

BRIGHTON & HOVE CITY
COUNCIL

ANNUAL INVESTMENT
STRATEGY
2018/19

The Annual Investment Strategy is subject to approval by Policy, Resources & Growth Committee on 29 March 2018 and by full Council on 19 April 2018.

Changes to be approved are annotated in ***grey bold italic***

Brighton & Hove City Council
Annual Investment Strategy 2017/18

This Strategy complies with guidance issued by the Secretary of State on investments and sets out the council's policy on investment criteria and counterparties. It should be noted that the minimum criteria set out in this document is only one factor taken into account for the investment of council funds. Other factors, such as Government guarantees and support and information available from the financial press and similar publications will also be taken into account when determining investment decisions. Counterparties that satisfy the minimum criteria are not automatically included on the council's approved investment list.

1 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. Without the prior approval of the Council, no investment will be made in an instrument that falls outside the list below.

1.1 Capital security

Table 1 sets out the minimum capital security requirements for an investment to be made.

<u>Table 1 – Minimum capital security requirements</u>	
Banks/building societies with a credit rating	The institution must have a minimum short term rating of good credit quality
Building societies that do not satisfy the minimum rating criteria above	The society must have an asset base in excess of £5 billion
Money market funds	The rating of the fund meets the minimum requirement of triple A ('AAA' / Aaa)
<i>Ultra-Short Dated Bond Funds</i>	<i>The rating of the fund meets the minimum requirement of AA</i>
<i>Short Dated Bond Funds</i>	<i>Short Dated Bonds Funds are not rated. A selection process will evaluate relative risks and returns of funds and the security of the council's money and the fund volatility will be key measures of suitability.</i>
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

1.2 Maximum permitted investment by sector

Table 2 sets out the maximum permitted investment for each sector.

<u>Table 2 – Maximum permitted investment by sector</u>	
<u>Sector</u>	<u>Percentage of total investment portfolio at the time the investment made</u>
Banking sector	100%
Building society sector	75%

<u>Table 2 – Maximum permitted investment by sector</u>	
<u>Sector</u>	<u>Percentage of total investment portfolio at the time the investment made</u>
Local authority sector	100%
Money market funds	100%
Short Dated/Ultra Short Dated Bond Funds	50%
Debt Management Account Deposit Facility	100%
Maximum amount invested for more than 1 year	25%

1.3 Maximum permitted investment by counterparty

1.3.1 General

With the exception of money market funds and the Debt Management Account Deposit Facility, no one counterparty may have more than 25% of the relevant sector maximum at the time the investment is made.

1.3.2 Rated counterparties

Table 3 sets out the exposure limits and maximum periods for deposits based on various credit ratings.

<u>Table 3 – Exposure limits and maximum periods per counterparty (with rating)</u>				
	<u>A rating of at least (lowest of Fitch (F) / Moody's (M) / Standard & Poor's (SP))</u>			
Short-term rating	F = F1+ M = P-1 SP = A-1+	F = F1+ M = P-1 SP = A-1+	F = F1 M = P-1 SP = A-1	F = F2 M = P-2 SP = A-2
Long-term rating	F = AA+ M = Aa1 SP = AA+	F = AA- M = Aa3 SP = AA-	F = A M = A2 SP = A	F = BBB M = Baa SP = BBB
Exposure Limit	£25m	£25m	£15m	£10m
Maximum period – fixed deposits	3 years	2 years	1 year	6 months
Maximum period – negotiable instruments	5 years	5 years	1 year	6 months

In addition, investment in money market funds and open ended investment companies with a rating of 'triple A' (i.e. AAA / Aaa) is permitted up to a value of £10 million per fund.

1.3.3 Exceptions

The methodology for determining exposure limits and maximum periods per counterparty will be determined in all cases by Table 3 with the following exceptions:

- The Royal Bank of Scotland plc is deemed to have the highest rating irrespective of the actual rating assigned to them as a result of being

“part-nationalised”. As a result, the limits on the amount advanced and length of investment will be £25 million and 1 year respectively.

- An additional operating limit of £2 million and an additional investment limit of £5m will be provided for the council’s provider of transactional banking services (Lloyds Bank plc). It is unavoidable that the £2.million operational limit may be breached from time to time. Officers ensure this is kept to a minimum.
- For any investment where there is a direct and legal offset against an existing financial liability, the counterparty will not be subject to assessment using the council’s credit assessment as outlined in Table 3.

Where there is a significant or sudden deterioration in one or more indicators (such as CDS prices), officers will undertake a review and, where necessary take action. This action may take the form of temporary suspension of a counterparty from the council’s approved lending list, or a restriction of the maximum period and investment limits.

1.3.4 Non-rated counterparties

Table 4 sets out the exposure limits and maximum periods for deposits for counterparties that are not rated.

<u>Table 4 – Exposure limits and maximum periods per counterparty / fund (with no rating)</u>		
<u>Counterparty</u>	<u>Exposure Limit</u>	<u>Maximum period</u>
Local authority	£10 million	5 years
Non-rated building society with an asset base in excess of £5bn	£5 million	6 months
Debt Management Account Deposit Facility	Unlimited	6 months

1.4 Investment classification (regulatory)

The investment guidance issued by the Secretary of State requires the council to identify investments as either ‘specified’ or ‘non-specified’. Table 6 sets out the requirements for each type.

