COUNCIL	Agenda Item 69 Brighton & Hove City Council

Subject:		**Annual Investment Strategy 2009/10**	
Date of Meeting:		Cabinet – 12 March 2009 **Council – 19 March 2009**	
Report of:		**Interim Director of Finance & Resources**	
Contact Officer:	**Name:**	**Peter Sargent**	**Tel: 29-1241**
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Key Decision:	**Yes**	**Forward Plan No. CAB 6521**	
Wards Affected:	**All**		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

1.1 The Local Government Act 2003 introduced a prudential capital finance system whereby levels of borrowing and investments are decided locally by each council.

1.2 Guidance issued under the Act requires a local authority to approve an annual investment strategy which gives priority to security and liquidity and requires the council to set out:
- its policy on determining the credit-worthiness of its investment counterparties and the frequency at which such determinations are monitored;
- its policy on holding investment instruments other than deposits held in financial institutions or government bodies;
- its policy on determining the maximum periods for which funds may be invested;
- its policy on the minimum level of investments to be held at any one time.

1.3 The purpose of this report is to seek Cabinet approval to the Annual Investment Strategy 2009/10 and to recommend the Strategy to full Council for adoption at its meeting on 19 March 2009.

2. RECOMMENDATIONS:

2.1 Cabinet is recommended to:
- agree the Annual Investment Strategy 2009/10 as set in Appendix 1 to this report; and
- recommend Council to approve the Strategy at the meeting on 19 March 2009.

2.2 Council is recommended to approve the Annual Investment Strategy 2009/10 as set out in Appendix 1 to this report.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 The Annual Investment Strategy (AIS) for 2009/10 is set out in Appendix 1 to this report and covers investments made by the in-house treasury team and the council's external cash manager. The council uses a cash manager to take advantage of investment opportunities in specialist markets not covered by the in-house team, such as government stock. The AIS gives priority to security and liquidity.

3.2 Security is achieved by selecting only those institutions that meet stringent credit rating criteria or, in the case of non-rated UK building societies, have a substantial asset base. For the purpose of determining credit rating the council uses independent credit rating agencies. Rating criteria is only one factor taken into account in determining investment counterparties. Other sources, such as the financial press, will continue to be monitored and action will be taken where it is felt the risk attached to a particular counterparty has or is likely to worsen. Action will include the suspension of a counterparty in appropriate circumstances.

3.3 Liquidity is achieved by limiting the maximum period for investment.

3.4 The AIS, along with many other investment strategies, has been severely tested over the past 18 months as the financial markets continue to suffer from liquidity shortfalls and increased risk. The flexibility and robustness of the AIS has enabled the Director of Finance & Resources to implement changes that limited the council's exposure to the increased market risk. All money due to the council on investment was received in full and on time. This flexibility and robustness has been replicated in the AIS for 2009/10.

3.5 In response to the continuing crisis in the financial markets the AIS 2009/10 introduces a change to the method for selecting investment counterparties and the setting of investment parameters. With effect from 1 April 2009 the creditworthiness of an institution will be assessed by applying the lowest rating issued by the three main rating agencies – Fitch, Moody's and Standard & Poor's. In the majority of cases the ratings issued by the three agencies are aligned – however in recent months this has not always been the case and by adopting this slight change the council will always have the most up-to-date independent assessment.

3.6 One other change introduced in the AIS is an increase in the minimum asset base for building societies that are not rated, increased from £2bn to £3bn.

4. CONSULTATION

4.1 Following the collapse of the Icelandic Banks in October 2008, and the implications this event had for local authority investments, a number of high profile inquiries / reviews have been commissioned.

- The Chartered Institute of Public Finance & Accountancy is currently reviewing the Code of Practice for Treasury Management, particularly around risk management.
- The Audit Commission is currently reviewing the investment strategies and practices adopted by local authorities.
- The Department for Communities & Local Government has set up a Select Committee to inquire into the general principles involved in local authorities' treasury management. The Committee has received both written and oral evidence from a wide selection of participants, including local authorities, advisors and government officials.

4.2 All the above inquiries are on-going and consequently no formal responses have been received. However, without prejudging the outcome of these inquiries, it is possible that local authorities will be consulted on proposals to change the investment procedures adopted by local authorities.

4.3 The AIS 2009/10 is based on the existing codes of practice and investment guidance. Any changes needed to the AIS as a result of the inquiries will be reported to Cabinet and full Council.

4.4 The council's external treasury advisor has been consulted. No other consultation has been necessary.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

5.1 The financial implications arising from the recommendations in this report are included in the Financing Costs budget.

Finance Officer consulted: Peter Sargent Date: 12 February 2009

Legal Implications:

5.2 The council must have regard to the guidance issued by the Secretary of State in determining its policies for investment. The Director of Finance & Resources is satisfied that the recommendations in this report are consistent with the guidance issued.

5.3 There are no direct human rights implications arising from this report.

Lawyer consulted: Abraham Ghebre-Ghiorghis Date 17 February 2009

Equalities Implications:

5.4 None directly arising from this report.

Sustainability Implications:

5.5 The council's ethical investment statement requests that institutions apply council deposits in a socially responsible manner.

Crime & Disorder Implications:

5.6 None directly arising from this report

Risk & Opportunity Management Implications:

5.7 The investment guidance issued under the 2003 Act requires the council to assess credit worthiness by reference to an independent rating agency. The AIS 2009/10 will use the ratings assigned by Fitch, Moody's and Standard & Poor's.

5.8 The ratings provide an opinion on the relative ability of an institution to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. The council uses credit ratings as an indication of the likelihood of receiving its' money back in accordance with the terms of the investment. Other sources of information are used to supplement that provided by the rating agencies.

5.9 The minimum ratings set out in the AIS have the following meaning:

	Generic criteria	Fitch	Moody's	Standard & Poor's
Short-term	Strong capacity for timely payment of financial commitments Where the credit risk is particularly strong, a "+" is added to the assigned rating	F1	P-1	A-1
Long-term	Very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	AA-	Aa3	AA-

5.10 Investment risk is managed by selecting only institutions that meet the council's stringent credit rating criteria. Liquidity risk is managed by applying maximum investment periods to institutions.

Corporate / Citywide Implications:

5.11 Investment income is a resource used by the council to fund revenue expenditure. The recommendations in this report will help to minimise capital risk whilst optimising investment returns over both the short and longer term.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

6.1 This report sets out the council's annual investment strategy for the year commencing 1 April 2009. The AIS continues with the strong emphasis on risk management and liquidity, two cornerstones to the guidance issued by the Secretary of State and the impact these have on investment performance.

7. REASONS FOR REPORT RECOMMENDATIONS

7.1 Guidance issued under the Local Government Act 2003 requires the council to approve an annual investment strategy. This report fulfils that requirement.

SUPPORTING DOCUMENTATION

Appendix:

1. Annual Investment Strategy 2009/10

Documents in Members' Rooms

None

Background Documents

1. Guidance issued by the Secretary of State under Section 15(1)(a) of the Local Government Act 2003

2. The Prudential Code for Capital Finance in Local Authorities published by CIPFA 2003