APPENDIX A

South Cambridgeshire District Council

INTERIM INVESTMENT STRATEGY 2011/12

1. **Introduction**

1.1 South Cambridgeshire District Council has adopted the Code of Practice for Treasury Management in the Public Services, fully revised second edition 2009, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and complied with the Guidance issued by the Department for Communities and Local Government (DCLG) on behalf of the Secretary of State, <u>with the exception of the reporting requirements to full Council.</u>

2. **Defined Activities**

2.1 Treasury Management is defined as the management of the Council's investments and 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.

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 value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4. **Governance**

4.1.1 This Council will create and maintain, as cornerstones for effective treasury management:

a treasury management policy statement, stating the policies, objectives and management of its treasury management activities; and

suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

4.2 This Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

4.3 This Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Finance and Staffing Portfolio Holder, and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the Council's policy statement and TMPs.

4.4 This Council nominates the Corporate Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

5. Strategy

5.1 On 1st 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.

5.2 The 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 to be payable only in sterling.

5.3 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 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.

5.4 Any decision to outsource all or part of the treasury management function will require the approval of the Cabinet.

6. Operations and Prudential Indicators

6.1 The Chief Financial Officer will formulate:

- an investment strategy before the start of the financial year to be approved by Executive and Council;
- an investing plan in March 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
- short term borrowing/investing plans at the beginning of each week for the current week.

6.2 The prudential indicators relating to treasury management have already been approved by Council and are shown in the Appendix 1.

6.3.1 Investments will only be in non negotiable fixed time, callable and on call deposits to the following approved organisations and within the following limits:

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)	unlimited	100%
Money Market Funds subject to the highest possible credit rating.	5.0	25%
UK Local 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 the Finance and Staffing Portfolio Holder (or formerly by Cabinet or 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	

7. Investment Security

7.1 The 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 Cabinet.

7.2 The guidance (paragraph 5) determines specified investments as investments denominated in sterling, for less than twelve months, not in share or loan capital and with a high credit quality 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 and will be used for both specified (less than twelve months) and non-specified investments (twelve months or more).

8. Credit risk assessment

8.1 The criteria for high credit quality will apply (except to public sector bodies) to both specified (less than twelve months) and non-specified investments (twelve months or more) and will apply to organisations as set out in paragraph 6.3 with a credit rating as set out in Appendix 2 and a bank financial strength rating greater than D+. The credit rating and bank financial strength rating of all approved organisations will be checked on a weekly basis and of a specific approved organisation immediately before an investment is made with that organisation. Ratings watch (heightened probability of rating change in the short term) and ratings outlook (credit rating may change in the next one to two years) will also be taken in to account.

9. Investment Consultants

9.1 External contractors offering information, advice and/or assistance are currently not used by the Council as treasury management performance is benchmarked against other organisations and a consistently good performance has been achieved for the several years.

10. Investment Training

10.1 The needs of the Council's treasury management staff for training in investment management are reviewed as part of the annual performance and development review scheme and are addressed by attendance at seminars (usually the CIPFA Local Government Treasury Management Conference with periodic attendance at seminars offered by external organisations) and by keeping up to date with codes of practice and guidance issued by CIPFA and DCLG and information in the quality financial press.

11. Investment of money borrowed in advance of need

11.1 The 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 or may undertake long term borrowing, with the approval of Council, where there is a clear link to the capital programme which supports the need for future borrowing.

12. Delegation and Reporting

12.1 Delegation may be summarised as:

- to the Chief Financial Officer and/or Head of Accountancy
  - temporary borrowing/investing for up to 364 days
  - investments up to five years
  - capital financing
  - credit arrangements;
- to the Cabinet
  - external management / use of external consultants; and
- to the Council
  - approval and any revisions to the annual investment strategy
  - long term borrowing

The Chief Financial Officer shall present to:

- the Finance and Staffing Portfolio Holder quarterly updates on treasury management activity; and
- 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.

