

# Agenda Item 217

**Brighton & Hove City Council**

**Meeting: Policy & Resources Committee**

**Date: 3 March 2004**

**Report of: Chief Finance Officer**

**Subject: Annual Investment Strategy 2004/2005**

## **1. Purpose of the report**

- 1.1 The Secretary of State, using powers under the Local Government Act 2003, has issued guidance on investments made by local authorities. The guidance requires a local authority to agree an annual investment strategy prior to 31 March each year.
- 1.2 The purpose of this report is to seek the approval of this Committee to the Annual Investment Strategy 2004/2005 and to recommend the Strategy to full Council for adoption at its meeting on 11 March 2004.

## **2. Recommendations**

- 2.1 **TO RECOMMEND TO COUNCIL** That the Annual Investment Strategy be approved.

## **3. Background**

- 3.1 The Local Government Act 2003 introduces a prudential capital system whereby levels of borrowing and investments are decided locally by each council based on affordability, sustainability and prudence.
- 3.2 The current investment regulations will cease with effect from 31 March 2004 and will be replaced by guidance issued under Section 15 of the 2003 Act. The guidance 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.

#### **4. Annual Investment Strategy 2004/2005 (AIS)**

- 4.1 The AIS is set out in Appendix 2 to this report and covers investments made by the council's external cash managers as well as the in-house treasury team. The council uses cash managers to take advantage of investment opportunities in specialist markets not covered by the in-house team, such as long term government stock and negotiable (i.e. tradable) bonds and certificates.
- 4.2 The AIS gives priority to security and liquidity. Security is achieved by selecting only those institutions that meet stringent credit rating scores or, in the case of UK building societies, have a substantial asset base. For the purpose of determining credit rating scores the council uses an independent credit rating agency. Full details of the selection criteria are set out in the AIS. Liquidity is achieved by limiting the maximum period for investments to 364 days, whilst operationally matching investment opportunities with the projected cash flows of the council.
- 4.3 The AIS will form part of the annual Treasury Management Policy Statement approved by the Chief Finance Officer.

#### **5 Consultation**

- 5.1 The council has been consulted in the drafting of the investment guidance under the terms of the LGA 2003. No other consultation has been necessary.

<b>Meeting/Date</b>	<b>Policy &amp; Resources Committee 11 February 2004</b>
<b>Report of</b>	<b>Chief Finance Officer</b>
<b>Subject</b>	<b>Annual Investment Strategy 2004/2005</b>
<b>Wards affected</b>	<b>All</b>

<p><b>Financial implications</b> None directly arising out of this report <i>Finance Officer consulted: Peter Sargent Date: 10 February 2004</i></p>
<p><b>Legal implications</b> The council must have regard to the guidance issued by the Secretary of State in determining its policies for investment. The requirements of the draft guidance, which is expected to be formally issued in the near future, are included within the text of the report.  There are no human rights implications arising from this report. <i>Lawyer consulted John Heys Date: 10 February 2004</i></p>

<p><b>Corporate/Citywide implications</b> Investment income is a resource used by the council to fund revenue expenditure.</p>	<p><b>Risk assessment</b> 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.</p>
<p><b>Sustainability implications</b> The council's ethical investment statement is aimed at encouraging institutions to adopt and publicise policies that are consistent with the Government's objectives on sustainable development</p>	<p><b>Equalities implications</b> None from this report</p>
<p><b>Implications for the prevention of crime and disorder</b> None from this report</p>	

<p><b>Background papers</b> Draft guidance issued by the Secretary of State under Section 15(1)(a) of the Local Government Act 2003  The Prudential Code for Capital Finance in Local Authorities published by CIPFA 2003</p>
<p><b>Contact Officer</b> Peter Sargent, Loans &amp; Technical Manager - ☎ (01273) 291241</p>

**Brighton & Hove City Council**  
**Annual Investment Strategy 2004/2005**

The following sets out the council's policy on investment criteria and counterparties

**Criteria to be used for creating / managing approved counterparty lists / limits**

Each counterparty included on the council's approved lending list must meet the criteria set out below:

