

SWALE BOROUGH COUNCIL
TREASURY MANAGEMENT POLICY STATEMENT 2011-12

This Treasury Management Policy Statement supersedes all previous statements and takes immediate effect.

The Council has agreed to adopt the Council's Treasury Management Policy Statement in the following form of words to define the policies and objectives of its treasury management activities:

(i) The Council defines its treasury management activities as:

The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

(ii) The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analyses and reporting of treasury management activities will focus on their risk implications for the Council.

(iii) The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1. The Council's investment priorities are:

- the **security** of capital and
- **liquidity** of its investments.

1.1 The Council will also aim to achieve best value on its investments commensurate with the proper levels of security and liquidity.

1.2 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

1.3 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-specified' Investment categories. Specified investments offer the highest level of liquidity and security while non specified investments can offer higher yields but are viewed as having a greater potential risk.

- 1.4 This Council will invest the surplus funds it holds on behalf of the community prudently, having regard to the credit ratings issued by the three main agencies and making decisions based on the lowest rating to meet the objectives above.
- 1.5 In addition to credit ratings, other factors such as share price (where quoted), credit default swaps (where quoted), sovereign ratings and gross domestic product (GDP) will be considered when assessing the credit worthiness of institutions.
- 1.6 The Council's Treasury Management policy identifies the type of financial instrument that can be used and identifies the limits for each counterparty.
- 1.7 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance.

ANNUAL INVESTMENT STRATEGY 2011-12

Specified and Non Specified Investments

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high credit quality" as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

"Specified" Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK Local Authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV)

- *Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

** Investments in these instruments will be on advice from the Council's treasury advisor.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Moody's Investors Services, Standard & Poor's and Fitch Ratings:

- Long-term minimum: A1 (Moody's) or A+ (S&P) or A+ (Fitch)
- Short-term minimum: P-1 (Moody's) or A-1 (S&P) or F1 (Fitch).

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

New specified investments will be made within the following limits:

| Instrument | Country | Counterparty | Maximum Limit of Principal Investments £m | Maximum Duration of Investments |
|-----------------------------|----------------|--|--|--|
| Term Deposits | UK | DMADF, DMO | No limit | 364 days |
| Term Deposits/Call Accounts | UK | Other UK Local Authorities | No limit | 364 days |
| Term Deposits/Call Accounts | UK | Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) | | |
| Term Deposits/Call Accounts | UK | Santander UK (Banco Santander Group) | £2 million | 364 days |
| Term Deposits/Call Accounts | UK | Bank of Scotland / Lloyds (Lloyds Banking Group) | £2 million | 364 days |
| Term Deposits/Call Accounts | UK | Barclays | £2 million | 364 days |
| Term Deposits/Call Accounts | UK | Clydesdale (National Australia Banking Group) | £2 million | 364 days |
| Term Deposits/Call Accounts | UK | HSBC | £2 million | 364 days |
| Term Deposits/Call Accounts | UK | Nationwide | £2 million | 364 days |

| Instrument | Country | Counterparty | Maximum Limit of Principal Investments £m | Maximum Duration of Investments |
|--|-------------------------------------|---|--|---------------------------------|
| Term Deposits/Call Accounts | UK | Royal Bank of Scotland / National Westminster Bank (RBS Group) | £2 million | 364 days |
| Term Deposits/Call Accounts | UK | Standard Chartered Bank | £2 million | 364 days |
| Gilts | UK | DMO | No limit | 364 days |
| Bonds issued by multilateral development banks | EU | European Investment Bank / Council of Europe | £2 million | 364 days |
| AAA rated Money Market Funds | UK / Ireland / Luxembourg domiciled | CNAV MMFs | £2 million | 364 days |
| Other MMFs and CIS | UK / Ireland / Luxembourg domiciled | Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments | £2 million | 364 days |

Please note that this list could change if, for example, a counterparty / country is upgraded, and meets our other creditworthiness tools. Alternatively if a counterparty is downgraded, this list may be reduced.

MMFs - All investments should be diversified, including MMFs. As far as is practicable, investments in Money Market Funds will be spread between two funds or more.

Group Limits - For institutions within a banking group, the group limit will remain at £2 million.

Non-Specified Investments determined for use by the Council

An investment is a non-specified investment if it does not satisfy any one of the conditions as mentioned above under 'specified investments'.

Having considered the rationale and risk associated with Non-Specified Investments, the Council has determined to only use Specified Investments at this time. However, the Treasury Management Policy and Counterparty list will continue to be reviewed and any proposed changes reported accordingly.