APPENDIX 3 NORTH YORKSHIRE COUNTY COUNCIL INVESTMENT STRATEGY

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2015/16

1.0 **INTRODUCTION**

1.1 Treasury Management is defined as

> "The management of the County 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".

1.2 The Local Government Act 2003, and supporting regulations, require the County Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators for the next three years to ensure that the County Council's capital investment plans are affordable, prudent and sustainable.

1.3 The Act also requires the County Council to set out its **Annual Treasury Management Strategy** for borrowing and to prepare an **Annual Investment Strategy** (as required by Investment Guidance issued subsequent to the Act) which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. For practical purposes these two strategies are combined in this document.

1.4 This Strategy document for 2015/16 therefore covers the following

NB (shaded sections below have been deleted from this Appendix as they are specific to NYCC)

- *treasury limits in force which will limit the treasury risk and activities of the County Council (**Section 2**)*
- *Prudential indicators (**Section 3**)*
- *current treasury position (**Section 4**)*
- *borrowing requirement and borrowing limits (**Section 5**)*
- *borrowing policy (**Section 6**)*
- *prospects for interest rates (**Section 7**)*
- *borrowing strategy (**Section 8**)*
- *capping of capital financing costs (**Section 9**)*
- *review of long term debt and debt rescheduling (**Section 10**)*
- *minimum revenue provision policy (**Section 11**)*
- annual investment strategy (**Section 12**)
- other treasury management issues (**Section 13**)
- arrangements for monitoring/reporting to Members (**Section 14**)

- summary of key elements of this strategy (**Section 15**)
- specified investments (**Schedule A**)
- non-specified investments (**Schedule B**)
- approved lending list (**Schedule C**)
- approved countries for investments (**Schedule D**)

12.0 ANNUAL INVESTMENT STRATEGY

Background

12.1 Under the Local Government Act 2003 the County Council is required to have regard to Government Guidance in respect of the investment of its cash funds. This Guidance was revised with effect from 1 April 2010. The Guidance leaves local authorities free to make their own investment decisions, subject to the fundamental requirement of an Annual Investment Strategy being approved by the County Council before the start of the financial year.

12.2 This Annual Investment Strategy must define the investments the County Council has approved for prudent management of its cash balances during the financial year under the headings of **specified investments** and **non specified investments**.

12.3 This Annual Investment Strategy therefore sets out

- revisions to the Annual Investment Strategy (**paragraph 12.4**);
- the Investment Policy (**paragraph 12.5**);
- *the policy regarding loans to companies in which the County Council has an interest (**paragraph 12.6**);*
- specified and non specified investments (**paragraph 12.7**);
- Creditworthiness Policy - security of capital and the use of credit ratings (**paragraph 12.8**);
- the Investment Strategy to be followed for 2015/16 (**paragraph 12.9**);
- investment reports to members (**paragraph 12.10**);
- investment of money borrowed in advance of need (**paragraph 12.11**);
- investment (and Treasury Management) training (**paragraph 12.12**);

Revisions to the Annual Investment Strategy

12.4 In addition to this updated **Investment Strategy,** which requires approval before the start of the financial year, a revised Strategy will be submitted to County Council for consideration and approval under the following circumstances:

(a) significant changes in the risk assessment of a significant proportion of the County Council's investments;

(b) any other significant development(s) that might impact on the County Council's investments and the existing strategy for managing those investments during 2015/16.

Investment Policy

12.5 The parameters of the Policy are as follows:

(a) the County Council will have regard to the Government's Guidance on Local Government Investments as revised with effect from 1 April 2010, and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes;

(b) the County Council's investment policy has two fundamental objectives;

- the security of capital (protecting the capital sum from loss); and then
- the liquidity of its investments (keeping the money readily available for expenditure when needed)

(c) the County Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the County Council is low in order to give priority to the security of its investments;

(d) the borrowing of monies purely to invest or lend and make a return is unlawful and the County Council will not engage in such activity;

(e) investment instruments for use in the financial year listed under **specified** and **non-specified investment** categories (see **paragraph 12.7**);

(f) counterparty limits will be set through the County Council's Treasury Management Practices Schedules.