To be approved by Council
24th February 2011

APPENDIX 1

Prudential Code for Capital Finance in Local Authorities
Prudential Indicators for 2011-12

The prudential indicators take no account of the forthcoming reform of council housing finance

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1. **Capital Expenditure**

The actual capital expenditure that was incurred in 2009-10 and the estimates of capital expenditure to be incurred for the current and future years are:

	2009-10 Actual £'000	2010-11 Revised £'000	2011-12 Estimate £'000	2012-13 Estimate £'000	2013-14 Estimate £'000
General Fund	2,255	4,206	3,888	3,023	2,933
Housing Revenue Account	7,230	4,849	4,443	3,830	3,830
Total	**9,485**	**9,055**	**8,331**	**6,853**	**6,763**

2. **Affordability**

Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

	2009-10 Actual	2010-11 Revised	2011-12 Estimate	2012-13 Estimate	2013-14 Estimate
General Fund	-6%	-4%	-4%	-4%	-3%
Housing Revenue Account	Not applicable				

The negative figures reflect the Authority's position as a net investor, the interest earned being used to help fund the budget. The other affordability indicator is the incremental impact of capital investment decisions on the council tax and on the average weekly housing rents and this is considered to be not applicable as capital expenditure is reducing on both the General Fund or the Housing Revenue Account parts of the capital programme.

3. **Capital Financing Requirement**

The capital financing requirement is capital expenditure which has not been fully financed from a local authority's own resources in the year but has been covered by raising external or internal debt. As South Cambridgeshire is debt free (no external debt), its capital financing requirement is a negative £5.694 million for the year 2009-10. The capital financing requirement falls to a negative £3.788 million, a negative £4.155 million and a negative £4.522 million as at 31st March 2011, 2012 and 2013 respectively (the reduction in these years being due to financing internally part of the purchase of the new wheeled bins and cash overdrawn on equity share repurchases, but this financing is then partly repaid over the period).

A negative requirement means that the Council has defrayed more financing resources than it has capital expenditure. The requirement cannot presently be split between the General Fund and the Housing Revenue Account.

4. External Debt

The prudential indicators for external debt will be:

i. Authorised limit

	2010-11 Estimate £ million	2011-12 Estimate £ million	2012-13 Estimate £ million	2013-14 Estimate £ million
Borrowing	7.5	7.5	7.5	7.5
Other Long Term Liabilities	0	0	0	0
Total	7.5	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 for external debt is based on the same estimates as the authorised limit but reflects 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. 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.

6. **Treasury Management**

The Prudential Code requires the Authority to have adopted the CIPFA Code of Practice for Treasury Management in the Public Services: South Cambridgeshire has adopted this code.

i. 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. 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 year and 364 days but less than four years £ million	Longer than three year and 364 days but less than five years £ million
Maximum Limit	5	4	3	3

ii. Interest Rate Exposure

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 the following two financial years will be:

Upper limit on gross investments	2011-12	2012-13	2013-13
Fixed rate	100%	100%	100%
Variable rate	50%	50%	50%

APPENDIX 2

Long and Short Term Credit Ratings

	Audit Commission grading (for the purpose of standardisation)	Fitch Long Term	Fitch Short Term less than or equal to one year	Moody's Long Term	Moody's Short Term less than or equal to one year	Standard & Poor's Long Term	Standard & Poor's Short Term less than or equal to one year	
Investment Grade	Extremely strong Grade	AAA	F1+	Aaa	P-1	AAA	A-1+	SCDC Investment Criteria
	Very Strong Grade	AA+	F1+	Aa1	P-1	AA+	A-1+	
		AA	F1+	Aa2	P-1	AA	A-1+	
		AA-	F1+	Aa3	P-1	AA-	A-1+	
	Strong, but susceptible to adverse conditions grade (strong grade)	A+	F1+ F1	A1	P-1	A+	A-1+ A-1	
		A	F1	A2	P-1 P-2	A	A-1+	
		A-	F1 F2	A3	P-1 P-2	A-	A-1+ A-2	
	Adequate grade	BBB+	F2	Baa1	P-2	BBB+	A-2	
		BBB	F2 F3	Baa2	P-2 P-3	BBB	A-2 A-3	
		BBB-	F3	Baa3	P-3	BBB-	A-3	
Sub-investing Grade	Speculative grade	BB+	B	Ba1	Not Prime (NP)	BB+	B-1	
		BB	B	Ba2	NP	BB	B-2	
		BB-	B	Ba3	NP	BB-	B-3	
	Very speculative grade	B+	B	B1	NP	B+	-	
		B	B	B2	NP	B	-	
		B-	B	B3	NP	B-	-	
	Vulnerable grade	CCC	C	Caa1	NP	CCC+	C	
		CCC	C	Caa2	NP	CCC	C	
		CCC	C	Caa3	NP	CCC-	C	
		CC	C	-	NP	CC	C	
		C	C	Ca	NP	C	C	
	Defaulting grade	D	D	C	NP	D	D	