

ANNUAL INVESTMENT STRATEGY 2011/12

1. The aims of the investment strategy in priority order is to:
 - Maintain capital security
 - Achieve a return greater than would be achieved by internal investment
 - Maintain policy flexibility
2. The Treasurer, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.
3. The Authority invests surplus cash balances only with certain approved organisations, as security of funds is of primary importance. All investments will be made in accordance with the Authority's investment policies and prevailing legislation and regulations.

INVESTMENT POLICY

4. The Authority will have regard to the Government's Guidance on Local Government Investments ('the Guidance') issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the recently revised Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services Code of Practice and Cross-Sector Guidance Notes ('the CIPFA TM Code'). The Authority's investment priorities are:
 - The security of capital
 - The liquidity of its investments
5. The Authority 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 the Authority will not engage in such activity.
6. 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 Authority's treasury management practices statement:

Specified Investments (maturities up to one year)

- Bank and Building Society Term Deposits
- Other Local Authority Term Deposits
- Debt Management Agency Deposit Facility.

Non-Specified Investments (maturities over one year)

- Bank and building society term deposit
- Other local authority term deposits.

Other non-specified investments

- Fixed term deposits with variable rate and variable maturities
- Money market funds.

Credit ratings

7. For 2011/12 the Authority will only invest in organisations and up to the limits contained in the Authority's Treasury Management Practice Statement as adopted by the Authority as part of the CIPFA Code of Practice for Treasury Management.
8. The Authority 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 instead. The Authority is alerted to changes in the Fitch ratings through Warrington BC's use of the Sector Creditworthiness service. If a downgrade results in the counterparty no longer meets the Authority's minimum criteria, its further use for a new investment will be withdrawn immediately. Also if a body is placed on a 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 minimum acceptable rating for placing investments with that body, then no further investments will be made with that body.

Nationalised banks

9. In the UK we have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, they have assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible. The Authority will accept this update credit rating for any UK nationalised banks.

Blanket guarantees on all deposits

10. The on-going financial difficulties has resulted in some countries supporting their banking system by giving a blanket guarantee on all deposits e.g. Ireland. The Authority will assess the strength of each countries guarantee and the credit rating of the counter party in making a decision as to whether to invest in that foreign country.

Other Sources

11. Alongside the use of credit ratings, stock markets are monitored daily together with the business news to ensure that any pertinent information is fed into the investment decision making as soon as possible. Alternative types of investment are continually sought and any that offer potentially favourable returns are subject to due diligence reviews including seeking references from other public sector bodies and organisations etc.

Interest rate outlook

12. The bank rate has been unchanged at 0.50% since March 2009. The bank rate is forecast to commence rising in quarter 3 of 2010 and then to rise steadily from then on. Bank rate forecasts for the year ends are as follows:

- 2010 0.50%
- 2011 1.25%
- 2012 3.75%

13. There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected. Although the impact of inflation may also play a part in the setting of the base rate. The Authority will therefore avoid locking into longer term deals while investment rates are down at historically low levels.

Investment strategy

14. Prudence will drive the Authority's investment strategy in 2011/12 due to the volatility and uncertainty that continues to exist in the world's financial markets. Lending will only take place to institutions at the higher end of the credit rating spectrum. Due to interest rates being historically low and to maximise liquidity investments will be of a short term nature. In order to minimise risk, the Authority will look to diversify its investment portfolio by investing in other investment vehicles such as money market funds. The driving force of our strategy will be maintaining the security of capital and investment liquidity. The Authority will use a combination of Credit Ratings, Sovereign Ratings, guarantees and any other relevant information sources to assess the credit quality of financial institutions before placing investments.

Liquidity of Investments

15. The maximum period of investment of Authority money will be three years. There will be no more than £3m committed for a period over 1 year.

End of Year Treasury Performance Report

16. At the end of the financial year the Treasurer will report on treasury activity in the end of year treasury performance report to the Finance Committee.