

## **ANNUAL INVESTMENT STRATEGY 2006-07**

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 Appendices N (ii) and (iii) under the 'Specified' and 'Non-Specified' Investments categories.
  - 3.2 The Appendices also set 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 2006-07 to range between £60m and £100m.
  - 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 N (iii) 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 Poor's, and Moody's (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 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 & 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**

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 (£80m) 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 4.75% as an attractive trigger rate to consider 1-year lending and 5.1% 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 are 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.