

## SPECIFIED AND NON-SPECIFIED INVESTMENTS

This schedule sets out the specified and Non-Specified investments the Council may use in 2020/21.

Investments may be in the form of direct deposits, Certificates of Deposits (CDs), property (including property funds) or the purchase of financial instruments such as Treasury Bills, Bonds and Gilts.

### SPECIFIED INVESTMENTS:

An investment is a Specified Investment if all of the following apply

1. The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling
2. The investment is not a long term investment which is one that is due to be repaid within 12 months of the date on which the investment is made or one which the local authority may require to be repaid within that period.
3. The investment is not defined as capital expenditure by regulations
4. The investment is made with a body or in an investment scheme of high credit quality or the investment is made with the following public sector bodies.
  - a. UK Government
  - b. Local authority
  - c. Parish council or community council

Where an investment is being made with a UK nationalised or part nationalised bank this will be treated for the purposes of classification as a Specified or Non-specified investment as being invested with the UK Government.

### High credit quality

For a counterparty to meet the high credit quality criteria for specified investments, that counterparty must meet as a minimum the ratings of the three credit rating agencies listed below, and not be the subject of any adverse indications from the following sources.

- Credit Default Swap index
- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

Ratings	Fitch	Moody's	Standard & Poors
Short term	F1	P-1	A-1
Long term	A-	A3	A

## NON SPECIFIED INVESTMENTS

A maximum of £3.5m may be held, in aggregate, in Non-Specified Investments

The only Non-Specified investments that the Council will use in 2020/21 are investments for periods of longer than 12 months with any institution or investment instrument that would have been classed as a Specified Investment if the investment had been for less than 12 months or property. The Council currently holds an investment property in Clacton. The historic cost of this property (including stamp duty) is £3.245 million, but this was revalued at 31 March 2019 at £2.300 million by the Council's external valuer. The purchase of the property was financed from revenue resources.

*The Council is also exploring the use of property funds / unit trusts as part of its wider investment portfolio. To manage the risks of holding property fund investments, they should be viewed as a longer term investment and hence a non-specified investment.*

*As with all property related investments, there is a risk that such an investment could go down as well as up in value. The accounting standards relating to such investments require that they be classified in such a way that any increase or decrease in the value of the fund during an individual year would be a direct charge to the General Fund revenue balance.*

*However, there is currently a statutory regulation issued by the Ministry for Housing, Community and Local Government (MHCLG) in force until 31 March 2023 which states that these charges should not go directly to the General Fund balance but be reversed out through the Movement in Reserves Statement to a unuseable reserve and held until such time as the investment is sold – by managing the overall liquidity of its overall investment portfolio, the Council would remain in control of when to sell its property unit trust holding(s) and would not look to do so until there was net gain in value rather than a loss. (at which point the cumulative gains or losses then fall to the General Fund). It is not known whether MHCLG would extend this regulation in 2023, although it was issued to allow authorities to make an orderly withdrawal from such funds, or whether from that date forwards the charge would go straight in year to the General Fund and have to be directly financed.*

*The use of a property fund can be deemed capital expenditure, and as such will be a spending of capital resources. Given the risks and potential complexities of investing in unit trusts, any decision to enter into a property fund investment would therefore be made after further consultation with the Council's external advisors, undertaking of appropriate due diligence, and would be subject to a separate Member decision, which would include approval to increase the current £3.5m limit for non-specified investments highlighted above.*