

Subject: Annual Investment Strategy 2012/13
Date of Meeting: Cabinet – 15 March 2012
Council – 22 March 2012
Report of: Director of Finance
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Key Decision: Yes Forward Plan No. CAB 21063
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 2012/13 and to recommend the Strategy to full Council for adoption at its meeting on 22 March 2012.

2. RECOMMENDATIONS:

- 2.1 Cabinet is recommended to:
- agree the Annual Investment Strategy 2012/13 as set in Appendix 1 to this report; and
 - recommend Council to approve the Strategy at the meeting on 22 March 2012.
- 2.2 Council is recommended to approve the Annual Investment Strategy 2012/13 as set out in Appendix 1 to this report.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

Strategy 2012/13

- 3.1 The Annual Investment Strategy (AIS) for 2012/13 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 2012/13 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 and matching investment periods to cash flow requirements.

Revision to Strategy in 2012/13

- 3.6 The AIS continues with the low risk strategy adopted in previous years. However since the AIS 2011/12 was approved, the rating agencies have downgraded most of the institutions on the council's approved investment counterparty list. These downgrades have resulted in a number of counterparties having a reduction in the maximum period of investment and / or a reduction in the maximum amount invested. Two counterparties have been removed from the list. Details are set out in the table below.

Counterparty	AIS 2012/13		Change from AIS 2011/12
	Amount	Period	
Barclays Bank	£5m	1 yr	Previously £10m for 2 yrs
HSBC Bank	£10m	1 yr	Previously £10m for 2 yrs
Santander UK plc	£5m	1 yr	Previously £10m for 2 yrs
Leeds Building Soc	£5m	6 mths	Previously £5m for 1 yr
Clydesdale Bank	Removed		Previously £5m for 1 yr
West Bromwich Building Soc	Removed		Previously £5m for 6 mths

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: 2nd February 2012

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 2nd February 2012

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 2012/13 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</u>
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				<u>& Poor's</u>
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For investment up to 1 year

Short-term	Strong capacity for timely payment of financial commitments. Where the credit risk is particularly strong, a "+" is added to the assigned rating by Fitch and S&P	F1	P-1	A-1
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For investment in excess of 1 year

Long-term	Very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	AA-	Aa3	AA-
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- 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 2012. 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 2012/13

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 third edition 2011

