

CITY COUNCIL – 9 JUNE 2008

REPORT OF THE DEPUTY LEADER

INVESTMENT STRATEGY REVIEW

1 SUMMARY

The report sets out the proposed changes to the Investment Strategy to protect the security and liquidity of the City Council's investments whilst maintaining reasonable returns.

2 RECOMMENDATIONS

IT IS RECOMMENDED that the criteria for External Investment of City Council monies as set out in Appendix A be approved.

3 BACKGROUND

- 3.1 Members may recall that the Treasury Management Strategy was approved by Full Council on 3 March 2008. This incorporated an Investment Strategy which sets out the criteria for the external investment of City Council monies, including a restriction on counterparties with whom the City Council will invest. In order to meet the adopted criteria for investment, a minimum credit rating or asset value is required for each counterparty. Limits are also applied to the amounts to be placed with individual counterparties, together with restrictions on the maximum length of the investment.
- 3.2 The Treasury Management and Investment Strategy are regularly reviewed in the context of the prevailing environment, and the recent events in the money market have resulted in the proposed changes to the criteria. The key principle for investments is to invest prudently with priority given to security and liquidity before yield.
- 3.3 As at 31 March 2008 the City Council had £173m invested with an estimate of £155m being available for investment throughout 2008/09. This requires a number of investments to be made to ensure the City Council is maximising the benefit of holding the cash.

3.4 The revenue budget for 2008/09 assumes £8.7m will be earned from investment income, any less would place pressure on the outturn position.

4 PROPOSALS

4.1 It is proposed that the following changes are made to the criteria for external investment of City Council monies:-

- A new category of counterparty is added to enable the City Council to invest in Money Market Funds with the most secure credit rating of AAA. Money Market Funds are pooled, short maturity, high quality investment vehicles which buy money market securities on behalf of retail or institutional investors.
- An increase in the amount that can be invested in Government securities and local authorities.
- A reduction in the amounts that can be invested and the period of the investment with credit rated organisations.
- A reduction in the period of the investment with non-credit rated building societies

4.2 The proposed limits are shown in Appendix A with the actual changes included in brackets.

5 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

None.

6 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Treasury Management in the Public Services – Chartered Institute of Public Finance and Accountancy Code of Practice 2002.

Treasury Management Strategy Statement 2008/09 – Report to Executive Board (19 February 2008) and Council (3 March 2008) and minutes of those meetings.

**COUNCILLOR GRAHAM CHAPMAN
DEPUTY LEADER**

Criteria for external investment of City Council monies

1. Credit rating

The following minimum credit ratings are required at all times:

- a) Government securities, local authorities – none (i)
- b) Banks and other financial institutions – F1 rating or better, or equivalent, Fitch IBCA, Moodys, or Standard & Poors.
- c) Non-credit rated organisations – minimum asset value of £1billion.

2. Maximum investment

The following limits on sums invested with individual counterparties are to be applied at all times (the figures in brackets show the changes from the previous criteria):

Counterparty	Criteria	In-house limit £m	Ext manager limit £m	Total Limit £m	Time limit
Government securities, local authorities	None	35 (+10)	10 (+5)	45 (+15)	5 years (iii)
Money Market Funds (MMF)	AAA (MMF rating)	25 (new)	10 (new)	35 (new)	None (iii)
Credit rated organisations	F1+ (short term) AA- (long term) (ii)	20 (-5)	5	25 (-5)	3 years (-2 years) (iii)
Credit rated organisations	F1 (short term) A- (long term) (ii)	15 (-5)	3	18 (-5)	364 days
Non-credit rated building societies	£1billion + assets	10	2	12	182 days (-182 days)

3. Notes

- i) Deposits covered by a government guarantee
- ii) Based on the lowest credit rating of the 3 agencies
- iii) Subject to a maximum sum for > 364 days