Appendix 3

LOCAL GOVERNMENT INVESTMENTS (England)

(A) SPECIFIED INVESTMENTS 2010/11

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

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months ?	Security / Minimum Credit Rating	Capital Exp ?	Circumstance of use	Maximum period
Debt Management Agency Deposit Facility* (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	No	In-house	6 months (the maximum currently available)
Term deposits with the UK government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although LAs not credit rated.	No	In-house	1 year (Sector orange)
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes-varied. Minimum Short-term F1or F1+, Individual A or B, Support 1,2,3 or equivalent	No	In-house	1 year (Sector orange)
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) : up to 1 year. *Custodial arrangement required prior to purchase*	No	Yes	Yes-varied. Minimum Short-term F1or F1+, Individual A or B, Support 1,2,3 or equivalent	No	to be used in-house after consultation/ advice from Sector	1 year (Sector orange)
Gilts : with maturities up to 1 year *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	No	Buy and hold to maturity : to be used in-house after consultation/ advice from Sector	1 year (Sector orange)

LOCAL GOVERNMENT INVESTMENTS (England)

(A) SPECIFIED INVESTMENTS 2010/11 (continued)

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

Since the credit crunch crisis there have been a number of developments which require separate consideration and approval for use:

Nationalised banks - in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch has assigned an "F" rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1. In other words, on both counts, they have the highest ratings possible.

Blanket guarantees on all deposits - Some countries have supported their banking system by giving a blanket guarantee on ALL deposits e.g. Ireland and Singapore. An The Council does not take the view that the sovereign rating of a country then takes precedence over the individual credit ratings for the banks covered by that guarantee, and chooses not to rely on these blanket guarantees to authorise lending to banks covered by these guarantees.

UK banking system support package - The UK Government has NOT given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500bn support package. The Head of Corporate services may make a decision authorise lending to these named banks, on the basis of an implicit guarantee on local authority deposits placed with these eight banks, or based on the credit ratings of the individual banks.

Other countries – The Head of Corporate Services may also make a decision to rely on "implicit" guarantees made for the banking systems of other countries. The US, countries within the EU and Switzerland (and other countries) are currently providing major support packages to their banking systems.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months ?	Security / Minimum Credit Rating	Capital Exp ?	Circumstance of use	Maximum period
UK nationalised Banks	No	Yes	Nationalised or part-nationalised	No	In-house	1 yr (Sector blue)
Banks nationalised by high sovereign-rated countries	No	Yes	Yes-minimum short-term F1or F1+, individual A or B, support 1,2,3 or equivalent	No	In-house	3 month (Sector green) ??
UK Govt "explicit" support to eligible banks - (Abbey, Barclays, HBOS, Lloyds TSB, HSBC, Nationwide Building Society, RBS & Standard Chartered)	No	Yes	Yes-minimum short-term F1or F1+, individual A or B, support 1,2,3 or equivalent	No	In-house	1 year (Sector orange) ??

LOCAL GOVERNMENT INVESTMENTS (England)

(A) SPECIFIED INVESTMENTS 2010/11 (continued)

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

Investment	Share/ Loan Capital ?	Repayable/ Redeemable within 12 months ?	Security / 'High' Credit Rating criteria	Capital Exp ?	Circumstance of use	Maximum period
Money Market Funds (i.e. a collective investment scheme as defined in SI 2004 No 534) *These funds do not have any maturity date*	No	Yes	AAA	No	In-house	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
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] *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	No	In-house	1 year (Sector orange)
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (as defined in SI 2004 No 534) with maturities under 12 months *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	No	Buy and hold to maturity: to be used in-house after consultation & advice from Sector	1 year (Sector orange)
Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities under 12 months *Custodial arrangement required prior to purchase*	No	Yes	AAA	No	Buy and hold to maturity: to be used in-house after consultation & advice from Sector	1 year (Sector orange)

LOCAL GOVERNMENT INVESTMENT (England)

(B) NON-SPECIFIED INVESTMENTS 2010/11

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital ?	Repayable/ Redeemable within 12 months ?	Security / Minimum credit rating	Capital Exp ?	Circumstance of use	Maximum investment	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) Illiquid: 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. Minimum long-term AA- or better, Individual A or B, Support 1,2 or equivalent	No	in-house	£3m	3 years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year *Custodial arrangement required prior to purchase*	(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. Minimum long-term AA- or better, Individual A or B, Support 1,2 or equivalent	No	To be used in-house after consultation & advice from Sector	£3m	3 years
Fixed Term Deposits with variable rates and variable maturities with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income - Potentially higher return than using a term deposit with similar maturity. (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk: borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	YES-varied. Minimum long-term AA- or better, Individual A or B, Support 1,2 or equivalent	No	To be used in-house after consultation & advice from Sector	£3m	3 years in aggregate

LOCAL GOVERNMENT INVESTMENT (England)

(B) NON-SPECIFIED INVESTMENTS 2010/11 (continued)

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital ?**	**Repayable/ Redeemable within 12 months ?**	**Security / Minimum Credit Rating ?**	**Capital Exp ?**	**Circumstance of use**	**Maximum Investment**	**Maximum maturity of investment**
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(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 (ie. 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 ie. potential for capital loss.	No	Yes	Govt backed	No	Buy and hold to maturity: to be used in-house after consultation & advice from Sector	£3m	Maturity limit 5 years
Sovereign issues ex UK govt gilts: any maturity *Custodial arrangement required prior to purchase*	(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 (ie. 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 ie. potential for capital loss.	No	Yes	AAA	No	Buy and hold to maturity: to be used in-house after consultation & advice from Sector	£3m	5 years

LOCAL GOVERNMENT INVESTMENT (England)

(B) NON-SPECIFIED INVESTMENTS 2010/11 (continued)

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating ?	Capital Exp ?	Circumstance of use	Maximum Investment	Maximum maturity of investment
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (as defined in SI 2004 No 534) with maturities in excess of 1year *Custodial arrangement required prior to purchase*	(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 (ie. 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 ie. potential for capital loss. (ii) Spread versus gilts could widen	Yes	Yes	AAA / government guaranteed	No	Buy and hold to maturity: to be used in-house after consultation & advice from Sector	£3m	5 years
Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(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 (ie. 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 ie. potential for capital loss. (ii) Spread versus gilts could widen	Yes	Yes	AAA or government guaranteed	No	Buy and hold to maturity: to be used in-house after consultation & advice from Sector	£3m	5 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.