Policy regarding loans to companies in which the County Council has an interest

12.6

Specified and non-specified Investments

12.7 Based on Government Guidance as updated from 1 April 2010.

(a) investment Instruments identified for use in the forthcoming financial year are listed in the Schedules attached to this Strategy under the **specified** and **non-specified** Investment categories;

(b) all **specified** Investments (see **Schedule A**) are defined by the Government as options with "relatively high security and high liquidity" requiring minimal reference in investment strategies. In this context, the County Council has defined Specified Investments as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit quality;

(c) **Non-specified** investments (see **Schedule B**) attract a greater potential of risk. As a result, a maximum local limit of 20% of "core cash" funds available for investment has been set which can be held in aggregate in such investments;

(d) for both **specified** and **non-specified** investments, the attached Schedules indicate for each type of investment:-

- the investment category
- minimum credit criteria
- circumstances of use
- why use the investment and associated risks
- maximum % age of total investments
- maximum maturity period

(Non-Specified only)

(e) there are other instruments available as Specified and Non-Specified investments which the County Council will NOT currently use. Examples of such investments are:-

Specified Investments	- Commercial Paper - Gilt funds and other Bond Funds - Treasury Bills
Non-Specified Investments	- Sovereign Bond issues - Corporate Bonds - Floating Rate notes - Equities - Open Ended Investment Companies - Derivatives

A proposal to use any of these instruments would require detailed assessment and be subject to approval by Members as part of this Strategy. Under existing scrutiny arrangements, the County Council's Audit Committee will also look at any proposals to use the instruments referred to above.

Creditworthiness Policy – Security of Capital and the use of credit ratings

12.8 The financial markets have experienced a period of considerable turmoil since 2008 and as a result attention has been focused on credit standings of counterparties with whom the County Council can invest funds.

It is paramount that the County Council's money is managed in a way that balances risk with return, but with the overriding consideration being given to the security of the invested capital sum followed by the liquidity of the investment. The Approved Lending List will therefore reflect a prudent attitude towards organisations with whom funds may be deposited.

The rationale and purpose of distinguishing specified and non-specified investments is detailed in **paragraph 12.7** above. Part of the definition for a Specified investment is that it is an investment made with a body which has been awarded a high credit rating with maturities of no longer than 364 days.

It is, therefore, necessary to define what the County Council considers to be a "high" credit rating in order to maintain the security of the invested capital sum.

The methodology and its application in practice will, therefore, be as follows:-

a) the County Council will rely on credit ratings published by the three credit rating agencies (Fitch, Moody's and Standard & Poor's) to establish the credit quality (ability to meet financial commitments) of counterparties (to whom the County Council lends) and investment schemes. Each agency has its own credit rating components to complete their rating assessments. These are as follows:

Fitch Ratings

Long Term	-	generally cover maturities of over five years and acts as a measure of the capacity to service and repay debt obligations punctually. Ratings range from AAA (highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations)
Short Term	-	cover obligations which have an original maturity not exceeding one year and place greater emphasis on the liquidity necessary to meet financial commitments. The ratings range from F1+ (the highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations)

Moody's Ratings

Long Term	-	an opinion of the relative credit risk of obligations with an original maturity of one year or more. They reflect both the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. Ratings range from Aaa (highest quality, with minimal credit risk) to C (typically in default, with little prospect for recovery of principal or interest)
Short Term	-	an opinion of the likelihood of a default on contractually promised payments with an original maturity of 13 months or less. Ratings range from P-1 (a superior ability to repay short-term debt obligations) to P-3 (an acceptable ability to repay short-term obligations)

Standard & Poor's Ratings

Long Term	-	considers the likelihood of payment. Ratings range from AAA (best quality borrowers, reliable and stable) to D (has defaulted on obligations)
Short Term	-	generally assigned to those obligations considered short-term in the relevant market. Ratings range from A-1 (capacity to meet financial commitment is strong) to D (used upon the filing of a bankruptcy petition).

