Investment strategy options

The table below shows the different assets classes available to the council for its investment portfolio together with the major driver of the return and a summary of the key risks for each asset class.

Asset Classes (approx. return)	**Cash (0.6%)**	**Bonds (2.5%)**	**Equities (4.1%)**	**Property (4.8%)**
Income driven by	Short term interest rates	Medium term interest rates	Dividends / share prices	Rental income / vacancies
Key Risk(s)	Bank defaults	Company defaults	Company performance and perception of future performance	Property prices, least liquid asset class

The Council is presently situated towards the left side of the table as the treasury investment portfolio is predominantly held in the short term cash asset class, typically with other Councils.

An option available to the Council would be to increase the duration of fixed cash deposits in order to obtain a higher rate. Currently, it would be possible to earn approximately 1.05% for a 1 year deposit with another UK local authority and 1.4% for a 2 year deposit.

The Council could obtain similar rates through fixed deposits with Banks and Building Societies however the Council's treasury advisors do not recommend depositing with any UK banks or building societies for more than 6 months on an unsecured basis.

Detailed consideration of the other asset classes would need to be undertaken by the Council prior to investment in conjunction with its treasury advisors. However it is fair to say that that Equities and Property classes tend to be considered over a longer time frame, which may not be suitable for the Council given its significant capital spending plans.

Risks

Regardless of the approach taken, the Council will be required to manage significant risks in relation to its treasury investment portfolio. Some key risks are:-

- <u>Liquidity risk</u> - that is the council having funds tied up in long-term investments when it needs to use that money. Increasing the duration of fixed cash deposits increases liquidity risk, however this can be mitigated through good cash flow management.

- Credit risk - the risk that a bank or other institution will not be able to pay back the money invested with it. For longer term investments, the council is more exposed to credit risk. Should a counterparty's credit worthiness change, the council may not be able to get all their money back or may face heavy penalties if it can do so.

- Interest rate risk – the risk of the council's budget being affected by unforeseen changes in interest rates. Longer term cash deposits increase this risk and will negatively affect the council should interest rates rise. On the other hand, the council may benefit should interest rates fall.

Changes to current TMS

The current investment strategy provides flexibility to invest cash for periods of up to 370 days however the council may also lend any amount to any UK local government body for up to 5 years. The minimum long term rating for counterparties is A- (or equivalent). The prudential indicators allow up to £40m to be invested for longer than 364 days.

Benchmarking to other councils

The graph below shows a comparison between Brent's investment portfolio and that of Arlingclose's (the council's treasury advisor) other Local Authority clients. Brent's portfolio has a very low risk profile compared with many of the others, which also equates to a lower yield. However, many authorities are to the right, obtaining similar yields for much higher risk levels.