

SCHEDULE 4.6

Permitted Investments & Approved Lending & Investment Policy

The specific types of investment (“Permitted Investments”) that can be undertaken by the Council are approved annually as part of the Treasury & Investment Strategy. Whilst the Permitted Investments outline the type of investment that can be made (including any particular conditions), all such investments must only be made with counterparties meeting the approved criteria, and within approved limits, under this policy. The definition of Permitted Investments, approved investment counterparties and lending limits all form part of the Council’s treasury policy. Each of these is described below.

Permitted Investments

The Local Government Investments (Scotland) Regulations 2010 require the Council to define its “Permitted Investments”, which must be approved by the Council. These are reviewed and approved as part of the Annual Treasury & Investment Strategy considered by the Council before the start of each financial year. The Permitted Investments must also assess the counterparty, market and liquidity risk to the Council associated with each type of investment included, as well as set upper limits for each where necessary. The Council can then only invest in these specific types of investments.

The Council’s current approved Permitted Investments are outlined below:

Investment Type	Total Limit	Objectives
Fixed Deposits with approved Banks and Building Societies, up to 1 Year	Unlimited	Guaranteed investment returns
Instant Access Deposits with approved Banks and Building Societies	Unlimited	Maximise liquidity
Variable Rate Deposits with approved Banks and Building Societies, up to 1 Year	35%	Maximise returns
Fixed Deposits with approved Banks and Building Societies, over 1 Year up to 3 Years	£10M	Guaranteed longer term investment returns
Variable Rate Deposits with approved Banks and Building Societies, over 1 Year up to 3 Years	Lower of 35% or £5M	Maximise longer term investment returns
Certificates of Deposit, Fixed Bonds and other commercial paper issued by approved Banks and Building Societies, up to 1 Year	Unlimited	Maximise returns and counterparty diversification
Certificates of Deposit, Fixed Bonds and other commercial paper issued by approved Banks and Building Societies, over 1 Year up to 3 Years	£10M	Longer term investment returns and counterparty diversification
Floating Rate Notes and other variable commercial paper issued by approved Banks and Building Societies, up to 1 Year	Unlimited	Maximise returns and counterparty diversification
Floating Rate Notes and other variable commercial paper issued by approved Banks and Building Societies, over 1 Year up to 3 Years	£10M	Longer term investment returns and counterparty diversification

Investment Type (continued)	Total Limit	Objectives
AAA rated Short term and Standard Money Market Funds, including Low Volatility Net Asset Value (LVNAV) Funds	Unlimited	Maximise returns and liquidity on smaller deposits
Fixed Rate Deposits with Local Authorities	Unlimited	Maximise security on fixed returns
Variable Rate Deposits with Local Authorities	35%	Maximise security on variable returns
Loans to Third parties, including “soft loans”	Reviewed upon each application	For operational service requirements
Investment Properties	Per Property Strategy Document	Per Property Strategy Document

Definition of Approved Organisations for Investments

The Head of Finance will prepare a list of approved counterparties based upon satisfactory credit ratings from various rating agencies. The main rating agency criteria to be applied is Fitch, with a minimum credit criteria of A (or equivalent) short-term and F1 (or equivalent) long-term, as well as satisfactory individual/financial strength and support rating. In the absence of, or as a supplement to credit ratings, tier 1 capital base and appropriate press coverage will also be used for selecting counterparties. The Head of Finance will then assign a maximum lending period to each counterparty based upon their ratings and other supporting information.

Each counterparty’s Credit Default Swap (CDS), which are instruments traded on financial markets and which act as a measurement of the market’s assessment of the risk of credit default, will then be incorporated into the list to determine the appropriate lending period for each organisation. Where the market-price of the counterparty’s CDS is:

- In-range - then the maximum lending period determined from the credit-rating will be confirmed
- Out-of-range - then the counterparty will be removed from the approved list.
- Monitoring - ie reflecting a higher or increasing degree of risk, then the lending period will be reduced as appropriate.
- No data - ie where the counterparty does not have a CDS traded in the markets, the duration limits will be derived from the credit-rating only.

