

APPENDIX 1

St HELENS COUNCIL: ANNUAL INVESTMENT STRATEGY 2025/26

1.0 Purpose

- 1.1 This Strategy is submitted to Council for approval in adherence with the guidance issued by the then ODPM under Section 15(1)(a) of the Local Government Act 2003 and in accordance with the Statutory Guidance on Local Government Investments (3rd Edition), issued in 2018 by the then MHCLG.
- 1.2 It covers the financial period to 31 March 2026 and is complimentary to the Treasury Management Strategy 2025/26 and the adopted Treasury Management Practices as required by the CIPFA Code of Practice: Treasury Management in the Public Services.
- 1.3 The Council's investment policy has regard to the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").
- 1.4 In doing so the Annual Investment Strategy sets out:
 - which investments the Council may use for the prudent management of its surplus funds during the period, under the heads of Specified Investments and Non-Specified Investments
 - the utilisation of Loan Financial Instruments and the governance arrangements that must be followed when decisions are made the procedures for determining the use of each asset class
 - the maximum periods for which funds may be prudently committed in each class
 - the upper limits to be invested in each class.
 - the extent to which prior professional advice need be sought from the Council's Treasury Advisors prior to the use of each class
 - the minimum amount to be held in short-term investments

2.0 Investment Objectives and Principles

- 2.1 The general policy objective for the Council is the prudent investment of its surplus funds. The Council's investment priorities are the security of capital and liquidity of investments.
- 2.2 The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity and having properly assessed all inherent risks, as detailed in its Treasury Management Practices.
- 2.3 The Council will seek to ensure that temporary borrowing will not be made whilst the Council has investment funds available, and its longer-term borrowing activity will have full regard to the content of CIPFA's Prudential Code and the Council's own approved Treasury Strategy. In particular, the Council will not engage in treasury borrowing activity that is solely for the purposes of investment or on lending to make a return.

3.0 Specified, Loans and Non-Specified Investment Types

3.1 Financial investment instruments are broadly classified within government guidance as being Specified, Loans or Non-Specified.

3.2 An investment is a Specified Investment if:

- i) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- ii) the investment is not a long-term investment.
- iii) the making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 3146 as amended)
- iv) the investment is made with a body or investment scheme which has been awarded a high credit rating by a credit rating agency or is made with the United Kingdom Government, a Local Authority in England or Wales (as defined in Section 23 of the 2003 Act), a Parish or Community Council.

3.3 A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth. Local authorities can make such loans whilst continuing to have regard to the guidance if they can demonstrate in their Strategy that:

- i) Total financial exposure to these types of loans is proportionate.
- ii) They have used an allowed “expected credit loss” model for loans and receivables as set out in International Financial Reporting Standard 9 *Financial Instruments* as adopted by proper practices to measure the credit risk of the loan portfolio.
- iii) They have appropriate credit control arrangements to recover overdue repayments in place.
- iv) The local authority has formally agreed the total level of loans by type that it is willing to make, and their total loan book is within the self-assessed limit.

3.4 Non-specified Investments are those investments not meeting the definition of a specified investment or a loan and, inherently, are subject to greater degrees of treasury risk. They do, however, offer some potential diversification as part of an overall strategy, and as a result, a small number are identified as being potentially suitable for use, subsequent to prior consultation and advice from the Council's appointed Treasury Management advisors.

3.5 In assessing the relative characteristics of each possible instrument type, the risk attached in their use and how their use would assist in the delivery/achievement of the Council's investment objectives and principles, Annex A has been prepared to detail those instruments that it is proposed may be used as part of the investment strategy. The utilisation of Loan Financial Instruments has additional restrictions placed upon them and the detail of the decision-making process for their use is set out in Section 9.

4.0 Credit and Counterparty Policies

- 4.1 The Council relies on credit ratings published by FITCH, an independent rating agency, to establish the credit quality of Counterparties (issuers and issues) and investment schemes. Credit rating lists are reviewed on an ongoing basis to ensure prompt action to remove institutions whose ratings fall below the Council's threshold. The policy is fully documented in the Council's Treasury Management Practices.
- 4.2 Delegation has been granted to the Executive Director of Corporate Services in relation to the criteria by which the Council's lending list is compiled for its internally managed investments. The criteria proposed for adoption during 2025/26 is contained at Annex B.
- 4.3 The criteria proposed is unchanged from that applied currently.

5.0 Liquidity of Investments

- 5.1 The need to ensure liquidity by the continuous management and monitoring of the Council's cash transactions and resource is one of the key objectives of the Treasury function and liquidity risk management is fully considered and documented in the Council's Treasury Management Practices.
- 5.2 The limits included in Annex A are a reflection of the overriding importance of liquidity, and in addition to those, as a general rule, the Council will aim to ensure that it has 15% of its investments held with a maturity period of less than one week. Where cashflow expectations or specific circumstances dictate an absolute minimum of 10% if its investments will always be held with a maturity period of less than one week.