In addition, all three credit rating agencies produce a Sovereign Rating which assesses a country's ability to support a financial institution should it get into difficulty. The ratings are the same as those used to measure long term credit.

(b) the County Council will review the “ratings watch” and “outlook” notices issued by all three credit rating agencies referred to above. An agency will issue a “watch”, (notification of likely change), or “outlook”, (notification of a possible longer term change), when it anticipates that a change to a credit rating may occur in the forthcoming 6 to 24 months. The “watch” or “outlook” could reflect either a positive (increase in credit rating), negative (decrease in credit rating) or developing (uncertain whether a rating may go up or down) outcome;

(c) no combination of ratings can be viewed as entirely fail safe and all credit ratings, watches and outlooks are monitored on a daily basis. This is achieved through the use of Capita Asset Services creditworthiness service. This employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The credit ratings of counterparties are then supplemented with the following overlays;

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the County Council to determine the duration for investments. The County Council will therefore use counterparties within the following durational bands:-

Colour	**Maximum Investment Duration**
Yellow	5 Years
Purple	2 Years
Orange	1
Blue	1 Year (UK nationalised / semi nationalised banks only)
Red	6 months
Green	100 days
No colour	No investments to be made

(d) given that a number of central banks/government have supported or are still supporting their banking industries in some way, the importance of the credit strength of the sovereign has become more important. The County Council will therefore also take into account the Sovereign Rating for the country in which an organisation is domiciled. As a result, only an institution which is domiciled in a country with a minimum Sovereign Rating of AA- from Fitch or equivalent would be considered for inclusion on the County Council’s Approved Lending List (subject to them meeting the criteria above). Organisations which are domiciled in a Country whose Sovereign Rating has fallen below the minimum criteria will be suspended, regardless of their own individual score/colour. The list of countries that currently qualify using this credit criteria are shown in **Schedule D**. This list will be amended should ratings change, in accordance with this policy;

(e) in order to reflect current market sentiment regarding the credit worthiness of an institution the County Council will also take into account current trends within the Credit Default Swap (CDS) Market. Since they are a traded instrument they reflect the market's current perception of an institution's credit quality, unlike credit ratings, which often focus on a longer term view. These trends will be monitored through the use of Capita Asset Services creditworthiness service which compares the CDS Market position for each institution to the benchmark CDS Index. Should the deviation be great, then market sentiment suggests that there is a fear that an institution's credit quality will fall. Organisations with such deviations will be monitored and their standing reduced by one colour band (**paragraph 12.8 (c)**) as a precaution. Where the deviation is great, the organisation will be awarded 'no colour' until market sentiment improves. Where entities do not have an actively traded CDS spread, credit ratings are used in isolation;

(f) fully and part nationalised banks within the UK currently have credit ratings which are not as high as other institutions. This is the result of the banks having to have to accept external support from the UK Government However, due to this Central Government involvement, these institutions now effectively take on the credit worthiness of the Government itself (i.e. deposits made with them are effectively being made to the Government). This position is expected to take a number of years to unwind and would certainly not be done so without a considerable notice period. As a result, institutions which are significantly or fully owned by the UK Government will be assessed to have a high level of credit worthiness;

(g) all of the above will be monitored on a weekly basis through Capita Asset Services creditworthiness service with additional information being received and monitored on a daily basis should credit ratings change and/or watch/outlook notices be issued. Sole reliance will not be placed on the information provided by Capita Asset Services however. In addition the County Council will also use market data and information available from other sources such as the financial press and other agencies and organisations;

(h) in addition, the County Council will set maximum investment limits for each organisation which also reflect that institution's credit worthiness – the higher the credit quality, the greater the investment limit. These limits also reflect UK Government involvement (i.e. Government ownership or being part of the UK Government guarantee of liquidity). These limits are as follows:-

