Antrim and Newtownabbey
BOROUGH COUNCIL

Treasury Management

Annual Investment Strategy 2017/18

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Introduction

The primary purpose of the Annual Investment Strategy is to set out the policies for managing investments giving priority to the security and liquidity of the Council's investments. It also contains the policy on the use of credit ratings and credit rating agencies, procedures for determining and limiting the use of higher risk investments and the use of external advisors.

The Council will have regard to the guidance from Department for Communities (DfC), previously the Department of Environment (DOE), on Local Government Investments and the 2011 CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes.

The Council's investment priorities are firstly the security of capital and secondly the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The Council will continue to adopt a low risk approach towards making investments with priority being given to security.

If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

As advised by the [former] Department of the Environment's *Guidance on Local Government Investments for District Councils in Northern Ireland*, the borrowing of monies purely to invest or on-lend and make a return appears to be unlawful and the Council will not engage in such activities.

A counterparty list of institutions with which the Council may invest shall be maintained by reference to the criteria set out below including credit ratings and all other relevant factors.

Under DfC Guidance, investments fall into two separate categories, either specified or non-specified investments.

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Specified Investments

Specified investments offer high security and high liquidity and satisfy the conditions set out below:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only.
- The investment is not a long-term investment (due to be repaid within 12 months of the arrangement).
- The investment does not involve the acquisition of share capital or loan capital in any body corporate as set out in regulation 12 of the Local government (Capital Finance and Accounting) (Northern Ireland) Regulations 2011
- The investment is made with a body or in an investment scheme of high credit quality, or with the UK Government, a district council, or a local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland.

Non-specified Investments

Non-specified investments are those investments which do not, by definition, meet the requirements of a specified investment as set out above.

The Council does not intend to make any investments denominated in foreign currencies, nor investments that involve the acquisition of share capital or loan capital in any body corporate as set out in regulation 12 of the Local government (Capital Finance and Accounting) (Northern Ireland) Regulations 2011.

Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement and investments where the principal sum to be repaid at maturity is not the same as the initial sum invested, for example corporate bonds.

Non specified investments will be limited to £2.5m at any time in the 2017/18 year.

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The following categories of investments may be used:

- Short- term cash deposits
- Call accounts
- Certificates of Deposit
- UK Government Gilts
- Treasury Bills
- Short -term Money Market Funds (MMFs)
- Corporate Bonds
- Supranational Bonds
- Covered Bonds
- Reverse Repurchase Agreements
- Pooled Funds
- Other Local Authorities

Credit quality criteria

The Council will invest with institutions that have high credit quality.

The Council uses long-term credit ratings from the three main rating agencies to assess the risk of investment default:

- Fitch Ratings;
- Moody's Investors Service; and

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- Standard and Poor's Financial Services.

The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. For instance, if an institution is rated by two of the above credit rating agencies, one meets the Council's criteria, the other does not, then the institution will not meet the Council's minimum criteria.

To be deemed as having high credit quality the institution must satisfy at least the minimum of BBB+ or equivalent as assigned by the rating agencies, that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

For money market funds and other pooled funds to be deemed as having a high credit quality they must satisfy at least the minimum of A- or equivalent as assigned by the rating agencies.

Credit ratings will be obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. All credit ratings will be monitored on a weekly basis by officers in the Finance Department. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then no new investments will be made, any existing investments that can be recalled or sold at no cost will be and full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

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Regardless of the credit rating assigned to an institution or if any doubt over its financial standing arises then that institution will be removed immediately from the counterparty lending list by the Director of Finance and Governance.

If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered and put to the Director of Finance and Governance for approval.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government or other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

The following organisations listed currently meet the Council's credit quality criteria and will be considered for investments in 2017/18. This list may be subject to change during the year. (MMF denotes a Money Markey Fund).

Barclays Bank Plc	Standard Life Investments Liquidity Funds (MMF)
Royal Bank of Scotland Plc	Morgan Stanley Investment Management (MMF)
Bank of Scotland	CCLA (MMF)
Lloyds TSB Bank Plc	Amundi Asset Management(MMF)
Santander UK Plc	Blackrock(MMF)

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Investment limits

The Council will invest surplus cash balances to a maximum investment of £1.55m including accumulated interest in any one institution. So as to mitigate risks, the Council will treat financial institutions belonging to the same group as being one counterparty and thus the maximum invested at one time will not exceed £1.55m with institutions belonging to the same group. The Council will aim to diversify the investments when the surplus cash balance drops below £2.25m.

Liquidity of investments

Investment decisions are made with regard to cash flow requirements resulting in a range of maturity periods within the investment portfolio. The Council has budgeted for £30,000 in 2017/18 for investment income. If actual levels of investments and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

External Advisers

The Council recognises the value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Consideration was given to the appointment of external advisers to assist the Council in achieving its treasury management objectives. As a result Arlingclose Limited were appointed as the Council's treasury management advisors. The terms of their appointment and methods by which their value will be assessed were properly agreed and documented and subjected to regular review. The Council acknowledges that the responsibility for treasury management remains with the Council at all times and will ensure that undue reliance is not placed upon the external advisers.

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Banking arrangements

The Council banks with the Danske Bank (trading name of the Northern Bank Ltd) for its operational banking arrangements. The legacy bank accounts with both the Ulster Bank Ltd and Bank of Ireland UK continue to be maintained, activity on these accounts is decreasing as transaction streams move to the Danske Bank account. The Bank of Ireland UK account is being maintained for contingency purposes.

Training

The Council's finance staff involved in treasury management activities are required to possess a professional qualification and have experience in this area. The Council will review staff training needs in respect of treasury management skills as part of its annual performance appraisal scheme. Any identified needs will be met through appropriate training.

Appropriate training will also be made available to Council members involved in treasury management activities.

Investment of money borrowed in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. The Council does not plan to borrow in advance of spending needs during 2017/18. Any decision to borrow in advance of spending need will be considered carefully to manage the risks of such investments including limits on the amounts borrowed and the period between borrowing and expenditure.

Use of Finance Derivatives

In the absence of any legal power to do so, the Council will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.