

ANNUAL INVESTMENT STRATEGY FOR THE 2006/07 FINANCIAL YEAR

Introduction

1. This strategy is made in accordance with the Guidance on Local Government Investments issued by the government on 12 March 2004.
2. The Council approved the Annual Investment Strategy for 2006/07 on 7 March 2006. This strategy is consistent with the Council's overall treasury management strategy for 2006/07.
3. This strategy applies to both in-house and externally managed funds.

General Provisions

4. All investments must be made in sterling.
5. The credit ratings used are produced by Fitch Ratings Ltd and provided to the Council through our treasury management consultants (Sterling Consultancy Services) on a monthly basis. Any changes required on an urgent basis are notified to the Council by Sterling Consultancy Services. The Council's fund manager is required to use these ratings or ratings of a similar quality. The tables below compare the long-term and short-term ratings used by the various credit agencies to enable the fund manager to use ratings from different rating agencies:

Comparison of Long-Term Debt Ratings		
Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-

Comparison of Short-Term Debt Ratings		
Moody's	S&P	Fitch
Prime-1 "P1"	A-1+	F1+
Prime-1 "P1"	A-1	F1
Prime-2 "P2"	A-2	F2
Prime-3 "P2"	A-3	F3
Not Prime	B	B
	C	C
	D	D

6. The investment parameters used by the Council's fund managers are set out as an Appendix to this Strategy. These parameters have risk and diversification limits that are consistent with the overall objectives of this strategy.

Policy for specified investments and credit ratings used

7. UK Banks

Investments with UK Banks for periods up to 364 days requires a minimum short term credit rating of F1 and a combined individual and legal rating of no less than B/C 4. Investment in any bank and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that bank or its subsidiaries.

8. Subsidiaries of U.K. Banks

An investment will only be made in a wholly owned subsidiary of a bank if the parent bank satisfies the credit rating criteria. The maximum term of such investments is 3 months. This will provide the Council with protection against a possible sale to a new owner which has a lower credit standing, as the sale would be unlikely to be completed within that time-scale.

9. Foreign Banks

Investments with Foreign Banks for periods up to 364 days requires a minimum short term credit rating of F1 and a combined individual and legal rating of no less than B/C 3.

10. Japanese and Far East Banks

There has been a level of uncertainty over the stability of Japanese and Far East banks for some time. Therefore, no new investments will be made with Japanese or Far East institutions until such time as the credit rating agencies have determined an appreciable stabilisation in the banking system's environment.

11. U.K. Building Societies

For Building Societies with credit ratings: Investments for periods up to 364 days require a minimum short term credit rating of F1 and a combined individual and legal rating of no less than B/C 4.

12. Local and Other Authorities

All Local, Police, Fire, Civil Defence and Transport Authorities are suitable counter parties for periods up to 364 days.

13. Government Gilts and Treasury Bills

The Council's external fund managers (in accordance with the agreed investment parameters) may use Gilts and Treasury Bills with a maturity date of less than 364 days.

14. Debt Management Agency Deposit Facility (DMADF)

Investments may be made through this government-backed facility. There is no limit to the amount of funds that can be placed with the DMADF.

15. Money Market Funds

Investments of up to £3m in Money Market Funds that have a credit rating of AAA may be made subject to the advice of the Council's treasury management consultants as to confirmation of the credit worthiness of the Fund, the liquidity of the Fund, the performance of the Fund, and other matters as appropriate.

16. Forward Deals up to one year

Forward deals may be entered into with Banks and Building Societies that meet the appropriate credit rating criteria for specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is less than one year.

Policy for non-specified investments and credit ratings used

17. Sovereign and Supranational Issues (excluding UK Gilts)

Sovereign banks do not have credit ratings but offer a high level of credit quality. The Council's fund managers may make investments with Sovereign banks and in supranational issues up to a maximum of £2m per issuer. The total of such investments must not exceed the diversification limits set out in the fund managers investment parameters.