Maximum Investment Limit	**Criteria**
£85m	UK "Nationalised / Part Nationalised" banks / UK banks with UK Central Government involvement
£20m to £75m	UK "Clearing Banks" and selected UK based Banks and Building Societies
£20m or £40m	High quality foreign banks

(i) should a score/colour awarded to a counterparty or investment scheme be amended during the year due to rating changes, market sentiment etc., the County Council will take the following action:-

- reduce or increase the maximum investment term for an organisation dependent on the revised score / colour awarded (in line with the boundaries and colours set in **paragraph 12.8(c)**)
- temporarily suspend the organisation from the Approved Lending List should their score fall outside boundary limits and not be awarded a colour
- seek to withdraw an investment as soon as possible, within the terms and conditions of the investment made, should an organisation be suspended from the Approved Lending List
- ensure all investments remain as liquid as possible, i.e. on instant access until sentiment improves.

(j) if a counterparty / investment scheme, not currently included on the Approved Lending List is subsequently upgraded, (resulting in a score which would fulfil the County Council's minimum criteria), the Corporate Director – Strategic Resources has the delegated authority to include it on the County Council's Approved Lending List with immediate effect;

(k) a copy of the current Approved Lending List, showing maximum investment and time limits is attached at **Schedule C**. The Approved Lending List will be monitored on an ongoing daily basis and changes made as appropriate. Given current market conditions, there continues to be a very limited number of organisations which fulfil the criteria for non specified investments. This situation will be monitored on an ongoing basis with additional organisations added as appropriate with the approval of the Corporate Director – Strategic Resources.

The Investment Strategy to be followed for 2015/16

12.9 Recognising the categories of investment available and the rating criteria detailed above

(a) the County Council currently manages all its cash balances internally;

(b) ongoing discussions are held with the County Council's Treasury Management Advisor on whether to consider the appointment of an external fund manager(s) or continue investing in-house – any decision to appoint an external fund manager will be subject to Member approval;

(c) the County Council's cash balances consist of two basic elements. The first element is **cash flow derived** (debtors/creditors/timing of income compared to expenditure profile). The second, **core element**, relates to specific funds (reserves, provisions, balances, capital receipts, funds held on behalf of other organisations etc.);

(d) having given due consideration to the County Council's estimated level of funds and balances over the next three financial years, the need for liquidity and day to day cash flow requirements it is forecast that a maximum of £20m of the overall balances can be prudently committed to longer term investments (e.g. between 1 and 3 years);

(e) investments will accordingly be made with reference to this core element and the County Council's ongoing cash flow requirements (which may change over time) and the outlook for short term interest rates (i.e. rates for investments up to 12 months);

(f) the County Council currently has no non-specified investments over 364 days;

(g) bank rate has been unchanged at 0.5% since March 2009 and underpins investment returns. It is not expected to start increasing until late in 2015;

The County Council will, therefore, avoid locking into long term deals while investment rates continue to be at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within a 'low risk' parameter. Thus no trigger rates will be set for longer term deposits (two or three years) but this position will be kept under constant review and discussed with the Treasury Management Advisor on a regular basis.

Based on current bank rate forecasts, as outlined above, an overall investment return of about 0.75% is likely in 2015/16, 1.25% in 2016/17 and 1.8% in 2017/18.

(h) for its cash flow generated balances the County Council will seek to utilise 'business reserve accounts' (deposits with certain banks and building societies), 15 and 30 day accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Investment Reports to Members

12.10 Reporting to Members on investment matters will be as follows:

(a) in-year investment reports will be submitted to the Executive as part of the Quarterly Performance and Budget Monitoring reports;

(b) at the end of the financial year a comprehensive report on the County Council's investment activity will be submitted to the Executive as part of the Annual Treasury Management Outturn report;

(c) periodic meetings between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee provide an opportunity to consider and discuss issues arising from the day to day management of Treasury Management activities.

(see **Section 14** for full details).

Investment of Money Borrowed in Advance of Need

12.11 The Borrowing Policy covers the County Council's policy on Borrowing in Advance of Spending Needs (**paragraph 6.10**).

