

## APPENDIX A

### INVESTMENT STRATEGY 2007/08

1. South Cambridgeshire District Council has adopted the Code of Practice for Treasury Management in the Public Services issued by the Chartered Institute of Public Finance and Accountancy and complied with the Guidance issued by the Secretary of State.
2. **Defined Activities**
  - 2.1 Treasury Management is defined as the management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Any Treasury Management activity that is not covered by this Policy Statement shall require the approval of the Cabinet.
3. **Policy**
  - 3.1 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
  - 3.2 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.
4. **Strategy**
  - 4.1 On 1<sup>st</sup> April 1996 the Council became debt-free. In order to maintain its debt free status, the Council in its Treasury Management operations must not borrow long term (for one year or more). Long term borrowing, and the consequence of no longer being debt free, shall require the approval of Council.
  - 4.2 The Chief Executive and Chief Financial Officer will only have delegated authority to deal in investments which are denominated in sterling and any payments or repayments in respect of the investments are payable only in sterling.
  - 4.3 The Chief Executive and Chief Financial Officer may undertake short term borrowing where it is associated with specific investments for longer periods and, thereby, take advantage of interest rate differentials.
  - 4.4 Credit arrangements are forms of credit which do not involve the borrowing of money and are defined by Section 7 Local Government Act 2003. The Chief Executive and Chief Financial Officer shall only commit the Council to credit arrangements, which have been approved either specifically or as part of the financing of the capital programme by the Cabinet and/or Council.
  - 4.5 Any decision to outsource all or part of the treasury management function will require the approval of the Cabinet.

## 5. Operations and Prudential Indicators

5.1 The Chief Executive and Chief Financial Officer will formulate:

- (i) an investment strategy in February for the following year to be approved by Council;
- (ii) an investing plan in February of each year for the next five years which will incorporate the expenditure and income in the capital programme and capital and revenue financing decisions approved by the Council; and
- (iii) short term borrowing/investing plans at the beginning of each week for the current week.

5.2 **Liquidity of Investments:** the procedure for determining the maximum periods for which funds may be prudently committed is to formulate the five year investing plan (guidance paragraph 15). No investments will be made for more than five years. The prudential indicators for principal sums invested for periods longer than 364 days being the maximum limit shall be:

Investment period	Longer than 364 days but less than two years £ million	Longer than one year and 364 days but less than three years £ million	Longer than two years and 364 days but less than four years £ million	Longer than three years and 364 days but not more than five years £ million
Maximum limit	6	5	4	4

5.3 **Interest Rate Exposures:** as the Council will only undertake a minimal amount of short term borrowing to take advantage of interest rate differentials and to meet immediate cash flow requirements, the upper limits for interest rate exposures are based on gross investments. These upper limits for the forthcoming financial year and following two financial years will be:

Upper limit on gross investments	2007/08	2008/09	2009/10
Fixed rate	100%	100%	100%
Variable rate	20%	20%	20%

5.4 **External Debt:** the prudential indicators for external debt will be:

- (i) authorised limit

Authorised Limit	Estimate 2007/08 £ million	Estimate 2008/09 £ million	Estimate 2009/10 £ million
Borrowing	7.5	7.5	7.5
Other Long Term Liabilities	0.0	0.0	0.0
Total	7.5	7.5	7.5

The authorised limit is the maximum limit, is solely to take advantage of interest rate differentials and to meet immediate cash flow requirements and will not affect the Council's debt free status. The authorised limit is the statutory affordable borrowing limit under Section 3(1) Local Government Act 2003.

- (ii) operational boundary

The operational boundary is the most likely scenario and is expected to be zero for both borrowing and other long term liabilities for each of the three years.

(iii) actual debt

The third indicator for external debt is actual debt at the end of the last financial year and is not applicable to this Council.

5.5 **Maturity Structure of Borrowing:** as the Council currently intends to remain debt free and will only undertake a minimal amount of short term borrowing to take advantage of interest rate differentials and to meet immediate cash flow requirements, the upper and lower limits will only need to be set for borrowing for periods under 12 months and will be 100% and 0% respectively as a percentage of total borrowing.

5.6 Investments will only be in non negotiable fixed time, callable and on call deposits to the following approved organisations and within the following limits (guidance paragraph 14):

Groups of organisations	Maximum investment limit to any one organisation within a group (£ million)	Maximum proportion which may be held by each group at any time during the financial year
The Treasury (the UK Debt Management Office's Debt Management Account)	5.0	20%
Money Market Funds subject to the highest possible credit rating.	5.0	25%
UK Local Authorities and Police Authorities (excluding Parish Councils)	5.0	75%
UK Banks (which are also retail)	5.0	50%
Subsidiaries of UK Banks (provided the subsidiaries are UK-incorporated deposit takers under the Financial Services and Markets Act 2000 and provided loans are for a maximum period of three months)	1.0	10%
Other Banks and Financial Institutions specifically approved by Cabinet (or formerly Finance, Resources and Staffing Committee)	2.5	20%
Building Societies		100%
with assets greater than £10,000 million	5.0	
with assets between £10,000 million and £5,000 million	3.0	
with assets between £1,500 million and £5,000 million	2.0	
with assets between £350 million and £1,500 million	1.0	

- 5.7 **Security of Investments:** the Chief Executive and Chief Financial Officer shall review at least annually the list of approved organisations and make appropriate amendments to individual organisations on the list, but not to the principles on which it is compiled without the approval of the Council.
- 5.8 The guidance (paragraph 12) determines specified investments as investments denominated in sterling, for less than twelve months, not in share or loan capital and with a high credit rating or with the Government or local authority. Non-specified investments may have greater potential risk and are any investments which are not specified. The groups of organisations set out above are restricted in order to give priority to security but credit ratings are not used. As a result, investments cannot be classified as specified or non-specified and the Strategy does not define high credit rating or the monitoring of credit ratings. The Chief Executive and Chief Financial Officer will have discretion over whether to obtain and how to apply credit ratings for any organisation (guidance paragraph 13).
- 5.8 The Chief Executive and Chief Financial Officer shall have delegated authority to borrow money on a short term basis only:
- (i) by overdraft or short term from the Bank of England or from a body or partnership which, at the time the borrowing is undertaken, is an authorised deposit taker within the meaning of the Financial Services and Markets Act 2000.
  - (ii) from the National Debt Commissioners or from the Public Works Loan Commissioners; or
  - (iii) by means of a loan instrument.
- 5.9 Delegation may be summarised as:
- (i) to the Chief Executive and Chief Financial Officer
    - temporary borrowing/investing for up to 364 days
    - investments up to five years
    - capital financing
    - credit arrangements
  - (ii) to the Cabinet
    - external management
- 5.10 The Chief Executive and Chief Financial Officer shall present to the Cabinet an annual report on the activities of the Treasury Management operation and on the exercise of Treasury Management powers delegated to him at the earliest practicable opportunity after the end of the financial year but in any case by the end of September.

**GJ HARLOCK**  
**Chief Executive and Chief Financial Officer**  
**March 2007**