

PCC for Cleveland Annual Investment Strategy

The PCC for Cleveland's strategy has regard to the guidance on Local Government Investments issued in March 2004 and CIPFA's Treasury Management in Public Services 2011 Edition.

The main investment priorities are:

- The security of capital; and
- The liquidity of its investments.

The PCC for Cleveland also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or lend to others and make a return is not lawful and the PCC for Cleveland will not engage in such activity.

The guidance on Local Government Investments sets out a range of investments which can be used and these are listed as either "specified" or "non-specified" investment categories.

In practice it is not intended that the PCC for Cleveland should depart significantly from the existing procedures, which have proven to be robust.

The guidance recognises that there has been much debate about the reliance placed by local authorities on counter parties' credit ratings. Credit ratings are an important source of information but it is important to realise that they do have limitations. Authorities are advised to have regard to the ratings issued by the three main agencies and to make their decisions on the basis of the lowest rating. Ratings should be kept under review and 'ratings watch' notices acted upon.

Credit ratings should not be relied upon in isolation to identify counterparties, but should be considered along side generally available market information. Other sources of information should be reviewed by authorities. These include the quality financial press, market data, information on government support for banks and the credit ratings of that government support.

A PCC should define what it means by a high or strong credit rating in order that its treasury management strategy is clear and its approach to risk is transparent.

Although the guidance definition of Non-Specified Investments is "one not meeting the definition of a Specified Investment", the PCC is required to identify which categories of investments are identified as prudent to use and the limits on any such investment either individually or in total. It is because some organisations do not subscribe to credit rating agencies that they have to be included as Non-Specified Investments, rather than any concern over their creditworthiness.

Limits and Definition of Specified Investments

- (a) The investment is made with the UK Government or a Local Authority (as defined in the Local Government Act 2003).
- (b) The investment is made with a Money Market Fund which, at the time the investment is made, has been awarded the highest credit rating, (AAA), by a credit rating agency.
- (c) The investment is made with the PCC's own bank, currently NatWest.
- (d) The investment is made with a Nationalised Bank or Building Society
- (e) The investment is made with a Bank or Building Society that is part owned by the UK Government.

Where officers become aware of a revision of a body's rating the body should be removed from the list of Specified Investments. The PCC currently has no method of knowing about changes in ratings and has organised the Specified and Non-Specified split to avoid subscribing to one of the companies supplying monthly ratings, which would be expensive.

All Specified Investments must be denominated in sterling and must be one where the PCC may require it to be repaid or redeemed within 12 months of the date on which the investment is made. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The minimum % of the total of all investments which must be Specified Investments, at the time the investment is made, is 5%.
- The maximum investment with any one counterparty is £7 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £10 million.

Limits and Definition of Non-Specified Investments

The investment is made with one of the bodies listed in Appendix B "Non Specified Investments", or the investment is for a period of one year or longer.

All Non-Specified Investments must be denominated in sterling. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum investment with any one counterparty is £5 million.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £7 million
- The maximum % of the total of all investments for a period of one year or longer, at the time the investment is made, is 10%.

Criteria for Inclusion on Investment Counterparty List

- UK Clearing Banks and their wholly owned subsidiaries. Nationalised Banks and Nationalised Building Societies.
- UK Local Authorities, Police and Crime Commissioners and nationalised industries.
- The UK Government.

Counterparty List

Specified Investments:

UK Government

Local Authorities

Other PCCs

AAA – rated Money Market Funds

NatWest Bank (The PCC's own bank)

Banks Part Owned by the UK Government

1. Lloyds Banking Group
2. Royal Bank of Scotland

Unspecified Investments:

- UK Clearing Banks (Not included elsewhere on the Investment List)

1. Santander UK
2. Bank of England
3. Barclays
4. Clydesdale
5. The Co-operative Bank
6. HSBC
7. Nationwide
8. Bank of Scotland