Although the County Council has not borrowed in advance of need to date and has no current plans to do so in the immediate future, any such future borrowing would impact on investment levels for the period between borrowing and capital spending.

Any such investments would, therefore, be made within the constraints of the County Council's current Annual Investment Strategy, together with a maximum investment period related to when expenditure was expected to be incurred.

Treasury Management Training

12.12 The training needs of the County Council's staff involved in investment management (within the Corporate Accountancy arm of Integrated Finance in Central Services) are monitored, reviewed and addressed on an on-going basis and are discussed as part of the staff appraisal process. In practice most training needs are addressed through attendance at courses and seminars provided by CIPFA, the LGA and others on a regular ongoing basis.

The CIPFA Code also requires that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny (i.e. the Audit Committee). An in-house training course for Members (which was also attended by officers) was provided by Capita Asset Services – Treasury Solutions on 30 September 2013. Further training will be arranged as required. The training arrangements for officers mentioned in the paragraph above will also be available to Members.

13.0 **OTHER TREASURY MANAGEMENT ISSUES**

Policy on the use of External Treasury Management Service Providers

13.1 The County Council uses Capita Asset Services – Treasury Solutions as its external treasury management adviser. Capita provide a source of contemporary information, advice and assistance over a wide range of Treasury Management areas but particularly in relation to investments and debt administration.

13.2 Whilst the County Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, it fully accepts that responsibility for Treasury Management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon advice of the external service provider.

13.3 Capita Asset Services were re-appointed in July 2009 for three years, following a full tender exercise with the terms of appointment being documented. Following a review of their advice to date, and under the terms of the contract, this appointment was extended for a further two years to July 2014. A temporary extension to this contract since July 2014 was agreed because of the implications of the County Council starting to provide Treasury Management services to Selby DC who also have their own adviser. Thus going forward a single adviser for both authorities is being concluded and it is expected that a new contract will be in place with an external service provider from 1 April 2015. The value and quality of services being provided are monitored and reviewed on an ongoing basis.

The scheme of delegation and role of the section 151 officer in relation to Treasury Management

13.4 The Government's Investment Guidance (**paragraph 12.1**) requires that a local authority includes details of the Treasury Management schemes of delegation and the role of the Section 151 officer in the Annual Treasury Management/Investment Strategy.

13.5 The key elements of delegation in relation to Treasury Management are set out in the following Financial Procedure Rules (FPR):-

(a) **14.1** The Council adopts CIPFA's "Treasury Management in the Public Services Code of Practice 2011" (as amended) as described in Section 5 of the Code, and will have regard to the associated guidance notes;

(b) **14.2** The County Council will create and maintain as the cornerstone for effective Treasury Management

(i) a strategic Treasury Management Policy Statement (TMPS) stating the County Council's policies, objectives and approach to risk management of its treasury management activities;

(ii) a framework of suitable Treasury Management Practices (TMPs) setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs;

(c) **14.3** The Executive and the full Council will receive reports on its Treasury Management policies, practices and activities including, as a minimum an Annual Treasury Management and Investment Strategy and associated report on Prudential Indicators in advance of the financial year;

(d) **14.4** The County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive, and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources (CD-SR), who will act in accordance with the Council's TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management;

(e) **14.5** The Executive will receive from the CD-SR a quarterly report on Treasury Management as part of the Quarterly Performance Monitoring report and an annual report on both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year;

(f) **14.6** The CD-SR will meet periodically with the portfolio holder for financial services, including assets, IT and procurement and such other Member of the Executive as the Executive shall decide to consider issues arising from the day to day Treasury Management activities;

(g) **14.7** The Audit Committee shall be responsible for ensuring effective scrutiny of the Treasury Management process;

(h) **14.8** The CD-SR shall periodically review the Treasury Management Policy Statement and associated documentation and report to the Executive on any necessary changes, and the Executive shall make recommendations accordingly to the County Council;

(i) **14.9** All money in the possession of the Council shall be under the control of the officer designated for the purposes of Section 151 of the Local Government Act 1972 (i.e. the Corporate Director - Strategic Resources).

