

1 ANNUAL INVESTMENT STRATEGY

1.1 It is proposed that the Investment Strategy for 2012-13 remains as agreed by Council in March 2011 together with the small amendments approved recently in January 2012. However, on-going uncertainty in the financial markets allied to further downgrades in the Fitch ratings for erstwhile established financial institutions (following changes in the ratings methodology used by Fitch) have underlined the need for the Council to keep its investment strategy under constant review.

1.2 The changes approved in January were:

- the individual/group limit for investment in an institution or group that is wholly/partly owned by the UK government is increased to £45m (currently £30m).
- up to £25m (previously £12m) of available cash balances may be invested for periods over one year and up to 3 years. Although, only £15m can be invested between 2 to 3 years maturity; and
- the Strategy allows investment in structured products within current limits/restrictions to facilitate lock in to premium rates from day one of an investment being made.

The detailed credit criteria are set out in tables 3 and 4 below.

1.3 Officers will continue to work to maintain and strengthen the Council's investment policy and will refer back to Council with any modification thought to be beneficial to the efficient and effective management of the Council's funds.

1.4 The Council's Investment Policy remains unchanged and states that the Council will have regard to the Department of Communities and Local Government's (DCLG) Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code"). The Council's investment priorities are:

- The security of capital;
- The liquidity of investments to ensure that the Council has cash available to discharge its liabilities as necessary; and that;
- Within these priorities, the Council will also aim to achieve the optimum return on its investments commensurate with appropriate levels of security and liquidity; and
- All investments will be in Sterling.

1.5 To achieve these objectives, the Council classifies investment products as either "specified" or "non-specified" as defined within the Guidance.

1.6 Specified investments comprise investment instruments which the Council considers offer high security and liquidity. These instruments can be used with minimal procedural formalities. The Guidance considers that specified investments have the following characteristics: -

- denominated in Sterling and have a term of less than one year;
- have "high" credit ratings as determined by the Council itself.

- 1.7 All other investments are termed non-specified investments. These involve a relatively higher element of risk, and consequently the Council is required to set a limit on the maximum proportion of their funds which will be invested in these instruments. The Strategy should also specify the guidelines for making decisions and the circumstances in which professional advice is obtained.
- 1.8 Investment instruments identified for use in the financial year are listed in tables 3 and 4 below under the 'Specified' and 'Non-Specified' Investments categories with the associated counterparty limits as set through the Council's Treasury Management Practices – Schedules.

Specified Investments:

- 1.9 It is recommended that the Council should make specified investment as detailed below in Table 3.
- 1.10 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high credit' quality criteria where applicable. The council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining 'high credit rating' as being F1+ Fitch short-term and AA-long-term credit rating.

Table 3

Institution	Minimum High Credit Criteria	Use	Limit
Debt Management Office (DMO) Deposit Facility	Not applicable	In-house	£100m*
Term deposits – Other Local Authorities	Not applicable	In-house	£10m**
Term deposits – banks and building societies	Short-term F1+, Long-term AA- Sovereign rating AAA	In-house	£30m
Institutions with Government guarantee on ALL deposits by high credit rated (sovereign rating) countries.	Sovereign rating	In-house	£30m
UK Government Gilts	Long Term AAA	In-house	£20m
Institutions with UK Government support.	Sovereign rating	In-house	£30m
Institutions that are owned/part owned by the UK Government	Sovereign rating	In-house	£70m or 40% of Portfolio***
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
Money Market Funds	AAA rated	In-house	£15m

- Definitions of credit ratings (which now incorporate Fitch's viability ratings) are attached at [Appendix 1](#).
- * Although limit has been set at £100m for the DMO, in reality there is no restriction on placement with the UK government.
- ** The group limit for local authorities has been set at £100m.
- *** The group/individual limit will be set at the time of investing at the greater of £70m or 40% of portfolio.

Non-Specified Investments:

- 1.11 It is recommended that the Council should make non-specified investment as outlined in Table 4.

Table 4

Institution	Minimum Credit Criteria	High	Use	Limit
Term deposits – Banks and Building Societies	Sovereign rating AAA Short-term F1+, Long-term AA-		In-house	£25m
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Sovereign rating AAA Short-term rating F1+ Long-term rating AA-		In-house	£25m
UK Government Gilts	Long Term AAA		In-house	£25m

- 1.12 The Council uses Fitch ratings (or equivalent from other agencies if Fitch does not provide a rating) to derive its counterparty criteria, but will take into consideration ratings from all three main credit ratings providers when compiling its counterparty list. The Council will take an overall view on its counterparties so that an organisation could be removed from the list if the predominant view of the organisation is pessimistic. Where the overall view of the three main ratings agency is pessimistic, the Council is likely to adopt the most pessimistic of the available ratings.
- 1.13 *The Council will always lend to the UK financial institutions that meets the Council's credit criteria and the UK Government, but will only lend to overseas countries that have AAA sovereign rating.* The minimum credit rating required for an institution to be included in the Council's counterparty list is as follows:

Table 5

Agency	Long-Term	Short-Term	Individual	Support
Fitch	AA-	F1	C	1
Moodys	Aa3	P-1	N/A	C
Standard & Poors	AA-	A-1	N/A	N/A

Sovereign Rating	AAA
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Money Market Fund	AAA
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- 1.14 The Council will lend to the UK and its Government, and into overseas countries which have a AAA sovereign rating from Fitch and other credit reference agencies.. The following countries are currently rated AAA by Fitch:
- Australia
 - Canada
 - Denmark
 - Finland
 - Germany
 - Luxembourg
 - Netherlands
 - Norway
 - Singapore
 - Sweden
 - Switzerland
 - United Kingdom
- 1.15 All credit ratings will be monitored on a proactive basis and the Council's counterparty list will be updated to take account of alerts to changes in ratings through its use of the Sector creditworthiness service.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria as outlined in 1.5, its further use as a new investment will be withdrawn immediately.
 - If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the of the minimum acceptable rating for placing investments with that body as outlined in 1.5, then no further investments will be made with that body.
- 1.16 The credibility of credit ratings providers had been called into question because they failed to identify the potential problems with Icelandic Banks prior to the Icelandic Banking Crisis. In order to further improve the security of council funds and in line with CIPFA guidance, the Council as well as using credit rating agencies will now also use financial press, market data, information on government support for banks and the credit ratings of that government support when compiling its counterparties list.
- 1.17 Institutions with which the Council can place funds are as follows:
- Bank of England Debt management Office (DMO).
 - The institutions that were included in the UK Government's permanent capital investment and short-term liquidity support programme.
 - Other UK institutions meeting our minimum credit rating criteria
 - UK AAA rated Money Market Funds
 - Other local authorities
 - Overseas institutions (falling within the Council's minimum credit criteria) from countries with sovereign ratings of AAA from all rating agencies

- 1.18 The Council anticipates its fund balances in 2012/13 to average approximately £165m. Although the actual amount available for investment at any one time will fluctuate as a result of timing of significant items such as:
- Expenditure on capital projects
 - Council tax, business rates, council house rent income
 - Receipt of government grants
 - Capital receipts in respect of major asset sales
- 1.19 It is proposed that the Council adopts a prudential indicator limit of £25m for 2012-13 for term deposits over one year (but no more than 3 years) although only £15m can be invested between 2 to 3 years maturity.