18. U.K. Building Societies

For Building Societies which do not have credit ratings: Short term ratings for the Building Society sector are not necessarily that relevant, as many do not yet have ratings. The industry is highly regulated and well supervised by the Building Societies Commission. Consideration can therefore be given to lending up to 364 days to any society in the top thirty with assets over £300m. Such counter parties are useful for authorities with small sums to invest. The following lending limits are appropriate for Societies using a sliding scale relative to asset size: -

Building Societies by total assets	Investment Limit	Maximum Term
Assets over £500m	3,000,000	364 days
Assets from £400 to £499m	2,000,000	364 days
Assets from £300m to £399m	1,000,000	364 days

Term deposits over 364 days with a Building Society can be made following the advice of the Council's treasury management consultants as to the credit worthiness of the Building Society and using the investment limits set out in the table above.

19. UK Banks

Investments with UK Banks for periods over 364 days requires a minimum long-term credit rating of A+ and a combined individual and legal rating of no less than B 3. Investment in any bank and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that bank or its subsidiaries.

20. Foreign Banks

Investments with Foreign Banks for periods over 364 days requires a minimum long-term credit rating of AA and a combined individual and legal rating of no less than B 2.

21. Local and Other Authorities

All Local, Police, Fire, Civil Defence and Transport Authorities are suitable counter parties for periods over 364 days.

22. Government Gilts

Investments in Gilts with a maturity date over 364 days may be used by the external fund managers subject to the limits set out in their agreed investment parameters (see the "Policy for liquidity of investments" section below).

23. Forward Deals for more than one year

Forward deals with Banks and Building Societies that meet the appropriate credit rating criteria for non-specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is greater than one year may be made subject to the limits set out in the "Policy for liquidity of investments" section below.

24. Floating Rate Notes (FRNs)

These are instruments issued by banks and corporate bodies with a coupon whose rate varies in line with a market rate of interest. The rate of interest is generally reset every 3-months. FRNs offer the opportunity to obtain a small additional yield relative to term deposits. The credit ratings used for other investments will be applied to the issuer of the FRN. Trading in FRNs is only to be carried out by external cash fund managers in accordance with the limitations set out in their investment parameters.

Policy for liquidity of investments

25. This policy applies to long-term investments (i.e. investments for periods over 364 days) including investments made by the Council's fund managers.
26. For the Council's external fund manager – Alliance Capital - the limits applying are set out in the agreement reproduced at Annex '1'.
27. Long-term investments managed in-house can only be made with other local authorities or institutions of a high credit standing as agreed between the Director of Finance and the Council's treasury management consultants. The credit rating of the counterparty must be at least as high as those set out in the "Policy for non-specified investments" section above.
28. The proportion of the in-house portfolio that may be held in short-term and long-term investments will vary at any one time dependant on the cash flow position of the Council. The following table sets out the maximum, minimum and expected range of investments held at various times of the year:

Proportions of in-house managed investments held in short-term and long-term investment instruments				
Time of year	Long Term investments		Short term investments	
	Maximum	Minimum	Maximum	Minimum
	%	%	%	%
Start of year	25	0	100	0
June	25	0	100	75
September	25	0	100	75
December	25	0	100	75
End of year	100	0	100	0

29. The proportions in the table reflect that at the end of the year cash inflows are low because tax receipts are received in 10 instalments from April to January. Therefore, the in-house managed long-term investments may represent the entire investment

portfolio for a few weeks. Normally it is expected that any in-house long-term investments will not exceed 25% of the in-house portfolio.

General Policy applicable to all investments

30. **Sector Limits**

No more than 60% of the in-house managed portfolio is to be lent to Building Societies at any one time. Where possible, some investments outside of the banking sector will form part of the portfolio held.