<u>Table 6 – Investment classification</u>		
<u>Requirement</u>	<u>Specified</u>	<u>Non-specified</u>
Currency	Must be in Sterling	Any currency
Maturity period	Up to 12 months	Up to/Over 12 months
Credit worth	Counterparty with high credit rating (including MMFs and USDBFs), UK government or local authority	Other

All investments made by the Council are denominated in Sterling and are made only in counterparties as set out in paragraph 1.3 above.

The maximum amount invested in non-specified investments will be 50% of the total value of investments. The use of non-specified investments is limited to:

- (a) investment in non-rated building societies with an asset base in excess of £5bn, or
- (b) investment for longer than 12 months with counterparties that meet the minimum long-term rating detailed in Tables 3 and 5 above or

2 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.

A new counterparty may only be added to the list with the written prior approval of the Executive Director of Finance & Resources and only where the counterparty meets the minimum criteria set out above.

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.

A counterparty's exposure limit will also be reviewed where information contained in the financial press or other similar publications indicates a possible worsening in credit worth of a counterparty. The review may lead to the suspension of any counterparty where it is considered appropriate to do so by the Executive Director of Finance & Resources.

3 Full individual listings of counterparties and counterparty limits

For 2017/18, with the exception of the list of high quality AA rated Non-UK banks within AA rated countries specified below, investment by the in-house treasury team will be restricted financial institutions incorporated within the UK and regulated by the Financial Conduct Authority.

The in-house treasury team is able to invest in the following Non-UK banks:

- Australia & New Zealand Banking Group Limited (Australia)
- Bank Nederlandse Gemeenten (The Netherlands)
- Commonwealth Bank of Australia (Australia)
- DBS Bank Ltd (Singapore)
- Landwirtschaftliche Rentenbank (Germany)
- National Australia Bank (Australia)
- First Abu Dhabi Bank PJSC (Abu Dhabi, UAE)
- Nederlandse Waterschapsbank N. V. (The Netherlands)
- Nordea (Finland)
- NRW. BANK (Germany)
- Overseas Chinese Banking Corporation Limits (Singapore)
- Svenska Handelsbanken (Sweden)
- The Bank of New York (BNY) Mellon (USA)
- Toronto Dominion (Canada)
- United Overseas Bank Limited (Singapore)
- Westpac Banking Corporation (Australia)

A full list of counterparties in which the council will invest surplus funds, together with limits and maximum investment periods is contained in Schedule 1 to this AIS.

There is no pre-determined list for investments made by funds that could be utilised by the council. However, each fund will be subject to its own minimum creditworthiness criteria, which will be reviewed by officers as part of any selection and monitoring process..

4 Details of credit rating agencies' services

Credit ratings will be based on those issued periodically by Fitch, Moody's and Standard & Poor's.

5 Permitted types of investment instrument

All investments must be denominated in Sterling.

The in-house treasury team may invest in fixed term and variable term cash deposits, money market funds and open ended investment companies.

The in-house treasury team may only invest in negotiable instruments (including Certificates of Deposit and Corporate Bonds) where to do so offers additional value in terms of investment return and appropriate and supporting advice has been sought from the council's external treasury advisors on the suitability of such an investment.

6 Investment risk

6.1 Assessment of credit risk

Whilst the AIS relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for the in-house treasury team to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

6.2 Investment risk matrix

The weighted average benchmark risk factor for 2018/19 is recommended to be 0.05%, the same as 2017/18. This benchmark is a simple target (not limit) to measure investment risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that the in-house treasury team will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the mid-year or end of year reviews. ***This matrix will only cover internally managed investments, excluding externally managed cash that has been subject to an individual selection process.***

For any investment where there is a direct and legal offset against an existing financial liability, the investment will be assumed to have a benchmark risk of 0.00%.

6.3 Investment advisors

The council appoints treasury advisors through a regular competitive tendering process. One of the services provided by Link Asset Services is the provision of updated credit ratings and “watches” issued by the three rating agencies. In addition Link Asset Services are proactive in providing additional market information as set out in paragraph 6.1 above.

6.4 Investment training

The council’s advisors have a wide-ranging programme of training giving council officers access to seminars, workshops and printed material. The council’s in-house treasury team is experienced in dealing with investments but where necessary further training and updates will be provided.

Appropriate training will be made available to all Members who are involved in the treasury management decision-making process.

6.5 Investment of money borrowed in advance

The council has the flexibility to borrow funds in advance of need (i.e. to fund future debt maturities). The Director of Finance & Resources may do this where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial over the life of the loan or to meet budgetary constraints.

Borrowing in advance will be undertaken within the constraints set out in the Treasury Management Strategy. The risks associated with such borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or end of year reviews.

6.6 Investment liquidity

Liquidity is achieved by limiting the maximum period for investment and by investing to dates where cash flow demands are known or forecast.

