SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Finance and Staffing Portfolio Holder	15 February 2011
AUTHOR/S:	Head of Accountancy	

INTERIM INVESTMENT STRATEGY (TREASURY MANAGEMENT) 2011/12

Purpose

1. To recommend to Council the Interim Investment Strategy for 2011/12.

2. This is a key decision because:
   - it is likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates.
   - it is of such significance to a locality, the Council or the services which it provides that the decision-taker is of the opinion that it should be treated as a key decision.

   and it was first published in the October 2010 Forward Plan.

Recommendations

3. The Portfolio Holder is requested to recommend to Council the Interim Investment Strategy for 2011/12 as in **Appendix A**.

Reasons for Recommendations

4. The Council needs to have an investment strategy for 2011/12 approved before the start of the financial year to comply with guidance and recommended practice.

5. On 1st February, the Department for Communities and Local Government issued "Implementing self-financing for council housing" which indicates that this Council will have to pay £205.6 million to the Government on 1st April 2012. This sum can only be financed by borrowing and, in January 2012, the Council will be asked to identify the source of funding and apply for loans from the Public Works Loan Board and/or the market.

6. It is intended that there will be reports to Cabinet and Council in late 2011 seeking approval to borrow and approval of the portfolio (i.e. mixture of fixed and variable rate loans with associated maturity periods to match the Housing Revenue Account cash flow projections) and the source of such loans. Any borrowings from the money market may be raised prior to 1st April 2012 and, therefore, major revisions to the treasury management strategy for 2011/12 and the prudential indicators for 2011/12 will also have to be approved.

Background

7. With effect from 1st 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(iii) repealed all the previous legislation on approved investments.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

8. Revised investment guidance was issued in March 2010 by Department for Communities and Local Government (DCLG). The main changes in the revised guidance are:

(i) the guidance makes even clearer that the investment priorities should be **security** and **liquidity**, rather than yield;

(ii) investment strategies should still go to the full council at the start of each year, but authorities are encourages to consider submitting revised strategies at other times;

(iii) strategies should be published;

(iv) authorities should not rely just on credit ratings but consider also other information on credit risk;

(v) strategies should comment on the use of treasury management consultants; and

(vi) strategies should comment on the investment of money borrowed in advance of spending needs.

9. The Chartered Institute of Public Finance and Accountancy (CIPFA) has also issued in November 2009 a fully revised second edition of its Treasury Management in the Public Services Code of Practice which identifies three key principles:

1) public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;

2) their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy and should ensure that priority is given to security and liquidity when investing funds; and

3) they should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practice should reflect this.

10. The proposed interim investment strategy for 2011/12 is attached as **Appendix A**. The proposed strategy does **not** comply with the Code which, as a minimum, stipulates for reports annually to full Council on the investment strategy <u>and</u> plan, a mid year position report and an end of year performance report.

11. The investment strategy sets out the limits within which Council officers must operate. Once the strategy is approved, the Head of Accountancy issues a list of approved organisations/counterparties within each category in the investment strategy, with which the Council can invest. This list is reviewed during the year to take account of:

(a) mergers of organisations which are reducing the number of counterparties with which the Council can invest;

(b) the current economic climate whereby organisations which are allowed in accordance with the investment strategy are suspended from the list of approved organisations, e.g. in the category of other banks and financial institutions, the three Irish banks and the Icelandic bank, Landsbanki Islands, are currently suspended; and

(c) the credit rating and financial standing of approved organisations which, where available, are checked before any investment decision is made.

12. The Prudential Code for Capital Finance in Local Authorities requires local authorities to set prudential indicators before the beginning of the financial year. These indicators include liquidity of investments, interest rate exposure, etc., were reported to Cabinet on 10th February 2011 and are repeated as an appendix to the investment strategy.

Options

13. 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 2009/10 show that South Cambridgeshire achieved a return of 2.68% on combined investments (less than and more than 365 days) compared to 2.21% for its comparator group and 1.87% for the overall group. South Cambridgeshire was fifth highest in the comparator group of 14 other organisations and twenty third highest in the overall group of 137 other organisations. These good results were achieved at minimal cost;

(b) Adopting a risk free strategy by investing only with the Debt Management Office which is a government agency and should be totally secure. Interest rates with this organisation are generally substantially lower than rates in the money market and this would result in substantially lower interest on balances than the figure which is in the 2011/12 estimates; and

(c) Adding the new CCLA Public Sector Deposit Fund to the list of counterparties. This is an AAA rated money market fund specifically for local authorities developed in consultation with the Local Government Association.

14. Other options have not been considered as the recommended strategy is only for an interim period.

Implications

15.

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.

Legal	None
Staffing	The use of credit ratings requires some research by staff who deal with treasury management.
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. The use of credit ratings places greater reliance on the credit rating agency/ies which do not provide any indemnities against loss.
Equality and Diversity	None
Equality Impact Assessment completed	No
	Not relevant
Climate Change	None

Effect on Strategic Aims

16. Interest on balances provides financial resources for the Council to continue providing services and achieving its strategic aims.

Conclusions / Summary

17. The Council needs to have an investment strategy for 2011/12 approved before the start of the financial year to comply with guidance and recommended practice.

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

Revised investment guidance from the DCLG dated 11th March 2010
Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA) fully revised second edition 2009

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