6.0 Investment Strategy - Internally Managed Investments

- 6.1 All investments made during the duration of this Strategy will be in full compliance thereof.
- 6.2 Decisions, taken within the framework, regarding the period and type of investment, will be taken having regard to future cashflow requirements and likely interest rate movements. A suitable proportion of investments will be held "at call" for contingent purposes to allow for any significant investment opportunities for longer periods that may come available.
- 6.3 The Council has previously (where interest rate forecasts support such a strategy) sought to lock into longer period fixed rate deals where opportunities and Counterparty criteria permits. This practice will continue during 2025/26, subject to:
- i) the outlook for medium term interest rates (i.e., to avoid locking into deals whilst investment rates are at lower than forecast levels and there is a forecast pick-up in rates over the medium term)
 - ii) the management of Counterparty risk
 - iii) any opportunities to repay debt using available cash balances.
 - iv) the Council's liquidity requirements

- 6.4 Maximum strategic use will be made of the Council's call account facilities and the AAA rated money market funds to which the Council has access during the period where prevailing rates are competitive.
- 7.0 Investment Strategy - Externally Managed Funds
- 7.1 The Council currently does not engage any Fund Managers to invest monies on its behalf following a previous review of Fund Manager activity and the decision to repatriate funds held by its then Fund Manager.
- 7.2 Arrangements for the re-engagement of Fund Managers at some point in the future will be considered in consultation with the Council's appointed Treasury Management advisors. Where it is considered that the engagement of a Fund Manager is warranted, then a full tender exercise will be conducted in accordance with Contract Procedure Rules.
- 8.0 Reporting Arrangements
- 8.1 Cabinet will receive reports on Treasury Management activity and risks as part of the Financial Monitoring Report, which shall also be considered by the Overview and Scrutiny Commission.
- 8.2 Council will receive, via Cabinet, an end of year report in relation to the activity undertaken in the preceding year and a review of performance relative to the approved Strategy. This report will also be considered by the Audit and Governance Committee.
- 8.3 As a minimum, a mid-year Strategy review will also be undertaken, and the Audit and Governance Committee will consider this.
- 9.0 Capacity, Skills and Culture
- 9.1 The Council has a responsibility to ensure that the Members and Officers undertaking decisions in relation to Investments have the necessary amount of training and information to enable them to make informed decisions as to whether to enter into a specific investment and to ensure that governance processes around decision making are robust and appropriate.
- 9.2 To enable the Members and Senior Officers involved in the investments decision making process to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the local authority and to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority, formal training is provided in conjunction with the Council's appointed advisors, MUFG Corporate Markets.
- 9.3 Due to the complex nature of potential strategic investments, external advice and assessment will be commissioned, where necessary, to ensure that an independent evaluation is undertaken; this may also include support in negotiating commercial deals. In these circumstances, the organisation commissioned to undertake this role will be made aware of the regulatory regime within which the Council operates and of the core principles of the prudential framework.

LOCAL GOVERNMENT INVESTMENTS (ENGLAND)

SPECIFIED VERSUS NON-SPECIFIED INVESTMENTS

Previous Guidance has defined Local Government investments as being either 'Specified' or 'Non-Specified'. The Guidance was, however, non-prescriptive in classifying the various investment instruments available into either of these categories. Indeed, in a continually changing market where new innovative 'products' are frequently being introduced it would be extremely problematical, if not impossible, to do so.

Much focus and emphasis is therefore placed on that element of the Guidance which states that Specified investments should require 'minimal procedural formalities'. The Council's appointed Treasury Management advisors have discussed this issue with the then-DCLG (now MHCLG), who have expressed their desire to see Local Authorities apply the spirit of the Guidance rather than focus on a legalistic approach to the meaning of words in the Guidance. The spirit of the Guidance is that investment products, which take on greater risk and therefore should be subject to greater scrutiny should be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy and so should fall into the Non-Specified category.

The latest Statutory Guidance on Local Government Investments by MHCLG, issued on 2 February 2018, introduced a new category of Financial Investment – Loans; this additional category has been included in the guidance to reflect up to date working practices of Local Authorities and is reflected in the tables below.

The following tables have been prepared on that basis.

