

ANNUAL INVESTMENT STRATEGY FOR THE 2008/09 FINANCIAL YEAR

Introduction

1. This strategy is made in accordance with the Guidance on Local Government Investments issued by the government on 12 March 2004.
2. The Council approved the Annual Investment Strategy for 2008/09 on 4 March 2008. This strategy is consistent with the Council's overall treasury management strategy for 2008/09.
3. This strategy applies to both in-house and externally managed funds.

General Provisions

4. All investments must be made in sterling.
5. Our treasury management consultants (currently Sterling Consultancy Services) provide us with routine lists of credit ratings on a monthly basis, and any urgent changes as soon as possible. External managers are required to use these ratings or ratings of a similar quality. The tables below compare the long-term and short-term ratings used by the various credit agencies to enable fund managers to use ratings from different rating agencies:

Comparison of Long-Term Debt Ratings		
Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-

Comparison of Short-Term Debt Ratings		
Moody's	S&P	Fitch
Prime-1 "P1"	A-1+	F1+
Prime-1 "P1"	A-1	F1
Prime-2 "P2"	A-2	F2
Prime-3 "P2"	A-3	F3
Not Prime	B	B
	C	C
	D	D

6. The investment parameters used by our external cash manager (from 3 September 2007, Tradition UK) have risk and diversification limits that are consistent with the overall objectives of this strategy. Council funds that are placed with any other fund manager will be managed in accordance with this Strategy.

Policy for specified investments and credit ratings used

7. UK Banks

Investments with UK Banks for periods up to 364 days requires a minimum short term credit rating of F1 and a combined individual and legal rating of no less than B/C 4. Investment in any bank and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that bank or its subsidiaries.

8. Subsidiaries of U.K. Banks

An investment will only be made in a wholly owned subsidiary of a bank if the parent bank satisfies the credit rating criteria. The maximum term of such investments is 3 months. This will provide the Council with protection against a possible sale to a new owner which has a lower credit standing, as the sale would be unlikely to be completed within that time-scale.

9. Foreign banks

Investments with Foreign Banks for periods up to 364 days requires a minimum short term credit rating of F1 and a combined individual and legal rating of no less than B/C 3.

10. U.K. Building societies

For Building Societies with credit ratings: Investments for periods up to 364 days require a minimum short term credit rating of F1 and a combined individual and legal rating of no less than B/C 4.

11. Local and other authorities

All Local, Police, Fire, Civil Defence and Transport Authorities are suitable counter parties for periods up to 364 days.

12. Government gilts and treasury bills

Investments may be made in government gilts and treasury bills with a maturity date of less than 364 days.

13. Debt Management Agency Deposit Facility (DMADF)

Investments may be made through this government-backed facility. There is no limit to the amount of funds that can be placed with the DMADF.

14. Money market funds

Investments of up to £3m in money market funds that have a credit rating of AAA may be made subject to the advice of our treasury management consultants as to confirmation of the credit worthiness and liquidity of the fund, the performance of the fund, and other matters as appropriate.

15. Forward deals up to one year

Forward deals may be entered into with banks and building societies that meet the appropriate credit rating criteria for specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is less than one year.

Policy for non-specified investments and credit ratings used

16. Sovereign and supranational issues (excluding UK Gilts)

Sovereign banks do not have credit ratings but offer a high level of credit quality. Investments may be made with Sovereign banks and in supranational issues up to a maximum of £2m per issuer subject to the advice of our treasury management consultants as to appropriateness of the investment, in particular, the liquidity of the investment.

17. U.K. Building societies

Many building societies do not have credit ratings: However, the industry is highly regulated and well supervised by the Building Societies Commission. Consideration can therefore be given to lending up to 364 days to any society in the top thirty with assets over £500m. Such counter parties are useful for authorities with small sums to invest. The following lending limits are appropriate for building societies using a sliding scale relative to asset size:

Building societies by total assets	Investment limit	Maximum term
Assets over £2,000m	3,000,000	364 days
Assets from £1,000 to £2,000m	2,000,000	364 days
Assets from £500m to £1,000m	1,500,000	364 days

Term deposits over 364 days with a building society can be made following the advice of the Council's treasury management consultants as to the credit worthiness of the building society and using the investment limits set out in the table above.

