

## APPENDIX B

### ANNUAL INVESTMENT STRATEGY

#### Investment policy

1. The Council's investment policy has regard to the following:
  - MHCLG Guidance on Local Government investments (the "Guidance")
  - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
  - CIPFA Treasury Management Guidance Notes 2021
2. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The above guidance from MHCLG and CIPFA places a high priority on the management of risk and paragraph 51 of the Prudential Code 2021 states that an authority must not borrow to invest primarily for financial return.
3. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:
  - i. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification which avoids concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
  - ii. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings where applicable.
  - iii. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
  - iv. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.
    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit at the start of the investment of up to one year.

- **Non-specified investments** are any financial investments that are not loans and do not meet the criteria to be treated as specified investments. These tend to be lower credit quality than specified investments and carry a higher degree of credit risk.
- v. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.
  - vi. This authority has engaged **external consultants**, (see paragraph 4-7 Appendix E), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
  - vii. All investments will be denominated in **sterling**.
  - viii. In line with accounting standards, particularly IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.
4. This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

### **Creditworthiness Policy**

5. 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.
6. 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.
7. The Interim Chief Executive 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 those which determine which types of investment instrument are either specified or non-specified as they provide 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. A list of approved counterparties is set out in Appendix C.

8. Credit rating information is supplied by the Council's treasury advisors, Arlingclose Ltd. 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 the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing.
9. The Council takes into account the following relevant matters when proposing counterparties:
  - the financial position and jurisdiction of the institution;
  - the market pricing of credit default swaps for the institution;
  - any implicit or explicit Government support for the institution;
  - Standard & Poor's, Moody's and Fitch's short and long term credit ratings;
  - sovereign ratings to select counterparties from only the most creditworthy countries; and
  - core Tier 1 capital ratios.
10. Changes to the credit rating will be monitored and, in the event, that a counterparty is downgraded and does not meet the minimum criteria specified in Appendix C, the following action will be taken immediately:
  - no new investments will be made;
  - existing investments will be recalled if there are no penalties; and
  - full consideration will be given to recall or sale of existing investments which would be liable to penalty clause.

### **Specified and Non-specified investments**

11. The MHCLG Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on local authorities around the use of specified and non-specified investments.
12. A specified investment is defined as an investment which satisfies all of the conditions below:
  - the investment and any associated cash flows are denominated in sterling;
  - the investment has a maximum maturity of one year;
  - the investment is not defined as capital expenditure; and
  - the investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.
13. Specified investments currently held by the Council comprise loans to local authorities, money market funds and monies held in bank accounts.
14. Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised

for use. The Council is currently invested in the following non-specified investments:

- **Investment property** – largely office property in the Heathrow Business Area. The Council is under Statutory Direction to divest such assets and has approved an asset rationalisation plan.
  - **Loans** - The Council has advanced long-term loans to its two subsidiary companies (Knowle Green Estates Ltd and Spelthorne Direct Services Ltd). Given the Statutory Direction to reduce borrowing and the imminent abolition of the Council on 31 March 2027, the Council will not be making any further such advances.
  - **Shareholdings in limited companies** – The Council currently invests in trading vehicles which the Council has set up to undertake particular functions. These are not held primarily as investments but to fulfil Council service objectives. Given the imminent demise of the Council from 31 March 2027 it is not envisaged that there will be any need for new companies to be established.
15. For any such investments, specific proposals will be considered by the Director of Finance after taking into account of the following:
- cash flow requirements
  - investment period
  - expected return
  - the general outlook for short to medium term interest rates
  - creditworthiness of the proposed investment counterparty
  - other investment risks.
16. The nominal value of financial investments (loans and cash balances) held for more than 12 months (i.e. non-specified investments) will be capped at £70m (see Table 12 above).

### **Country of Domicile**

17. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.
18. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA. The list of countries that qualify using this credit criteria as at the date of this report is shown in Appendix D. This list will be kept under review and any proposed changes to the policy reported to Council.

### **Schedule of investments**

19. The criteria for providing a pool of high quality short and long-term, cash-based investment counterparties along with the time and monetary limits for institutions on the Council's counterparty list are set out in Appendix C.

### **Other considerations**

20. Sector limits will be monitored regularly for appropriateness, to help mitigate concentration risk. This is the risk of having a significant proportion of the Council's investments in one sector of the market and that market failing.
21. To ensure sufficient liquidity, detailed cashflow forecasts will be kept by the Treasury team to provide as accurate a picture as possible of the movement and timing of income and expenditure and the resulting daily cash balances.
22. When considering placing investments or temporary borrowing, officers will refer to the cashflow forecast to determine the best duration for the transaction.
23. Under the Markets in Financial Derivatives II Directive (MiFID II), the Council would be classed as a retail investor with an option to opt-up to professional status. The Council opted up to professional status in 2017. Given the size and range of the Council's treasury management activities, the interim Chief Executive believes this to be the most appropriate status.