- for banks/building societies with a credit rating, the institution must have a minimum short term rating of F1 (excellent financial security);
- for building societies that do not satisfy the minimum short term rating, the society must have an asset base in excess of £2 billion;
- for investment in money market funds, the rating of the fund meets the minimum requirement of triple A ('AAA');
- for investment in the Debt Management Account Deposit Facility the deposit is made in accordance with the rules and regulations relating to such investment as issued by the Debt Management Office from time to time;
- the maximum permitted investment in each sector is:
  - banking sector : 100% of the total investment portfolio at the time of the investment;
  - building society/ local authority sectors : 75% of the total investment portfolio at the time of the investment;
  - money market funds/ Debt Management Account Deposit Facility : 50% of the total investment portfolio at the time of the investment
- with the exception of money market funds and the Debt Management Account Deposit Facility no one counterparty has more than 75% of the relevant sector total at the time the investment is made.

The following table sets out the exposure limits and maximum periods based on various credit ratings:

Rating	A rating of at least					
	Short term	F1+	F1+	F1+	F1	F1
Long term	AA-	A-	A-	AA-	A-	
Individual	B	C	B	B	C	B
Legal	1	2	3	1	2	3
Exposure Limit	£10m	£7m	£5m	£5m	£3m	
Maximum period	364 days	364 days	4 months	6 months	4 months	

Grading - cash management agreement	A	B	C
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In addition to the above the following criteria will also apply

- where a counterparty has, or is given, an 'Individual' rating of 'C' then the 'Legal' rating must be either '1' or '2';
- investment in the council's bankers (the Co-operative Bank plc), which has a legal rating of 4, the maximum period and exposure limit for investments will be one month and £10 million respectively;
- investment in local authorities is guaranteed under legislation. An exposure limit of £5 million and investment period of 364 days will apply;
- investment in building societies with no credit rating but an asset base in excess of £3 billion the exposure limit and maximum period for investments will be £3 million and 3 months respectively;
- investment in building societies with no credit rating but an asset base between £2 billion and £3 billion the exposure limit and maximum period for investments will be £1½ million and 3 months respectively;
- investment in the Debt Management Account Deposit Facility the exposure limit and maximum period for investments will be £10 million and 6 months respectively.

For the purposes of investments made by Invesco Asset Management Limited, the council's external cash managers, the following additional criteria apply:

- the managers may invest in government stock and fixed term investments in institutions that meet the minimum rating requirements as set out in the above table;
- the maximum average duration of the fund shall not exceed 3 years
- all instruments with a maturity of 3 months or more shall be negotiable (i.e. the ability to sell before the natural maturity date),
- the maximum amount permitted to be invested in Grade 'A' and 'B' institutions shall be 15% of the total value of the fund and Grade 'C' institutions 10% of the total value of the fund.

Without the prior approval of the council, no investment will be made in an instrument and/or counterparty which falls outside the above.

### **Approved methodology for changing limits and adding / removing counterparties**

A counterparty shall be removed from the council's list where a change in their credit rating results in a failure to meet the criteria set out above. No new counterparties will be added to the list without the prior approval of the Chief Finance Officer.

A counterparty's exposure limit will be reviewed (and changed where necessary) following notification of a change in that counterparty's credit rating or a view expressed by the credit rating agency warrants a change.

### **Full individual listings of counterparties and counterparty limits**

A full list of the banks, building societies and local authorities in which the council will invest surplus funds, together with limits and maximum investment periods is contained in Supplements 1 (In-house investments) & 2 (Cash manager investments) to this appendix.

#### **Details of credit rating agencies' services**

Credit ratings will be based on those issued periodically by The Fitch Ratings Group.

#### **Ethical investment statement**

The council has approved the following ethical investment statement that will apply to all cash investments made by, or on behalf of, the council

*"Brighton & Hove City Council, in making investments through its treasury management function, fully supports the UK Government's vision of sustainable development. We will actively seek to communicate this support to those organisations we invest in as well as those we are considering investing in by:*

- *encouraging those organisations to adopt and publicise policies that are consistent with the Government's objectives on sustainable development;*
- *encouraging those organisations to apply council deposits in a manner consistent with the Government's objectives on sustainable development."*

Counterparties shall be advised of the above statement each and every time a deposit is placed with them.