13.6 The Treasury Management reporting arrangements in relation to the above are covered in more detail in **section 14**.

13.7 In terms of the Treasury Management role of the Section 151 officer (the Corporate Director – Strategic Resources), the key areas of delegated responsibility are as follows

- recommending clauses, treasury management policies and practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports to Members
- submitting budgets and budget variations to Members
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers

Operational Leasing
Other Issues

14.0 ARRANGEMENTS FOR MONITORING / REPORTING TO MEMBERS

14.1 Taking into account the matters referred to in this Strategy, the monitoring and reporting arrangements in place relating to Treasury Management activities are now as follows:

(a) an annual report to Executive and County Council as part of the Budget process that sets out the County Council's **Treasury Management Strategy and Policy** for the forthcoming financial year;

(b) an annual report to Executive and County Council as part of the Budget process that sets the various **Prudential Indicators**, together with a mid year update of these indicators as part of the Q1 Performance Monitoring report submitted to the Executive (see **(d)** below);

(c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year.

(d) a quarterly report on Treasury Matters to Executive as part of the **Quarterly Performance and Budget Monitoring** report;

(e) **periodic meetings** between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;

(f) copies of the reports mentioned in (a) to (d) above are provided to the **Audit Committee** who are also consulted on any proposed changes to the County Council's Treasury Management activities

15.0 SUMMARY OF KEY ELEMENTS OF THIS STRATEGY

SCHEDULE A

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2015/16 – SPECIFIED INVESTMENTS

Investment	Security / Minimum Credit Rating	Circumstances of Use
Term Deposits with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year	High security as backed by UK Government	In-house
Term Deposits with credit rated deposit takers (Banks and Building Societies), including callable deposits with maturities less than 1 year	Organisations assessed as having "high credit quality" plus a minimum Sovereign rating of AA- for the country in which the organisation is domiciled	In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 1 year		Fund Manager or In-house "buy and hold" after consultation with Treasury Management Advisor
Forward deals with credit rated Banks and Building Societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house
Money Market Funds i.e. collective investment scheme as defined in SI2004 No 534 (*These funds have no maturity date*)	Funds must be AAA rated	In-house After consultation with Treasury Management Advisor Limited to £20m
Gilts (with maturities of up to 1 year)	Government Backed	Fund Manager or In-house buy and hold after consultation with Treasury Management Advisor
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months (*Custodial arrangements required prior to purchase*)		After consultation with Treasury Management Advisor

SCHEDULE B

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2015/16 – NON-SPECIFIED INVESTMENTS

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
Term Deposit with credit rated deposit takers (Banks & Building Societies), UK Government and other Local Authorities with maturities greater than 1 year	A) Certainty of return over period invested which could be useful for budget purposes B) Not Liquid, cannot be traded or repaid prior to maturity Return will be lower if interest rates rise after making deposit Credit risk as potential for greater deterioration of credit quality over a longer period	Organisations assessed as having "high credit quality" Plus A minimum Sovereign rating of AA- for the country in which an organisation is domiciled	In-house	100% of agreed maximum proportion (20%) of core cash funds that can be invested for more than 1 year (estimated £20m)	£5m	2 years subject to potential future review with a maximum of no longer than 5 years
Certificate of Deposit with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year *Custodial arrangements prior to purchase*	A) Attractive rates of return over period invested and in theory tradable B) Interest rate risk; the yield is subject to movement during life of CD which could negatively impact on its price		Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	25% of agreed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	£3m	
Callable Deposits with credit rated deposit takers (Banks & Building Societies) with	A) Enhanced Income – potentially higher return than using a term deposit with a similar maturity		To be used in-house after consultation with Treasury Management	50% of agreed proportion (20%) of core cash balance that can be	£5m	

