

Council

28 March 2013

Agenda Item 107

Brighton & Hove City Council

Subject: Annual Investment Strategy 2013/14
Date of Meeting: 28 March 2013
21 March 2013 – Policy & Resources Committee
Report of: Director of Finance
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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 Policy & Resources approval to the Annual Investment Strategy 2013/14 and to recommend the Strategy to full Council for adoption at its meeting on 28 March 2013.

2. RECOMMENDATIONS:

That Policy & Resources Committee –

- 2.1 Agree the Annual Investment Strategy 2013/14 as set in Appendix 1 to this report; and
- 2.2 Recommend the Annual Investment Strategy to Council for approval.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

Strategy 2013/14

- 3.1 The Annual Investment Strategy (AIS) for 2013/14 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 2013/14 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 temporary 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 2013/14

- 3.6 The original AIS for 2012/13 was amended at full Council on 19 July 2012 to offer a wider range of investment opportunities whilst continuing to adopt the main principle of security of investment. Since July there have been few changes to the credit ratings of the financial institutions on the currently agreed list therefore the proposed changes only relate to increasing the maximum investment period for a couple of institutions whose credit ratings have improved. Details are set out in the table below.

| Counterparty | AIS 2013/14 | | Change from AIS 2012/13 |
|-----------------------------|-------------|---------|-----------------------------|
| | Amount | Period | |
| HSBC Bank | £10m | 2 years | Previously £10m for 1 year |
| Nationwide Building Society | £5m | 1 year | Previously £5m for 6 months |

- 3.7 A revised list of counterparties is attached to this report at schedule 1 to appendix 1.

4. CONSULTATION

- 4.1 The council's external treasury advisor Sector has been consulted and their comments have been included within the report.

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: Mark Ireland

Date: 15 February 2013

Legal Implications:

- 5.2 Pursuant to section 15 of the Local Government Act 2003, 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.

Lawyer consulted: Oliver Dixon

Date: 20 February 2013

Equalities Implications:

- 5.4 No equalities impact assessment is required for this report.

Sustainability Implications:

- 5.5 The council's ethical investment statement requests that institutions apply council deposits in a socially responsible manner. Ethical options were considered in the report to 12th July 2012 Policy & Resources Committee.

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 2013/14 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 also 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 | Good capacity for timely payment of financial commitments. Where the credit risk is particularly good, a "+" is added to the assigned rating by Fitch and S&P | F2 | P-2 | A-2 |
| <u>For investment in excess of 1 year</u> | | | | |
| Long-term | Strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. | BBB | Baa | BBB |

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 2013. 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

Appendices:

1. Annual Investment Strategy 2013/14 including the counterparty list in schedule 1.

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