APPENDIX 2

ANNUAL INVESTMENT STRATEGY

Investment Policy

The Council will have regard to the DCLG'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.

The strategy of this policy is to set outer limits for treasury management operations. In times of exceptional market uncertainty, Council Officers will operate in a more restrictive manner than the policy allows, as has been the case during the last year.

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	--
Investments - UK government	--
Term deposits – other local authorities	--
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. The countries from which banks the Council can invest are also listed in its Treasury Management Practices and are detailed in the lending list shown in Appendix 4(i).

** It is proposed that where a UK bank has majority Government ownership and/or has had significant capital injection, Officers should have discretion to not be constrained by banks' individual ratings. This is in line with the Council's treasury advisor's advice.

Non-Specified Investments
A maximum of 80% may be held in aggregate in non-specified investments (investments which are for a term greater than 12 months)

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

Use of Credit Ratings
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 by its treasury advisors. 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. If further counterparties are identified during the year that meet the minimum credit rating criteria and conform to the other criteria set out in the Treasury Management Practice Schedules, they can be added to the lending list following the agreement of the Section 151 Officer and the Cabinet Member for Resources.

Authorised Lending List
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. Our treasury

advisors have also suggested some further countries that should be added to the list where their banks meet our minimum credit rating criteria. These have been added where the country has banks which meet the credit ratings of our restricted investment operating basis, to give the Council some more scope to diversify its investments whilst maintaining a limited risk profile. These additions are highlighted in bold on the Proposed Lending List shown in Appendix 4(i).

Due to the continuing volatility of the financial markets and banking sector, the Council has taken various pro-active steps to reduce its level of investment risk. These are detailed in paragraphs 5.10 of the covering report. The Council is currently operating from the restricted lending list for fixed term investments in line with this prudent approach. This temporary restricted list is attached as Appendix 4 (ii) for information and highlights additional proposals.

The Cabinet is asked to agree that the more comprehensive lending list detailed in Appendix 4(i) is sent for agreement by Council with the proviso that any switch from the temporary restricted list to the comprehensive list would only take place should market conditions and the banking sector stabilise and improve sufficiently. The decision to re-introduce the comprehensive list would be delegated to the Section 151 Officer in consultation with the Cabinet Member for Resources and the Chief Executive. This decision would take account of the advice from our treasury advisors.

The Council's Treasury Advisors have highlighted that although the Irish Government has guaranteed the liabilities of its financial institutions until September 2010, the Irish finance ministry has recently raised its forecast for the 2009 budget deficit to 9.5% of GDP, well in excess of the 3% EU limit. Therefore, if the full counterparty list is resumed, it is proposed that the overall limit on exposure to all Irish Banks combined would be set at £10M.

Investment Strategy

This authority currently maintains mainly temporary, short term investments (up to one year) and any such investments will be made accordingly with reference to the core balance and cash flow requirements. In light of the expectation of low interest rates and the likely use of core balances instead of borrowing, the favouring of short term investments will continue during 2009/10. The prudential indicators set a minimum of 20% of the authority's overall investments which will be held in short term investments.

Interest rate outlook: Sterling is forecasting that Bank Rate will drop to Drop to 1.0% in the first quarter of 2009 then remain there for one year, then increase by 0.5% each half during 2010 & then increase by 1.5% per half in 2011. However, there is a downside risk to this if continual economic deterioration remains. **Appendix 3** gives a more details on this forecast.

The Minimum Investment Levels will be kept under review and discussed with Sterling so that investments can be made at the appropriate time.

For its cash flow generated balances, the Council will seek to utilise its business reserve call 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 Cabinet Member for Resources.