

ANNUAL INVESTMENT STRATEGY - 2009/10

1 Introduction

- 1.1 This Council has regard to the ODPM's Guidance on Local Government Investments ("Guidance") and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

2 Investment Principles

- 2.1 All investments will be in sterling. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are (a) the security of capital and (b) liquidity of its investments.
- 2.2 The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.
- 2.3 The Guidance maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

3 Specified and Non-Specified Investments

- 3.1 Investment instruments identified for use in the new financial year are all from the Specified Investment List and additionally meet 'high' rating criteria. The use of other specified investments, as well as the use of non-specified investments (basically for longer than 1-year time periods) are not currently planned. However additions to the following list will not be made without full Council approval:
- UK Government Gilts
 - Certificates of Deposit issued by banks and building societies
 - Sterling denominated bonds issued by European Governments
 - Sterling denominated bonds issued by multilateral development banks
 - Term deposits with UK government or local authorities (Section 23 of LG Act 2003)

- Term Deposits with UK/European banks and building societies which have acceptable credit ratings (to be agreed with the Council's treasury management advisers – using approved market indexes)
- Money Market Funds with acceptable credit ratings (see above)
- Debt Management Agency Deposit Facility (government backed)

Note - The MMFs are not currently used by the Council but will be considered if it is decided to stop using the external fund manager.

4 Liquidity

- 4.1 Based on its cash flow forecasts, the Council anticipates its fund balances in 2009/10 to range between £12m and £17m. The exact sum will be highly dependent on the timing of capital expenditure and spending against externally funded initiatives (e.g. PDG, LABGI) and the recession package approved by Council.
- 4.2 A review of the Council's level of balances over the next 3/4 years, the need for liquidity, its spending commitments and provisions for contingencies, reveal that there may be some limited scope for some longer term investments.
- 4.3 The majority of in-house funds will be invested for periods up to 1 year. The maximum amount with any one counter-party will be £3 million (the current level is £2 million but it is sometimes difficult to get a suitable spread using the current constrained counterparty list). At the end of each quarter the investments made by the council's fund manager will be reviewed to ensure there is no greater medium term exposure to one counter-party.

5 Security of Capital: The use of Credit Ratings

- 5.1 Credit quality of counterparties and investment schemes will be determined by reference to credit ratings. Tighter limits will be set for exposure to individual overseas institutions so that risk is controlled.
- 5.2 The Council will establish with its fund manager their credit criteria and the frequency of their monitoring.
- 5.3 The Council receives creditworthiness advice from its treasury consultant. The Council's lending list will be monitored at least quarterly (this has been more often in recent months). If a downgrade results in the counter-party/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately and the external fund manager(s)

informed of the same. If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the Head of Finance will have the discretion to include it on the lending list.

6. Investments defined as capital expenditure:

6.1 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'.

6.2 Investments in "money market funds" which are collective investment schemes and bonds issued by "multilateral development banks" – both defined in SI 2004 No 534 – will not be treated as capital expenditure. Additionally, investments in shares issued by Real Estate Investment Trusts – as defined in SI 2007 No 573 – will not be treated as capital expenditure.

6.3 A loan or grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure. Loans by this Council to local housing associations will therefore clearly be identified as to their purpose, i.e. treasury or policy.

6.4 The council has agreed to invest up to £50,000 in a new company that will be jointly owned with two neighbouring councils. This will be part loan and part purchase of share capital. The company will be in the business of providing building control consultancy services. CNC Consultancy Services Ltd has share capital of 100 shares with a nominal value of £1 each. The Council's shareholding will equate to a 33 1/3 % interest in the company. The investment will be considered capital expenditure investment. CNC Consultancy Services Ltd will be an unquoted company and there will not be a market in the company's shares.

7. Provisions for Credit-related losses

7.1 If any of the Council's investments appeared at risk of loss due to default (i.e. this is a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

7.2 The Council did not have investment exposures to Icelandic banks or their subsidiaries as the institutions were not on the Council's lending list.

8. Investment Strategy to be followed in-house

8.1 Investments are mainly backed by short-term surplus cash, or by the capital

receipts or revenue reserves at the council's disposal. The Council's medium term financial plan is based on the latter sums reducing over the next 5 years to ensure that the Council Tax level is suppressed as far as possible whilst allowing for a phased reduction in annual capital expenditure. All investments will have security of capital and cash flow requirements as their main consideration.

9 External Cash Fund Management

- 9.1 The Council's funds are managed on a discretionary basis by Invesco. The fund manager has limitations placed on its investment decisions that can be made using the Council's money.
- 9.2 Council approved, in December 2006, a change to Invesco's investment parameters and benchmark to reflect a more realistic view of the Council's investment horizon. The performance of Invesco and the suitability of the revised arrangements are closely monitored by the Council's treasury management advisor, Arlingclose, and the Head of Finance.
- 9.3 In review of the current highly uncertain economic conditions, which are without precedent, a further review has recently been undertaken of the Invesco counterparty limitations and portfolio mix allowed. It is proposed to ease back on the benchmark target (which has served the Council extremely well over the recent past) by reducing the investment counterparties allowed, to effectively reduce risk levels slightly. The Council acknowledges the risk return trade-off that lowering the risk the fund manager is permitted in the Council's portfolio could lead to potentially lower returns. The new benchmark will be 25% in short dated gilts and 75% in 3 month LIBID (currently 60:40) and the interest rate risk duration will be reduced to 2 years (from 2.5 years ie average life of all investments in the fund).

10. End of year Investment Report

- 10.1 At the end of the financial year, the Council will prepare a report on its investment activity as part of its Annual Treasury Report.