

## **Detailed Criteria for the Investment of Surplus Funds**

The following is an extract from the Council's Treasury Management Practices (Credit and Counterparty Policies).

### **1.1.1 Policy on the use of Credit Risk Analysis**

- i) The Council will use credit criteria in order to select creditworthy counterparties with whom to place investments.
- ii) Credit ratings will be used as supplied from the three rating agencies – Fitch, Moody's, and Standard and Poors'.
- iii) Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the Council.
- iv) The Section 151 Officer, under delegated authority, will formulate suitable credit criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.
- v) Credit ratings for individual counterparties can change at any time. The Section 151 Officer is responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to / from the approved counterparty list in line with the policy on criteria for selection of counterparties.
- vi) The Council will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. It has appointed Capita Treasury Services as Treasury Management Advisors who provide additional information on:
  - Market data
  - Information on government support for banks
  - The credit ratings of that government support
- vii) Specified Investments – 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 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:
  - The UK Government (such as the Debt Management Office, UK Treasury Bills or Gilts with less than one year to maturity).
  - Supranational bonds of less than one year's duration.
  - A local authority, parish council or community council.
  - Pooled investment vehicles (such as money market funds) that have been awarded a credit rating of at least Aa1 by Standard and Poor's, Moody's or Fitch rating agencies.

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- A body that is considered of a high credit quality (such as a bank or building society).

The Council will invest in banks and building societies, which meet the following criteria in respect of credit ratings, period of investment and amount of investment:

Criteria	Fitch	Moody's	Standard & Poor's
Short Term Rating	F1	P-1	A-1
Maximum Period	1 Year	1 Year	1 Year
Maximum Investment	£5m	£5m	£5m

- viii) Non-Specified Investments – these investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit
a.	<p><b>Supranational Bonds greater than 1 year to maturity</b></p> <p><b>(a) Multilateral development bank bonds</b> - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).</p> <p><b>(b) A financial institution that is guaranteed by the United Kingdom Government</b> (e.g. The Guaranteed Export Finance Company {GEFCO})</p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	AAA long term ratings
b.	<p><b>Gilt edged securities</b> with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	
c.	<p><b>The Council's own banker if it fails to meet the basic credit criteria.</b> In this instance balances will be minimised as far as is possible.</p>	

d.	<b>Building societies not meeting the basic security requirements under the specified investments.</b> The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £1bn. <i>In addition the Council plans to continue investing in Market Harborough Building Society as an exception to the above</i>	
e.	Any <b>bank or building society</b> that has a minimum long term credit rating of AAA, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	
f.	A <b>nationalised / semi nationalised UK Bank</b> for deposits up to one year, or with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	

The Council will use the Sector creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -

- Yellow                    5 years
- Dark Pink                5 years for Enhanced Money Market Funds
- Light Pink                5 years for Enhanced Money Market Funds
- Purple                     2 years
- Blue                        1 year (nationalised / semi nationalised UK Banks)
- Orange                    1 year
- Red                         6 months
- Green                     100 days
- No Colour                not to be used (except Building Societies)

In addition, a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems, which may only belatedly lead to actual changes in credit ratings.

### Non-rated Building Societies

Criteria	Asset Size
	Exceeding £1bn
Short Term Rating	P-2
Maximum Period	3 months
Maximum Investment	£5.0m

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- ix) Diversification: the Council will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
- Maximum amount to be placed with any one institution - £5m (except for nationalised / semi nationalised UK banks which have a maximum limit of £8m).
  - Group limits where a number of institutions are under one ownership – maximum of £5m (except for nationalised / semi nationalised UK banks which have a maximum limit of £8m).
  - Country limits – the Council will only lend to UK institutions
- x) The Council will undertake investments for periods in excess of one year only when it has been clearly established that core funds are available and that any money invested will not be required during the period of investment.
- xi) The Council has a policy not to invest with subsidiaries of counterparties where those subsidiaries do not have credit ratings in their own right, even where they have an unconditional guarantee from a parent.