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
maturities greater than 1 year	B) Not liquid – only borrower has the right to pay back the deposit; the lender does not have a similar call Period over which the investment will actually be held is not known at outset Interest rate risk; borrower will not pay back deposit if interest rates rise after the deposit is made		Advisor	invested for more than 1 year (£12.5m)		
Forward Deposits with a credit rated Bank or Building Society > 1 year (i.e. negotiated deal period plus period of deposit)	A) Known rate of return over the period the monies are invested – aids forward planning B) Credit risk is over the whole period, not just when monies are invested Cannot renege on making the investment if credit quality falls or interest rates rise in the interim period	Organisations assessed as having “high credit quality” Plus A minimum Sovereign rating of AA- for the country in which an organisation is domiciled	To be used in-house after consultation with the Treasury Management Advisor	25% of greed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	£3m	2 years subject to potential future review with a maximum of no longer than 5 years
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI2004 No534) with maturities in	A) Excellent credit quality Relatively Liquid If held to maturity, yield is known in advance	AA or Government backed	In-house on a “buy and hold” basis after consultation with Treasury Management Advisor or use by Fund Managers		n/a	

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
excess of 1 year Custodial arrangements required prior to purchase	Enhanced rate in comparisons to gilts B) Interest rate risk; yield subject to movement during life off bond which could impact on price					
Bonds issued by Multilateral development banks (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	A) Excellent credit quality Relatively Liquid If held to maturity, yield is known in advance Enhanced rate in comparison to gilts B) Interest rate risk; yield subject to movement during life off bond which could negatively impact on price				£3m	
UK Government Gilts with maturities in excess of 1 year Custodial arrangements required prior to purchase	A) Excellent credit quality Liquid If held to maturity, yield is known in advance If traded, potential for capital appreciation	Government backed	Fund Manager	25% of greed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	n/a	2 years subject to potential future review with a maximum of no longer than 5

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
	B) Interest rate risk; yield subject to movement during life if the bond which could impact on price					
Collateralised Deposit	A) Excellent credit quality B) Not liquid, cannot be traded or repaid prior to maturity Credit risk as potential for greater deterioration of credit quality over a longer period	Backed by collateral of AAA rated Local Authority LOBO's	In-house via money market broker or direct	100% of agreed proportion (20%) of core cash funds that can be invested for more than 1 year (£20m)	£5m	years

SCHEDULE C

APPROVED LENDING LIST 2015/16

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £20m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland	GBR	85.0	364 days	-	-
Natwest Bank	GBR				
Ulster Bank Ltd	GBR				
Bank of Scotland	GBR	85.0	364 days	-	-
Lloyds TSB	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK plc (includes Cater Allen)	GBR	40.0	6 months	-	-
Barclays Bank	GBR	75.0	6 months	-	-
HSBC	GBR	30.0	364 days		
Clydesdale Bank (trading as Yorkshire Bank)	GBR	30.0 (Shared with NAB)	Temporarily suspended	-	-
Goldman Sachs International Bank	GBR	40.0	3 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	30.0 (Shared with Clydesdale)	364 days	-	-
Commonwealth Bank of Australia	AUS	20.0	364 days		
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	3 months	-	-
Nordea Bank Finland	FIN	20.0	364 days	-	-
Credit Industriel et Commercial	FRA	20.0	6 months	-	-
BNP Paribas Fortis	FRA	20.0	6 months	-	-
Nordea Bank AB	SWE	20.0	364 days	-	-
Svenska Handelsbanken	SWE	40.0	364 days	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	2 years
Police / Fire Authorities		20.0	364 days	5.0	2 years
National Park Authorities		20.0	364 days	5.0	2 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years

* Based on data as 9 January 2015

APPROVED COUNTRIES FOR INVESTMENTS

Based on the lowest available rating

Sovereign Rating	**Country**
AAA	Australia Canada Denmark Germany Luxembourg Norway Singapore Sweden Switzerland
AA+	Finland Hong Kong Netherlands UK USA
AA	Abu Dhabi (UAE) France Qatar
AA-	Belgium Saudi Arabia