

The Authority's Counterparty Credit policy, minimum credit ratings criteria

Credit Rating: Investment decisions are made by reference to the lowest appropriate published credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

Within the parameters set out below the Authority uses the MUFG Corporate Markets (the treasury management advisor) creditworthiness report to establish a lending list. The S151 officer will agree an operational lending list within the parameters set out below.

1. Banks (Unsecured) and Building Societies: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. For non UK Banks, the Authority's credit criteria will require that banks from AA- rated countries and above can be used.

Current bank accounts: the Authority's own banker, Should the credit rating fall below A-, for liquidity purposes the Authority may continue to deposit surplus cash with the group providing that investments can be withdrawn on the next working day. Balances will be reviewed on a daily basis to assess their appropriateness.

Banks (secured): Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

2. Rated Building Societies - The Authority's credit rating criteria for UK Building Societies in 2026/27 will continue to limit deposits to those UK Building Societies that meet the credit criteria in table 1 below.

3. Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

4. Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

5. Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.

6. Pooled funds: Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

7. Money Market Funds (MMF): The Authority will continue to use MMF's, which provide lower interest returns but do provide a highly liquid, diversified investment via a highly credit-rated pooled investment vehicle. Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

8. Ring Fenced Banks, (RFB) The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, in response to the global financial crisis to separate core retail banking services from their investment and international banking 36 activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. In general, simpler, activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank (NRFB).

Table 1: Approved investment counterparties and limits

Credit rating	Banks unsecured*	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£5m 20 years	£5m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£5m 10 years	£5m 10 years
AA	£15m 4 years	£15m 5 years	n/a	£5m 5 years	£5m 10 years
AA-	£15m 3 years	£15m 4 years	n/a	£5m 4 years	£10m 10 years
A+	£15m 2 years	£15m 3 years	n/a	£5m 3 years	£10m 5 years
A	£15m 13 months	£15m 2 years	n/a	£5m 2 years	£5m 5 years
A-	£15m 6 months	£15m 13 months	n/a	£5m 1 year	£5m 5 years
	UK Local Authorities £10m per Authority; 50 years				
Pooled funds	£25m per fund These include Bond Funds, Gilt Funds, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds,)				

Investment Limits

The Authority further proposes the investment limits as set out in the table below to protect the security of its investments. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 2: Investment limits

	Cash limit
UK Central Government	unlimited
Any single organisation, except the UK Central Government	£15m each
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£5m per manager
Financial instruments held in a broker's nominee account	£50m per broker
Foreign countries	£15m per country
Registered providers	£15m in total
Unsecured investments with building societies	£25m in total
Money Market Funds	£50m in total