

## APPENDIX 2

### ANNUAL INVESTMENT STRATEGY

#### 6.1 Investment Policy

The Council will have regard to the ODPM's Guidance on Local Government Investments issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's investment priorities are:-

- a) the security of capital and
- b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

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.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

#### Specified Investments

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility	--
Term deposits – UK government	--
Term deposits – other local authorities	--
Term deposits – banks & building societies*	Fitch: Short-term F1, Long-term A, Individual C, Support 3
Forward deposits – banks & building societies* < 1 year (i.e negotiated deal period plus period of deposit)	Fitch: Short-term F1, Long-term A, Individual C, Support 3
Money Market Funds	AAA

\* Within this category and in accordance with the Code, The Council has set additional criteria to set the time limit and amount of monies which will be invested.

#### Non-Specified Investments

A maximum of 80% will be held in aggregate in non-specified investments

	Minimum Credit Criteria	Max % of total investments	Max maturity period
Term deposits – UK government (with maturities in excess of 1 year)	--	60%	2 years
Term deposits – other	--	40%	2 years

local authorities (with maturities in excess of 1 year)			
Term deposits – banks & building societies (with maturities in excess of 1 year)	Short-term F1+, Long-term AA+, Individual B, Support 2	60%	2 years
Forward deposits – banks & building societies (with maturities in excess of 1 year – i.e negotiated deal period plus period of deposit)	Short-term F1+, Long-term AA+, Individual B, Support 2	60%	2 years
Term deposits with unrated building societies	Building society assets exceed £2billion	20%	3 months

The Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's rating will be used. All credit ratings are continually monitored throughout the year and the Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

The Authorised Lending list has been reviewed and additional financial Institutions have been added where these meet the credit ratings criteria as set out in the Treasury Management Practices Schedules. In order to increase options for short term deposits the lending list has also been revised to include UK Building Societies with assets of over £2 billion. These additions are highlighted in the Proposed Lending List shown in Appendix 4.

## 6.2 Investment Strategy

This authority currently maintains mainly temporary, short term investments and any such investments will be made accordingly with reference to the core balance and cash flow requirements.

Dependent on the outcome of the review of property assets and any capital receipts arising from this, new long-term investments could be undertaken. A minimum of 20% of the authority's overall investments, will however be held in short term investments should any long-term investment be entered into.

**Interest rate outlook:** Sector is forecasting Bank Rate to peak at 5.5% in Q1 2007 before falling to 5.25% in Q4 2007, to 5.00% in Q1 2008, and then to trough at 4.75% in Q2 2008, remaining at that level before rising again to 5.00% in Q2 2009.

Councils should, therefore, seek to lock in longer period investments at higher rates before this fall starts for some element of their investment portfolio which represents their core balances. For 2007/8 clients should budget for an investment return of 5.00%.

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (over night to three months) in order to benefit from the compounding of interest.

**End of year investment report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report, this is reported as part of the quarterly performance reports to the Executive Member for Resources.