7 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 ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:

- *encouraging those institutions to adopt and publicise policies on socially responsible investments;*
- *requesting those institutions to apply council deposits in a socially responsible manner.”*

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

8 Glossary

Long-term – period in excess of 12 months

Negotiable instrument – an investment where the council can receive back the amount invested earlier than originally agreed (subject to conditions)

Non-specified investment – see Table 6 above

Short-term – period up to and including 12 months

Specified investment – see Table 6 above

Supranational – an organisation that encompasses more than one nation,
such as the World Bank

DATA TO BE UPDATED BEFORE FINAL RELEASE
Brighton & Hove City Council

Banks and Other Institutions - In-house Treasury Team
Annual Investment Strategy 2018/19

<u>Counterparty</u>	<u>Specified/ Non- specified</u>	<u>Short-term</u>			<u>Long-term</u>			<u>Max amount</u>	<u>Max period – fixed deposits</u>
		F = Fitch M = Moody's SP = Standard & Poor's							
		F	M	SP	F	M	SP		
Bank of Scotland / Lloyds Bank	Specified	F1	P-1	A-1	A+	Aa3	A	£20m	1 year
Barclays Bank plc	Specified	F1	P-1	A-1	A	A1	A	£15m	1 year
Close Brothers	Specified	F1	P-1		A	Aa3		£15m	1 year
Clydesdale Bank	Specified	F2	P-2	A-2	BBB+	Baa1	BBB+	£10m	6 months
HSBC Bank plc	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	2 years
National Westminster Bank / Royal Bank of Scotland	Specified	F2	P-1	A-2	BBB+	A2	BBB+	£25m	1 year
Santander UK plc	Specified	F1	P-1	A-1	A	Aa3	A	£15m	1 year
Standard Chartered Bank	Specified	F1	P-1	A-1	A+	A1	A	£15m	1 year
Sumitomo Mitsui Banking Corporation Europe Ltd	Specified	F1	P-1	A-1	A	A1	A	£15m	1 year
Virgin Money plc	Specified	F2			BBB+			£10m	6 months
<u>BUILDING SOCIETIES (+)</u>									
Coventry (3)	Specified	F1	P-1		A	A2		£15m	1 year
Leeds (5)	Specified	F1	P-2		A-	A3		£10m	6 months
Nationwide (1)	Specified	F1	P-1	A-1	A+	Aa3	A	£15m	1 year
Principality (6)	Specified	F2	P-2		BBB+	Baa2		£10m	6 months
Skipton (4)	Specified	F1	P-2		A-	Baa1		£10m	6 months
Yorkshire (2)	Specified	F1	P-2		A-	A3		£10m	6 months
<u>NON-UK BANKS</u>									
Australia & NZ Banking Group (Australia)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	2 years
Commonwealth Bank of Australia (Australia)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	2 years
National Australia Bank Ltd (Australia)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	2 years
Westpac Banking Corporation (Australia)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	2 years
Toronto Dominion (Canada)	Both	F1+	P-1	A-1+	AA-	Aa2	AA-	£25m	2 years
Nordea bank (Sweden)	Both	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m
Landwirtschaftliche Renenbank (Germany)	Both	F1+	P-1	A-1+	AAA	Aaa	AAA	£25m	3 years
NRW.BANK (Germany)	Both	F1+	P-1	A-1+	AAA	Aa1	AA-	£25m	2 years
Bank Nederlandse Gemeenten (The Netherlands)	Both	F1+	P-1	A-1+	AA+	Aaa	AAA	£25m	3 years

Continued overleaf...

Appendix 2

Counterparty	Specified/ Non- specified	Short-term			Long-term			Max amount	Max period – fixed deposits
		F = Fitch M = Moody's SP = Standard & Poor's							
		F	M	SP	F	M	SP		
Nederlandse Waterschapsbank N. V. (The Netherlands)	Both		P-1	A-1+		Aaa	AAA	£25m	3 years
DBS Bank Ltd (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£25m	2 years
Overseas Chinese Banking Corporation Limits (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£25m	2 years
United Overseas Bank Limited (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£25m	2 years
Svenska HandelsBanken AB (Sweden)	Both	F1+	P-1	A-1+	AA	Aa2	AA-	£25m	2 years
First Abu Dhabi Bank PJSC	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£25m	2 years
Bank of New York Mellon (USA)	Both	F1+	P-1	A-1+	AA	Aa1	AA-	£25m	2 years
OTHER									
Other Local Authorities (per Authority)	Both							£10m	5 year
Debt Management Deposit Facility	Specified							Unlimited	6 months
Money Market Funds – CNAV (per fund)	Specified							£10m	Liquid
Money Market Funds – LVNAV (per fund)	Specified							£10m	Liquid
Money Market Funds – VNAV (per fund)	Specified							£10m	Liquid
Ultra Short Dated Bond Funds (per fund)	Specified							£10m	Liquid
Short Dated Bond Funds (per fund)	Non-Specified							£10m	Liquid

(*) Ratings as advised by Capita Asset Services February 2018

(+) UK Building Societies ranking based on Total Asset size – Source: Building Societies Association February 2018

¹ distinction is a requirement under the investment regulations