

**Subject:** Annual Investment Strategy 2014/15  
**Date of Meeting:** 20<sup>th</sup> March 2014  
27<sup>th</sup> March 2014 - Council  
**Report of:** Executive Director of Finance & Resources  
**Contact Officer:** Name: Mark Ireland Tel: 29-1240  
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**Ward(s) affected:** All

**FOR GENERAL RELEASE**

**1. PURPOSE OF REPORT 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 (AIS) 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;
  - holding investment instruments other than deposits held in financial institutions or government bodies;
  - determining the maximum periods for which funds may be invested;
  - 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 2014/15 and to recommend the Strategy to full Council for adoption at its meeting on 27 March 2014.

**2. RECOMMENDATIONS:**

- 2.1 That Policy & Resources Committee recommend to full Council the Annual Investment Strategy for 2014/15 as set out in Appendix 1 to this report.

**3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The Annual Investment Strategy (AIS) for 2014/15 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 2014/15 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.
- 3.6 The AIS for 2013/14 was amended at full Council on 12<sup>th</sup> December 2013 to increase our limits with the highest rated UK institutions and to include a few highly rated non-UK Banks to our approved counterparty list. There are no further revisions proposed to that strategy.

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 This report confirms there are no changes to the Annual Investment Strategy approved by full Council in December 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.

#### **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 The council’s external treasury advisors have been consulted in the drafting of this report.

#### **6. CONCLUSION**

- 6.1 The 2010 investment guidance requires that local authorities produce an investment strategy to be approved and amended by full council. This report fulfils this requirement.

#### **7. FINANCIAL & OTHER IMPLICATIONS:**

##### Financial Implications:

- 7.1 The financial implications arising from the AIS have been included in the Financing Costs budget for 2014/15.

Finance Officer Consulted: Mark Ireland

Date: 17/02/14

Legal Implications:

- 7.2 The legal framework for the council's Annual Investment Strategy is Part 1, chapter 1, of the Local Government Act 2003, and associated statutory guidance.

It is a legal requirement for the Annual Investment Strategy to be approved by full Council. It is the role of Policy & Resources Committee to formulate the Strategy prior to consideration by full Council.

Lawyer Consulted:

Oliver Dixon

Date: 04/03/14

Equalities Implications:

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

Sustainability Implications:

- 7.4 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 12<sup>th</sup> July 2012 Policy & Resources Committee.

Any Other Significant Implications:

Risk & Opportunity Management implications:

- 7.5 The investment guidance issued under the 2003 Act requires the council to assess credit worthiness by reference to an independent rating agency. The AIS 2014/15 will use the ratings assigned by Fitch, Moody's and Standard & Poor's.
- 7.6 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.
- 7.7 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 &amp; 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>				

	<u>Generic criteria</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
Long-term	Strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	BBB	Baa	BBB

- 7.8 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:

- 7.9 Investment income is a resource used by the council to fund revenue expenditure. The AIS will help to minimise capital risk whilst optimising investment returns over both the short and longer term.

### **SUPPORTING DOCUMENTATION**

**Appendices:**

1. Annual Investment Strategy 2014/15 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 1<sup>st</sup> April 2010
2. The Prudential Code for Capital Finance in Local Authorities published by CIPFA – fully revised third edition 2011