

**SECTION 4.2 OF TREASURY MANAGEMENT STRATEGY STATEMENT,
MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL
INVESTMENT STRATEGY FOR 2014/15**

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the 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; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Capita Asset Services our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria may be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
 - i. are UK banks; and/or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA

and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

- i. Short term – F1
- ii. Long term – A

- Banks 2 – Guaranteed Banks with suitable Sovereign Support – In addition, the Council will use banks whose ratings fall below the criteria specified above if all the following conditions are met:
 - i. wholesale deposits in the bank are covered by a government guarantee;
 - ii. the government providing the guarantee is the UK government or is rated AAA by all three major rating agencies (Fitch, Moody's and Standard and Poors); and
 - iii. the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.
- Banks 3 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland Group. These banks can be included if they continue to be part nationalised or they meet the above criteria.
- Banks 4 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operations - The Council will use these where the parent bank has the necessary ratings outlined above.
- Building societies: The Council will use all societies which meet the ratings for banks outlined above.
- Money market funds (including enhanced money market funds) – AAA
- UK Government (including gilts and the DMADF)
- Local authorities, parish councils etc
- Supranational institutions

A limit of £5m will be applied to the use of non-specified investments (investments with a maturity of over 364 days but not more than 370 days).

Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:

- no more than £4m will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to

Deleted: Viability (Fitch) / Financial Strength (Moody's) – ¶
<#>bb- (Fitch) / C- (Moody's)¶
Support – 3 (Fitch only)

use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long term Rating (or equivalent)		Money Limit	Time Limit	Deleted: Fitch Viability Rating / Moody's Financial Strength Rating
Higher quality	AA-		£6m	370	Deleted: bb+ / C
Medium quality (1)	A		£5m	370	Deleted: bb+ / C
					Deleted: Medium quality (2)
Part nationalised	N/A		£7m	370	Deleted: A
Debt Management Account Deposit Facility	AAA		unlimited	6 months	Deleted: bb- / C- Deleted: £4m
Guaranteed Organisations	N/A		£4m	370	Deleted: 370 days Deleted: N/A
Money market Funds (including enhanced money market funds)	AAA		£5m	370	Deleted: N/A Deleted: N/A
Local authorities	N/A		£4m	370	Deleted: N/A Deleted: N/A

The proposed criteria for specified and non-specified investments are shown in section 5 for approval.