



BORROWING AND INVESTMENT STRATEGY 2011/12 (revised) and 2012/13

1. Introduction

- 1.1 South Cambridgeshire District Council has adopted the Code of Practice for Treasury Management in the Public Services, 2011 edition, 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, with the exception of the reporting requirements to full Council.

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, and any financial instruments entered into to manage these risks.
- 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 for money 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 approach to risk 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.

The content of the policy statement and TMPs will follow the recommendations contained in sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this Council. Such amendments will not result in the Council materially deviating from the Code's key principles.

- 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 and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- 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 but under the Government scheme for Housing Revenue Account (HRA) Self-financing will be required to take on debt of around £205 million on 28 March 2012. The Council will raise this money from the Public Works Loan Board in order to take advantage of the special (lower) rate available only on the day of 26th March 2012 to local authorities which have to raise debt under HRA Self-financing. The debt transactions will be arranged on 26 March 2012 and effected on 28 March 2012.
- 5.2 The HRA Business Plan includes 41 loans in tranches of £5 million each with maturities every six months from March 2038 to September 2057. Any Public Works Loan Board debt has to be held for at least one year before it can be prematurely repaid and, therefore, a strategy for monitoring debt with a view to debt rescheduling will be incorporated in future investment strategies.
- 5.3 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.
- 5.4 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 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.
- 5.5 The Council's policy on the minimum revenue provision, being a provision for debt repayment to be set aside each year regardless of when debt repayment is actually made, will be the asset life method calculated by dividing the cost of an asset by its estimated useful life. The impact on HRA Self-financing is excluded from the calculation

of the minimum revenue provision under statutory guidance to be issued by the Department of Communities and Local Government.

- 5.6 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:

a borrowing and investment strategy before the start of the financial year to be approved by Executive and Council;
 a borrowing and 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 including those relating to treasury management are being approved by Council in February 2012 as part of the Medium Term Financial Strategy

- 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 1 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 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
23 February 2012

APPENDIX 1

Long and Short Term Credit Ratings

Audit Commission grading (for the purpose of standardisation)		Fitch		Moody's		Standard & Poor's			
		Long Term	Short Term less than or equal to one year	Long Term	Short Term less than or equal to one year	Long Term	Short Term less than or equal to one year		
Investment Grade	Extremely strong Grade	AAA	F1+	Aaa	P-1		AAA	A-1+	
	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		

SCDC Investment Criteria