APPENDIX 4

Permitted Treasury Investments

Note: Limits are given as a monetary value in £ or as a percentage of the overall investment portfolio.

Type of Investment	**Treasury Risks**	**Mitigating Controls**	**Council Limits**	**Common Good Limits**
Cash type instruments				
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	£unlimited, maximum 6 months.	£unlimited, maximum 6 months.
b. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non-local authority deposits will follow the approved credit rating criteria.	£unlimited, maximum 2 year. Limit of £10m per local Authority or public body	£unlimited, maximum 2 years.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
	Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.			
c. Money Market Funds (MMFs) – CNAV/LVNAV/VNAV**(Low to very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	£15m per fund	100%
d. Ultra short dated bond funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the have a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	£15m per fund	100%
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria restricts lending only to high quality counterparties, utilising MUFG creditworthiness service.	£20m per UK banking group; £15m per non-UK banking group	100%
f. Term deposits with financial institutions (banks and building societies) **(Low to**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is	The counterparty selection criteria restricts lending only to high quality counterparties, utilising MUFG creditworthiness service.	£20m per UK banking group;	100%

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
medium risk depending on period & credit rating)	no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.		£15m per non-UK banking group	
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	£10m maximum 1 year.	100% maximum 1 year.
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to	The counterparty selection criteria restricts lending only to high quality counterparties, utilising MUFG creditworthiness service.	£10m per counterparty maximum 1 year.	20% maximum 1 year.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
	maturity). Liquidity risk will normally be low.			
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria restricts lending only to high quality counterparties, utilising MUFG creditworthiness service.	£20m per UK banking group; £15m per non-UK banking group	50%
j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria restricts lending only to high quality counterparties, utilising MUFG creditworthiness service.	£5m and maximum 1 year.	20% and maximum 1 year.
Other types of investments				
a. Investment properties	These are non-service properties which are being held pending disposal or for a longer term	In larger investment portfolios some small allocation of property based investment may	£10m	20%.

Type of Investment	**Treasury Risks**	**Mitigating Controls**	**Council Limits**	**Common Good Limits**
	rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.		
b. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£10m and maximum 5 years.	10% and maximum 5 years.
c. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	50%	20%
d. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	5%	100%

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
e. Loans to third parties as part of the Council's Empty Homes Strategy	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Section 95 Officer approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£1.5m and a maximum of 10 years.	N/A
f. Loans to third parties as part of the Council's SHF Front Funding Facility	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Section 95 Officer approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections and be subject to an assessment of the project and borrower.	£5m and a maximum of 3 years.	N/A
g. Loans to third parties as part of the Council's Long Term Loan Funding to RSL's	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Section 95 Officer approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. Each funding request will be accompanied by financial projections	£5m and a maximum of 30 years.	N/A

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
		and be subject to an assessment of the project and borrower.		
h. Hub Co sub debt	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be highly illiquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	£10m	N/A
i. Investment in a project run by a Local Authority or Local Authority Joint Committee	These are investments which may exhibit market risks and will only be considered for medium to longer term investments	Each investment requires approval by the Section 95 Officer up to £250,000, and, above this level, member approval. Each application will be supported by the service rationale behind the investment and the likelihood of loss.	£10m	N/A

Treasury Risks

All of the specific investment instruments outlined above are subject to the following risks:

1. **Credit and counterparty risk** This is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's finances. There are no counterparties where this risk is zero although AAA rated organisations have a very high level of creditworthiness.

2. **Liquidity risk** This is the risk that instant access to cash will not be available when it is needed. Investments can range from being instant access to term, that is, money is locked in until an agreed maturity date. However, some forms of investment, for example, gilts can usually be sold immediately if the need arises.

3. **Market risk** This is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, in certain circumstances, exposure to market risk may be sought, with a view to obtaining a long term increase in value.

4. **Interest rate risk** This is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in the Prudential Indicators within this report.

5. **Legal and regulatory risk** This is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly. The level of both risk exposure and liquidity influences the rate of return on investments. Generally, the lower the risk or the higher the liquidity, the lower the rate of return.

Controls on Treasury Risks

1. **Credit and counterparty risk** The council utilises the creditworthiness service provided by its treasury advisors to determine which counterparties and countries are of high creditworthiness to enable investments to be made safely.

2. **Liquidity risk** The council has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

3. **Market risk** The council generally does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value. The authority may purchase treasury bills as their value does not vary much during their short life.

4. **Interest rate risk** The council manages this risk by having a view of the future course of interest rates and formulates a treasury management strategy accordingly. The strategy aims to minimise net interest costs, consistent with control of risk.

5. **Legal and regulatory risk** The council will not undertake any form of investing until it has ensured that it has necessary powers and also complied with all regulations.

Unlimited investments

Regulation 24 states that an investment can be shown in tables 1 & 2 as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category.

The authority has given the following types of investments an unlimited category:

1. **Debt Management Agency Deposit Facility.** This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e., the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

2. **High creditworthiness banks and building societies.** While an unlimited amount of the investment portfolio may be put into banks and building societies with high creditworthiness, the council will ensure diversification of its portfolio by ensuring that no more than £20m of the total portfolio can be placed with any one institution or group at any one time.

Environmental, Social and Governance (ESG) Considerations

The Treasury Management Code states that "The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level."

ESG investment considerations are about understanding the ESG risks that an entity is exposed to and evaluating how well it manages these risks. It is not the same as Socially Responsible Investing, (typically where you apply negative screens), and equally, it is not the same as Sustainable Investing, (investing in products / companies based on expected sustainable and beneficial societal impact, alongside a financial return).

The council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG factors into the decision making process for investments. Within this, the council is also appreciative of the Statement on ESG in Credit Risk and Ratings, which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. Each of the mainstream credit rating agencies are signatories to this statement.

All the main rating agencies now incorporate ESG risks, alongside more traditional financial risk metrics, when assessing counterparty ratings. As such, their incorporation is already being done, to an extent, by the council's use of the creditworthiness service provided by the council's treasury advisors. In addition, our treasury advisors continue to look at ways in which these factors can be incorporated into their creditworthiness assessment service.

Whilst the council is supportive of responsible investment, it should be noted that ESG information will still be secondary to the requirement for the council to adhere to the Code priorities of Security, Liquidity and Yield. Ethical principles must play a subordinate role to these priorities. Furthermore, limiting the potential counterparty options could reduce diversification and increase risk, therefore, these considerations need to be carefully balanced.