LOCAL GOVERNMENT INVESTMENTS (England)
SPECIFIED INVESTMENTS

All "Specified Investments" listed below must be sterling-denominated with maturities of up to 1 year

Investment	Repayable/ Redeemable within 12 Months?	Security/ Minimum Credit Rating	Use for Managing Internal Investments?	Maximum Period
Debt Management Agency Deposit Facility (DMADF)	Yes	Govt-backed	Yes	6 months
Term deposits with the UK Government or with UK Local Authorities (i.e., Local Authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year.	Yes	High security although LAs not credit rated	Yes	1 year
Term deposits with credit-rated deposit takers (Banks and Building Societies), with maturities up to 1 year.	Yes	See*	Yes	1 year
Money Market Funds CNAV/LVNAV/VNAV (i.e., a collective investment scheme as defined in SI 2004 No. 534) <i>These funds do not have any maturity date</i>	Yes	Yes: AAA	Yes	<i>The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements.</i>
Forward deals with credit rated Banks and Building Societies < 1 year (i.e., negotiated deal period plus period of deposit)	Yes	See*	Yes	1 year in aggregate
Callable deposits with credit rated Banks and Building Societies, with maturities not exceeding 1 year.	Yes	See*	Yes	1 year
Notice Account Facilities with credit rated deposit takers (Banks and Building Societies) (Maximum notice period 180 days)	Yes	See*	Yes	N/A
Call Account Facilities with credit rated deposit takers (Banks and Building Societies)	Yes	See*	Yes	N/A

* Subject to approved credit rating criteria as determined within the Annual Investment Strategy or as a result of delegation exercised by the Council's Section 151 Officer in accordance with approved Treasury Management Practices

LOCAL GOVERNMENT INVESTMENT (England)

LOAN INVESTMENTS

Investment	Repayable/Redeemable within 12 months?	Loan Book Limit	Maximum Maturity of Investments
Loans with joint ventures	No	£15,000,000	15 years

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS

Investment	Repayable/ Redeemable within 12 months?	Security/ Minimum Credit Rating	Use for Managing Internal Investments?	Maximum Maturity of Investments
Term deposits with credit rated deposit takers (Banks and Building Societies) with maturities greater than 1 year	No	See*	Yes	2 years
Term deposits with the UK Government or with UK Local Authorities with maturities greater than 1 year	No	High Security although LAs not credit rated	Yes	2 years
Banking facility for Merseyside Recycling and Waste Authority	Potentially	High Security although LAs not credit rated	Yes	N/A
Certificates of Deposit with credit rated deposit takers (Banks and Building Societies) <i>Custodial arrangement required prior to purchase</i>	Potentially	See*	Yes – after consultation with Treasury Advisors	2 years
Callable deposits with credit rated deposit takers (Banks and Building Societies) with maturities greater than 1 year	Potentially	See*	Yes	2 years
Forward deposits with credit rated Banks and Building Societies for periods > 1 year (i.e., negotiated deal period plus period of deposit)	No	See*	Yes – after consultation/advice from Treasury Advisors	2 years in aggregate
Structured Deposits where investment returns are determinant on how specified interest rate structures move over a determined period	Potentially	N/A	Potentially – after consultation with Treasury Advisors	2 years

* Subject to approved credit rating criteria as determined within the Annual Investment Strategy or as a result of delegation exercised by the Council's Section 151 Officer in accordance with approved Treasury Management Practices.

COUNTERPARTY CRITERIA 2025/26

	<u>Counterparty Category</u>	<u>Credit Ratings</u>				<u>Maximum Investment</u> (1)	<u>Maximum Period</u>
(i)	Money Market Funds (MMF)	AAA Rated (2)				£20m per MMF (£40m total)	On call
(ii)	Other Local Authorities and Public Bodies (3)	AA Rated				£100m total	
						£15m per LA	12 months
						£5m per LA	2 years
FITCH Ratings		Long Term	Short Term	Viability	Sovereign		
(iii)	Authorised institutions (under the Banking Act 1987) which hold a suitable credit rating) (4)	A+ and above	F1 and above	aa- and above	AA- and above	£25m	2 years
		A and above	F1 and above	a- and above	AA- and above	£15m	12 months
(iv)	Call accounts held with authorised institutions (under the Banking Act 1987) which hold a suitable credit rating (4)	A+ and above	F1 and above	aa- and above	AA- and above	£20m	On call
		A and above	F1 and above	a- and above	AA- and above	£15m	On call
(v)	Building Societies which hold a suitable credit rating	A- and above	F1 and above	a- and above	AA- and above	£10m (£40m total)	12 months

Notes to Counterparty Criteria

1. For each institution meeting the criteria identified above and subject to the limits for maximum investments, no single investment transaction should be undertaken for more than £15m (excluding MRWA).
2. Each individual Money Market Fund used must be separately approved by the Council's Section 151 Officer by way of an Operational Decision.
3. The Banking Facilities provided to MRWA are excluded from the Maximum Investment levels and Maximum Period.
4. The legal arrangements of some banks are such that transactions may be available with a subsidiary company that does not have its own viability rating; where this is the case, the viability rating of the parent company will be used to assess the creditworthiness, or otherwise, of the financial institution, against the criteria above. This includes institutions where a viability is not available due to the institutions close links to the presiding Government of the country where the institution is based.