18. UK Banks – longer term investments

Investments with UK banks for periods over 364 days requires a minimum long-term credit rating of A+ and a combined individual and legal rating of no less than B3. Investment in any bank and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that bank or its subsidiaries.

19. Foreign Banks.– longer term investments

Investments with foreign banks for periods over 364 days requires a minimum long-term credit rating of AA and a combined individual and legal rating of no less than B2.

20. Local and other public authorities – longer term investments

All Local, Police, Fire, Civil Defence and Transport Authorities are suitable counter parties for periods over 364 days.

21. Government Gilts

Investments in government gilts with a maturity date over 364 days may be used.

22. Forward deals for more than one year

Forward deals with banks and building societies that meet the appropriate credit rating criteria for non-specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is greater than one year may be made subject to the limits set out in the "Policy for liquidity of investments" section below.

Policy for liquidity of investments

23. This policy applies to long-term investments (i.e. investments for periods over 364 days) including investments made by the Council's fund managers.
24. Long-term investments managed in-house or made by fund managers can only be made with other local authorities or institutions of a high credit standing as agreed between the Director of Finance and the Council's treasury management consultants. The credit rating of the counterparty must be at least as high as those set out in the "Policy for non-specified investments" section above.
25. The proportion of the in-house portfolio that may be held in short-term and long-term investments will vary at any one time dependant on the cash flow position of the Council. The following table sets out the maximum, minimum and expected range of investments held at various times of the year:

Proportions of the in-house managed investments held in short-term and long- term investment instruments				
Time of year	Long-term investments		Short-term investments	
	Maximum	Minimum	Maximum	Minimum
	%	%	%	%
Start of year	50	0	100	75
June	50	0	100	50
September	50	0	100	50
December	50	0	100	50
End of year	100	0	100	0

26. The proportions in the table reflect that at the end of the year cash inflows are low because tax receipts are received in 10 instalments from April to January. Therefore, the in-house managed long-term investments may represent the entire investment portfolio for a few weeks. Normally it is expected that long-term investments will not exceed 50% of total investments.
27. The proportion of the externally managed portfolio that may be held in short-term and long-term investments will be, measured on a rolling basis, at any point in time
- No more than £3 million of outstanding investments are to be over 3 years until maturity, and
 - No more than £7 million of outstanding investments are to be over 1 year until maturity.
28. The maximum term of any one investment is 5 years.

General Policy applicable to all investments

29. Sector limits

No more than 75% of total investments made are to be lent to building societies at any one time. Where possible, some investments outside of the banking sector will form part of the portfolio held.

30. Counter party maximum limit

Investments made must avoid an over concentration with one or two counter parties. A set of maximum counterparty limits is therefore appropriate. The external investment manager has a separate set of counterparty limits to enable that arrangement to work effectively. For both in-house and external managers the limit

of investment with any one authorised institution is to be £3.0m (lower limits apply to certain building societies). This means that it will be possible that more than £3.0m is invested with a single counterparty at a point in time. To limit the period of this possibility, the external manager is required to confirm that a counterparty name is acceptable before making a long-term (over 364-day) investment.

31. Investments in any parent and its wholly owned subsidiaries

Investments in any parent and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that parent or its subsidiaries.

Investments defined as capital expenditure

32. The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'.

33. A loan or grant to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure. It is therefore important that it is clearly identified when the loan has made for policy reasons (e.g. to the registered social landlord for the construction/improvement of dwellings) or if it is an investment for treasury management purposes. The framework for 'specified' and 'non-specified' investments will govern investments that are for treasury management purposes.

Provisions for credit-related losses

34. If any of the Council's investments appeared at risk of loss due to default (i.e. this 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.