Information regarding CDS prices are supplied by Link Asset Services on a weekly basis, or more frequently where required, and incorporated into the specific list.

In the event that a counterparty is placed on “Rating Watch Negative”, ie its credit rating is being reviewed by the rating agencies with a view to be being down-graded, then the maximum lending period will be reduced accordingly to reflect the period consistent with the expected new rating. Such credit rating reviews generally result in the rating being reduced to the next level below.

The Sovereign rating of foreign countries will also be considered. Lending to foreign banks and institutions will be limited to 1 month where the Sovereign rating of the country is AA or higher but less than AAA. No investments will be made in a country where the Sovereign rating is below AA.

The specific list of counterparties meeting the criteria under this policy is continually updated, and included for information in the quarterly reports to the Council each quarter.

Lending & Investment Categories & Limits

Category 1 - Principal UK Clearing Banks

The policy for lending under this category will be to lend to any major UK clearing bank (subject to credit-rating and CDS data) operating in the UK which is not a subsidiary bank. However, lending to subsidiary banks will be permitted under this category where the parent company has given an unconditional and irrevocable guarantee over the debts of the subsidiary, and the parent has itself a satisfactory credit rating. Lending to “nationalised” banks is also permitted under this category. The maximum lending to any one bank in this category will be 40% of the total investment portfolio or £20M, whichever is higher.

Category 2 – Foreign Banks & Institutions

The policy for lending under this category will be to lend to any major foreign bank or institution (subject to credit-rating and CDS data) operating in the UK and supervised by the Financial Conduct Authority (FCA). All investments to any such counterparty within this category must be within the UK and in sterling. The maximum lending to any one bank or institution in this category will be 25% of the total investment portfolio or £10M, whichever is higher.

Category 3 - UK Subsidiary Banks and Building Societies

The policy for lending under this category will be to lend to any such organisation (subject to credit rating and CDS data), including UK based subsidiary banks of foreign banks where the subsidiary is regulated in the UK and is on the FCA’s list of Deposit Takers. The maximum lending to any one organisation in this category will be 15% of the total investment portfolio or £10M whichever is higher.

Category 4 - Other Local Authorities

The policy will be to lend to any UK local authority. The maximum lending to any one local authority will be 20% of the total investment portfolio or £20M, whichever is higher. For the avoidance of doubt, this category includes Police and Fire authorities, in line with the definition of local authorities published by the Office of the Depute Prime Minister (ODPM).

Category 5 – Money Market Funds

The policy will be to lend to any Money Market Fund (MMF) with minimum credit rating of AAA and a volatility rating of V1+ (Fitch) or MR1+ (Moody’s). The maximum amount that can be invested is 10% of the total investment portfolio or £10M, whichever is higher, per individual fund (counterparty).

Notes for Clarification

1. The single counterparty limit applies to all companies within the same group of companies who are on the list of approved counterparties. Therefore, all deposits with any counterparty in a group will be aggregated and must not exceed the single counterparty limit. However, where a company within the group operates under its own UK banking licence, that company will maintain its single counterparty limit in full and an overall group limit of £80M will then apply.
2. Individual limits based on a percentage of the investment portfolio are measured on the day an investment is placed.
3. Duration limits are based on Link Asset Services “Suggested Matrices”, which match the strength of the individual criteria within an organisation’s credit-rating to appropriate time periods. Other assessments include the counterparty’s individual and support ratings, press coverage, or other information the Head of Finance deems appropriate.
4. UK “Nationalised” banks, ie banks which are majority-owned by the Government, are assumed to be guaranteed by the Government, and lending to such banks will be for up to 12 months, unless any specific announcement dictates otherwise.
5. Lending Limits above apply only to principal sums invested. Any interest received and re-invested by the counterparty into the deposit is not included in the lending limit, and therefore the Treasury Management Officer must uplift the interest at the earliest opportunity.