

ANNUAL INVESTMENT STRATEGY 2004-05

1. This investment strategy has been prepared within the new framework established by the ODPM's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services : Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code"), and meets statutory guidance.
2. This Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year 2004/2005.

3. Investment Objectives & Authorised Investments

- 3.1 All investments will be in sterling.
- 3.2 The overriding policy objective for the Council is the prudent investment of its balances. The Council's investment priorities are
 - (a) the **security** of capital and
 - (b) **liquidity** of its investments.The council will aim to achieve the **optimum return** on its investments commensurate with the proper levels of security and liquidity.
- 3.3 The Council will not borrow monies purely to invest or on-lend.
- 3.4 The list of authorised investments is as follows:-

Short Term Investments

- i. Term deposits for periods up to one year with credit rated deposit takers (banks and building societies) plus local authorities, UK nationalised industry, and UK statutory corporations.
- ii. Certificates of deposit for periods less than one year issued by credit rated deposit takers (e.g. banks and building societies)
- iii. Forward deposits with credit rated banks and building societies for a period less than one year (i.e. an agreement to place funds on deposit from an agreed future date, provided that the termination date of the investment does not exceed 364 days from the date the agreement is made)
- iv. UK government gilts up to 1 year
- v. Gilt edged securities
- vi. Treasury bills (UK government debt with a maturity less than one year)
- vii. Eligible bills of exchange with maturity less than one year, issued against a credit rated drawer.
- viii. Money Market Funds, or equivalent credit rated schemes whereby deposits are secured.
- ix. Within this list items (ii), (iv), (v), (vi), and (vii) are only authorised for the use of an external fund manager

Longer Term Investments

- x. Term deposits for periods in excess of one year with credit rated deposit takers (e.g. banks and building societies) plus local authorities, UK nationalised industry, and UK statutory corporations.
- xi. UK government gilts with maturities in excess of 1 year
- xii. Credit rated supranational bonds (i.e. a bond issued by a supranational body, such as the World Bank that has the financial support of the government of one or more of the world's major economies)
- xiii. Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantees from the UK government or credit rated parent institutions
- xiv. Within this list item (xi) is only authorised for the use of an external fund manager

4. Security of Capital : The use of Credit Ratings

- 4.1 This Council primarily relies on credit ratings published by Fitch Ratings. This section of the strategy proposes minimum credit rating requirements, except for those investments that do not require a credit rating, for example UK government bonds. These ratings apply to investments made by the Council, not professional fund managers. In practice, only investments of the highest security will be made.

Short Term Investments

- i. For term deposits, callable deposits and certificates of deposit, for periods of 1 year or less, a long-term rating of A, a short term rating of F1 and either an individual support rating of C plus a support rating of 3 or an individual support rating of D plus a support rating of 1
- ii. For eligible bills of exchange with a maturity less than 1 year a short term rating of F1
- iii. For money market funds, and other commercial secured deposit facilities, a rating for the fund of AAA and a volatility rating of V1+
- iv. For all of the above the maximum sum to be deposited with a counterparty is £10 million, except that this limit may temporarily be raised to £11 million for operational reasons (if market conditions made it difficult to invest the Council's cash balances). Where funds are deposited with both a parent organisation and one or more subsidiary organisation then they shall be treated as being one single counterparty for the purposes of these limits.

Longer Term Investments

- v. For term deposits in excess of 1 year a long term rating of AA- an individual rating of B/C and a support rating of 2.

- vi. For supranational bonds a long term rating of AAA.
- vii. Deposits with unrated deposit takers (banks and building societies) with unconditional financial guarantees from the UK government or credit rated parent institutions; the parent guaranteeing the deposit is required to have the same credit rating as specified in (i) for deposits. No credit rating is required is for deposits guaranteed by the UK government.
- viii. For all of the above the maximum sum to be deposited with a counterparty is £5 million. Where funds are deposited with both a parent organisation and one or more subsidiary organisation then they shall be treated as being one single counterparty for the purposes of these limits.

4.2 Investments are also permitted on the basis of equivalent ratings issued by Moody's Investors Services or Standard and Poor's.

4.3 Credit ratings will be monitored:

- All credit ratings for investments being actively used will be monitored monthly.
- If a body is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that body will cease.
- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered and put to the CFO for approval.

4.4 The Council will establish with its fund manager(s) their credit criteria and the frequency of their monitoring of credit ratings so as to be satisfied as to their stringency and regularity.

5. **Investment balances / Liquidity of investments**

5.1 The minimum percentage of its overall investments that the Council will hold in short-term investments is 60%, subject to a minimum of £10 million or the actual level of investments (whichever is the lesser).

5.2 A maximum of £30m can be prudently committed to longer term investments (i.e. those with a maturity exceeding a year). This will be kept under review as the use of investments to finance capital expenditure will reduce the level of investments.

5.3 The Council will maintain liquidity by having a minimum of £5m of deposits maturing within 2 months.

6. **Investments defined as capital expenditure**

- 6.1 This Council will not use or allow its external fund managers to use any investment which will be deemed as capital expenditure, other than investments in supra-national bodies.

7. **External Cash Fund Management**

- 7.1 The Council's appointed fund manager Investec Asset Management manages the funds on behalf of the Council on a discretionary basis. The fund management agreement(s) between the Council and the manager formally documents the instruments they can use within pre-agreed limits.

8. **Investment Reports**

- 8.1 Reports will be prepared twice yearly as part of the reports on treasury management activity.

9. **Investment Reports**

- 9.1 Amendments consequential to the above will be made to the Council's treasury management practices.