31. **Counter party Maximum Limit**

Investments made must avoid an over concentration with one or two counter parties. A maximum limit is therefore appropriate for investments relative to the level of daily cash balances to be invested. The limit of investment with any one authorised institution is to be £3.0m. Lower limits apply to certain Building Societies.

32. **Investments in any parent and its wholly owned subsidiaries**

Investments in any parent and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that parent or its subsidiaries.

Investments defined as capital expenditure

33. The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'.

34. A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by this Council. It is therefore important that it is clearly identified when the loan has made for policy reasons (e.g. to the registered social landlord for the construction/improvement of dwellings) or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Council for 'specified' and 'non-specified' investments.

Provisions for Credit-related losses

35. If any of the Council's investments appeared at risk of loss due to default (i.e. this a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

INVESTMENT GUIDELINES FOR CASH MANAGEMENT

authorised by Runnymede Borough Council

STERLING	
OBJECTIVE: The manager's priority will be the preservation of the capital sum. The investment objective will be to optimise returns commensurate with the containment of risk.	
BENCHMARK: Subject to maintaining a high level of security and liquidity and to the restrictions outlined below, to achieve a better before tax return than 7 Day Libid	
<u>MAXIMUM WEIGHTED PORTFOLIO AVERAGE LIFE</u>	18 Months
<u>MAXIMUM TERM OF ANY ONE INVESTMENT</u>	5 Years

The portfolio is to be managed in accordance with legislation and guidance issued by the ODPM. In particular, the Manager must manage the Fund in accordance with the Local Government Act 2003 and subsequent amendments and Regulations, the Guidance issued by the Government under the Local Government Act 2003, and SI 1883 "The Local Authorities (Contracting Out and Investment Functions Order) 1996".

SECURITY PARAMETERS:		
SECURITY:	RATING:	DIVERSIFICATION LIMITS
i. Marketable securities issued or guaranteed by the UK Government.		100% of portfolio
ii. Fixed Deposits made with approved institutions, see attached list.	F1 BC 4 or better Maximum term 3 months	Greater of 10% or £2,000,000* per issuer 100% of portfolio
iii. Certificates of Deposit made with approved institutions, see attached list.	F1 BC 3 or better Maximum term 364 days	Greater of 10% or £2,000,000* per issuer 100% of portfolio
	F1 BC 3 or better Maximum term 1-5 years	Greater of 10% or £2,000,000* per issuer 50% of portfolio
iv. Marketable securities issued by Sovereign and Supranational bodies	AA- or Aa3 or better	Greater of 10% or £2,000,000* per issuer 50% of portfolio
v. Securities issued by banks and building societies including floating rate notes, see attached list.		Greater of 5% or £1,000,000* per issuer £8,000,000** of portfolio

The per issuer limits above are on a combined basis.

* = Nominal

** = A maximum of £8,000,000 of the portfolio to be invested in v., until 30th June 2005 and a maximum of £6,000,000 for the period 1st July 2005 to 31st December 2005. Thereafter, Runnymede Borough Council will inform Alliance Capital of the limits for the periods after 1st January 2006 as soon as the information is available (*)

If the credit rating of any holding is downgraded, Alliance Capital shall comply with the parameters for that holding as soon as reasonably practicable, and in any event within one month, unless otherwise agreed.

(*) The limit of £ 6,000,000 has been extended to 31 March 2007.

For securities with variable principal repayment or call provisions, the estimated weighted average life should be used with respect to the restrictions on the maximum weighted portfolio average life.

For securities with variable principal repayments, the estimated weighted average life should be used with respect to any of the maximum security term restrictions that are applicable.

For securities with call provisions, the estimated weighted average life should be used with respect to any of the maximum security term restrictions that are applicable if trading to the call date, otherwise the stated final maturity date should be used.

A. Gardner
Signature of Authorisation
On behalf of **Runnymede Borough Council**

J. Aynd
Alliance Capital Limited

Date: 19/1/05

Date: 8th January 2004