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| Subject: | Annual Investment Strategy 2011/12 | | |
| Date of Meeting: | 17 March 2011 | Cabinet | |
| | 24 March 2011 | Council | |
| Report of: | Director of Finance | | |
| Contact Officer: | Name: Peter Sargent | Tel: 29-1241 | |
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| Key Decision: | Yes | Forward Plan No: CAB21059 | |
| 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 2011/12 and to recommend the Strategy to full Council for adoption at its meeting on 24 March 2011.

2. RECOMMENDATIONS:

- 2.1 That **Cabinet** agrees the Annual Investment Strategy 2011/12 as set in Appendix 1 to this report; and recommends Council to approve the Strategy at the meeting on 24 March 2011.
- 2.2 That Council approve the Annual Investment Strategy 2011/12 as set out in Appendix 1 to this report.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

Strategy 2011/12

- 3.1 The Annual Investment Strategy (AIS) for 2011/12 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, and
 - having limits on the amount invested with any one institution.
- 3.3 The council uses independent credit rating agencies to assess the creditworthiness of investment counterparties. The AIS 2011/12 continues with the policy of assessing creditworthiness 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 but this is not always the case.
- 3.4 Rating criteria is only one factor taken into account in determining investment counterparties. Other factors, such as articles in 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.
- 3.5 Liquidity is achieved by limiting the maximum period for investment.

Revision to Strategy in 2011/12

- 3.6 The AIS 2011/12 includes one major change. The AIS 2010/11 recommended a reduction in the period of investment, from 12 months to 6 months, for institutions with a short-term rating of "F1" (or equivalent). This change was recommended to reflect the increase in risk in these institutions at that time. This risk has lessened over the past 12 months as a result of improvement in the financial markets. The AIS 2011/12 therefore recommends a return to the 12 month maximum with effect from April 2011 for "F1" rated institutions.

New investment counterparties in 2011/12

- 3.7 A new investment fund is due to be launched in the Spring 2011 by CCLA Investment Management Limited, a leading manager of UK charity investments.
- 3.8 The fund, which is subject to final regulatory approval, will be known as the "Public Sector Deposit Fund" and will be available to public sector organisations. The investment philosophy for the fund will be security, liquidity and yield in that priority order. It will offer investment opportunities that the council would be comfortable to consider had it the sufficient scale of resources to do so.

- 3.9 The AIS 2011/12 recommends that the Fund is added to the list of approved institutions provided the fund receives approval from the Financial Services Authority and is allocated a rating equivalent to triple A (“AAA”) by the independent rating authorities.

4. CONSULTATION

- 4.1 The council’s external treasury advisor has been consulted.

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: 16/02/11

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 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: 16/02/11

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 2011/12 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:

| | <u>Generic criteria</u> | <u>Fitch</u> | <u>Moody's</u> | <u>Standard & Poor's</u> |
|---|---|--------------|----------------|------------------------------|
| <u>For investment up to 1 year</u> | | | | |
| 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 |
| <u>For investment in excess of 1 year</u> | | | | |
| 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 2011. The AIS continues with the strong emphasis on risk management and liquidity, two cornerstones to the draft 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 2011/12

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 effective from 1st April 2010
2. The Prudential Code for Capital Finance in Local Authorities published by CIPFA – fully revised second edition 2009

