SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Leader and Cabinet	12 March 2009
AUTHOR/S:	Chief Executive / Head of Accountancy	

INVESTMENT STRATEGY (TREASURY MANAGEMENT) 2009/10

Purpose

1. To approve the Investment Strategy for 2009/10.

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 December 2008 Forward Plan.

Background

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   (iii) repealed all the previous legislation on approved investments.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

4. 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.

5. The proposed investment strategy for 2009/10 is attached as **Appendix A**.

6. 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.

7. In view of the additional restrictions on the list of counterparties to take account of the current economic climate, it is proposed that no changes are made to the investment strategy for 2009/10.

Options

8. 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 2007/08 show that South Cambridgeshire achieved a return of 5.75% on combined investments (less than and more than 365 days) compared to 5.65% for its comparator group and 5.78% for the overall group. South Cambridgeshire was fifth highest in the comparator group of 12 other organisations and ninety-second 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 or similar 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 arising from less diversification. 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 an AAA rating would be heavily dependent on the credit rating being an accurate assessment. Standard & Poor’s Guide to Credit Rating Essentials states that “credit ratings are not investment advice” and “credit ratings are not guarantees of credit quality or of future credit risk”.

In addition to using the credit rating of organisations, some councils are also taking in to account the sovereign rating of the country where the organisation is based in another country.

Implications

9.

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 a strategy based solely on the use of credit ratings would not guarantee of an increased rate of return on investments and/or decreased risk.
Legal	None
Staffing	The use of credit ratings as additional information to the list of approved organisations 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. Any change to a strategy based solely on the use of credit ratings would place greater reliance on 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

Effect on Annual Priorities and Corporate Objectives and Aims, Approaches and Actions

10. The proposals in the report relate to investments and may affect the interest on balances which provides part of the resources for the Council to continue and improve its services as far as possible within the current financial constraints. They directly and indirectly contribute towards the achievement of the Council's existing corporate objectives and towards the Aims, Approaches and Actions to be adopted with effect from 1st April 2009.

Recommendations

11. Cabinet is requested to approve the Investment Strategy in the Appendix.

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).

Contact Officer: Adrian Burns, Head of Accountancy
Telephone: (01954) 713072
mailto:adrian.burns@scambs.gov.uk