies | Asset Base over £9bn | £3m – 20% of total investments | 100 days |
| Commercial paper other |  | 15% of total investments | Up to 1 year |
| Corporate bonds |  | 15% of total investments | Up to 1 year |
| Other debt issuance by UK banks covered by UK Government (explicit) guarantee |  | 15% of total investments | Up to 1 year |
| Floating rate notes |  | 15% of total investments | Up to 1 year |
| Indirect Property funds |  | 25% of total investments or £15 million, whichever is the greater | Medium to long term |
| National Homelessness Property Fund |  | 25% of total investments or £5 million, whichever is the greater | Medium to long term |

The colour ratings above for the Term deposits with banks and rated building societies and Certificates of Deposit or corporate bonds with banks and building societies link the durations in the right hand column to colour coding used in Capita’s Credit List i.e. investments with yellow coloured institutions are recommended for upto 60 months (5 years) according to the Capita Credit List

**The Monitoring of Investment Counterparties** - The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services – Treasury Solutions on a weekly basis, 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 Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list. The Council also monitors counterparties against the limits specified below:

|  |
| --- |
| Duration Limits (based on Fitch ratings) |
| **Long Term**  | **Short Term Rating**  |
| **Rating**  | **F1+** | **F1** |
| **AAA** | 2 years | 364 days |
| **AA+** | 2 years | 364 days |
| **AA** | 2 years | 9 months |
| **AA-** | 2 years | 9 months |
| **A+** | 364 days | 9 months |
| **A** | 9 months | 6 months |
| **A-** | 6 months | 3 months |