ANNUAL INVESTMENT STRATEGY 2005-2006

1. Brent Council has regard to the Office of the Deputy Prime Minister's Guidance on Local Government Investments ("Guidance") and CIPFA's 'Treasury Management in the Public Services'.

2. Investment Principles

2.1 All investments will be in sterling. The general policy objective is the prudent investment of its treasury balances. The Council will aim to achieve the **optimum return** on its investments commensurate with the proper levels of security and liquidity.

2.3 The Guidance maintains that 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.

3. Specified and Non-Specified Investments

3.1 Investment instruments identified for use in the financial year are listed in Appendix 2 under the 'Specified' and 'Non-Specified' Investments categories.

3.2 The Appendix also sets out:

(a) the advantages and associated risk of investments under the category of "non-specified" category;

(b) the upper limit to be invested in each 'non-specified' asset category;

(c) which instruments would best be used by the Council's external fund managers or after consultation with the Council's treasury advisors.

4. Liquidity

4.1 Based on its cash flow forecasts, the Council anticipates its fund balances in 2005-2006 to range between £50m and £90m.

4.2 Giving due consideration to the Council's level of balances over the next three years, the need for liquidity, its spending commitments and provisioning for contingencies, the Council has determined that up to £50m may be held in 'non specified' investments during the year.

4.3 Appendix 2 sets out the maximum periods for which funds may be prudently committed in each asset category.

5. Security of Capital: The Use of Credit Ratings

5.1 Credit quality of counterparties (issuers and issues) and investment schemes will, in the first instance, be determined by reference to credit ratings published by Fitch IBCA, Standard and Poors, and Moodies *(*long-term,/short-term, individual and support). The external managers will use Brent Council's Lending List to establish authorised borrowers.

5.2 Monitoring of credit ratings:

- All credit ratings will be monitored on an on-going basis. Brent Council is alerted to changes in Fitch ratings through its use of the Sector website and emails.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the Head of Exchequer and Investment will have discretion to include it on the lending list.

6. Investments Defined as Capital Expenditure

6.1 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure. Brent Council will not use or allow its external fund managers to make any investment which will be deemed capital expenditure.

7. Provisions for Credit-Related Losses

7.1 If any of the Brent Council's investments appeared at risk of loss due to default, the Council will make revenue provision of an appropriate amount.

8. Investment Strategy to be followed In-House

8.1 Investments will be made with reference to the core balance (£60m) and cash flow requirements and the outlook for short and medium-term interest rates (i.e. rates for investments up to 3 years).

8.2 Brent Council will seek to utilise its business reserve accounts and short-dated deposits (1-3 months) in order to benefit from the compounding of interest at potentially higher rates, while looking for longer-term opportunities when the market becomes too pessimistic about rising rates. Brent Council has identified 5.25% as an attractive trigger rate for 1-year lending and 5.5% for 2 and *3* year lending. The 'trigger points' will be kept under review and discussed with Sector so that investments can be made at the appropriate time.

9. External Cash Fund Management

9.1 Brent Council’s funds are managed on a discretionary basis by Aberdeen Asset Management and Alliance Capital. The fund managers will be contractually required to comply with this Strategy.

9.2 Brent Council will discuss with its external fund managers on a regular basis, instruments that they consider may be prudently used to meet the Council’s investment objectives. Brent Council will evaluate the risk-reward characteristics of asset categories to decide whether to permit the managers to use instruments that comply with the Guidance.

LOCAL GOVERNMENT INVESTMENTS

SPECIFIED INVESTMENTS

All "Specified Investments" listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating **	Capital Expenditure?	Circumstance of Use	Maximum Period
Debt Management Agency Deposit Facility	No	Yes	Govt-backed	NO	In-house	1 year
Term or callable deposits with the UK government or with UK local authorities	No	Yes	High security although Las not credit rated.	NO	In-house and by external fund managers	1 year
Term or callable deposits with credit-rated deposit takers (banks and building societies)	No	Yes	Yes-varied	NO	In-house and by external fund managers	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies)	No	Yes	Yes-varied	NO	to be used by fund managers	1 year
Gilts : with maturities up to 1 year	No	Yes	Govt-backed	NO	external cash fund managers subject to the management agreement	1 year
Money Market Funds (i.e. a highly rated collective investment scheme)	No	Yes	Yes- *minimum : AAA*	NO	In-house and by external fund managers subject to the management agreement	*Subject to cash flow and liquidity requiremen ts*

Investment	Share/ Loan Capital?	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating **	Capital Expenditure?	Circumstance of Use	Maximum Period
Forward deals with credit rated banks and building societies	No	Yes	Yes-varied	NO	In-house and fund managers	1 year in aggregate
Commercial paper *[short-term obligations (generally with a maximum life of 9 months issued by banks and other issuers]*	No	Yes	Yes-varied	NO	external fund managers subject to the management agreement	9 months
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*]	No	Yes	Govt-backed	NO	external fund managers subject to the management agreement	1 year
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government	No	Yes	Govt-backed	No	trading by external cash fund managers only subject to management agreements	1 year
Bonds issued by multilateral development banks	No	Yes	AAA	No	trading : by external cash fund managers subject to management agreements	1 year

NON-SPECIFIED INVESTMENTS

Investment	(A) Why Use It? (B) Associated Risks?	Share/ Loan Capital?	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating **	Capital Expenditure?	Circumstance of Use	Max % of Overall Investments	Maximum Maturity of Investment
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A)(i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment**.** (B)(i) Liquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	YES-varied	NO	in-house	100%	*3 years*
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A)(i) Although in theory tradable, are relatively illiquid. (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	YES-varied	NO	to be used by fund managers	80%	*3 years*
UK government gilts with maturities in excess of 1 year	(A)(i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	NO	external cash fund managers only subject to the management agreement	50%	*10 years*

Investment	**(A) Why Use It?** **(B) Associated Risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable Within 12 Months?**	**Security/ Minimum Credit Rating ****	**Capital Expenditure?**	**Circumstance of Use**	**Max % of Overall Investments**	**Maximum Maturity of Investment**
Sovereign issues ex UK govt gilts : any maturity	(A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	AAA	NO	external cash fund managers subject to the management agreement	50%	*10 years*
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A)(i) Known rate of return over period the monies are invested ~ aids forward planning. (B)(i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	YES-varied	NO	To be used in-house	50%	*3 years*
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government	(A)(i) Excellent credit quality. (ii) Relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen.	Yes	Yes	AAA / government guaranteed	NO	external cash fund managers only, subject to the management agreement	80%	*3 years*

Investment	**(A) Why Use It?** **(B) Associated Risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable Within 12 Months?**	**Security/ Minimum Credit Rating ****	**Capital Expenditure?**	**Circumstance of Use**	**Max % of Overall Investments**	**Maximum Maturity of Investment**
Bonds issued by multilateral development banks	(A)(i) Excellent credit quality. (ii) Relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity). (B)(i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen.	Yes	Yes	AAA or government guaranteed	NO	external cash fund managers only, subject to the management agreement	80%	*3 years*

* **The prohibition on the use of derivatives** : This prohibition effectively relies on the judgement of the House of Lords in the case of Hazell v The Council of the London Borough of Hammersmith and Fulham and Others in 1991. Their Lordships held that local authorities have no power to enter into interest rate swaps and similar instruments.

Sector believes that as this ruling still stands and will not be rescinded by the introduction of the Local Government Act 2003, local authorities will not have the power to use derivative instruments.