SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Leader and Cabinet	08 March 2007
AUTHOR/S:	Chief Executive	

INVESTMENT STRATEGY (TREASURY MANAGEMENT) 2007/08

Purpose

1. To recommend to Council that the Investment Strategy for 2007/08 is approved

Background

2. With effect from 1 April 2004, the Local Government Act 2003:

   (i) included a power for a local authority to invest for the purposes of prudent management of its financial affairs;

   (ii) requires a local authority to have regard to any guidance the Secretary of State may issue; and

   (iii) repealed all the previous legislation on approved investments.

Considerations

3. Guidance has been issued which:

   (i) requires a local authority to draw up an annual investment strategy for the following financial year to be approved by full Council; and

   (ii) requires the strategy to give priority to security and liquidity rather than to yield, to identify which categories of investments may be prudently used and the maximum amount for each category and to set out procedures for determining maximum investment periods.

4. An investment strategy is attached as **Appendix A**. This is basically the previous year's Investment Strategy and it continues to restrict investment to the same groups of organisations as before.

Options

5. These include:

   (a) Continuing with the present policy which has produced good results. The Council is a member of the CIPFA Treasury Management benchmarking club. The results for 2005/06 show that South Cambridgeshire achieved another creditable performance for the third year running with a return of 4.84% on combined investments (less than and more than 365 days) compared to 4.76% for its comparator group and 4.71 % for the overall group. South Cambridgeshire was second highest in the comparator group of 11 other organisations and ninth highest in the overall group of 134 other organisations. These good results were achieved at minimal cost;

(b) Increasing risk which should produce a higher rate of return. This is not recommended;

(c) With the rapidly declining level of capital receipts, outsourcing is probably no longer feasible as external fund managers often require at least £10 million for at least three years; and

(d) An option would be to stop using lists of named counterparties and have a policy of investing only with counterparties with an AAA rating. This would be a radical departure from present practice and would probably result in investing with foreign banks and other commercial organisations (but with all investments and repayments still denominated in £ sterling). Most of these organisations will only accept a minimum of £5 million so the Council would, therefore, have fewer higher value investments with the consequent higher risk. With reducing balances, the opportunity for these large investments will be very limited. The trend with other local authorities seemed to be to move away from credit ratings in order to achieve a wider range of counterparties with the consequent greater flexibility and spread of risk.
A policy of investing only with counterparties with a AAA rating would be heavily dependent on the credit rating being an accurate assessment. Standard & Poor's credit ratings on their website include the caveat that "any user of credit ratings … should not rely on any such ratings … in making any investment decision".

Implications

6.

Financial	The Council may currently earn less interest on its investments by having a very restricted range of investments but this is considered to be more than offset by the reduced risk of default by counterparties. Any change to the use of credit ratings may involve additional time and expenditure with no guarantee of an increased rate of return on investments.
Legal	None
Staffing	Any change to the use of credit ratings would require detailed research by senior management and training for staff who deal with treasury management on a daily basis. There is no specific budget for this training.
Risk Management	There is internal check with division of duties between dealing, administration and authorisation and any losses due to fraud should be covered by fidelity guarantee insurance. Credit and counterparty risk is currently managed by restricting the range of investment organisations to the main banks, building societies, etc. A change to the use of credit ratings would transfer part or all of the risk assessment to the credit rating agency/ies which do not provide any indemnities against loss. There may be fewer higher value investments which would concentrate and may increase the risk of default by counterparties.
Equal Opportunities	None

Consultations

7. None.

Effect on Annual Priorities and Corporate Objectives

8.

Affordable Homes	Effective treasury management provides support towards the achievement of the Council's corporate objectives
Customer Service	
Northstowe and other growth areas	
Quality, Accessible Services	
Village Life	
Sustainability	
Partnership	

Recommendations

9. Cabinet is requested to recommend to Council that the Investment Strategy in the Appendix is approved.

Background Papers: the following background papers were used in the preparation of this report:

Guidance from the Office of the Deputy Prime Minister dated 12th March 2004
Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA) and
The Prudential Code for Capital Finance in Local Authorities (CIPFA).

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