VALE OF WHITE HORSE DISTRICT COUNCIL Report No. 160/06
Wards Affected - ALL

REPORT OF THE HEAD OF ASSET MANAGEMENT
TO THE EXECUTIVE
2 MARCH 2007

# Treasury Management and Investment Strategy for 2007/08

## 1.0 Introduction and Report Summary

1.1 The Treasury Management Policy, agreed by Council December 2001 requires the approval of an annual Treasury Management Strategy for the next financial year. This is in line with the CIPFA Code of Practice on Treasury Management.

1.2 In March 2004 the Office of the Deputy Prime Minister, now the Department for Communities and Local Government (DCLG) issued guidance under Section 15 of the Local Government Act 2003 on Local Government cash investments which requires approval of an Annual Investment Strategy. The guidance does acknowledge that it might be convenient to produce a single document that meets the requirements of the CIPFA code and the Secretary of State's guidance.

1.3 This report puts forward an Annual Strategy for this authority for 2007/08 which, as last year, complies with the CIPFA code and the DCLG guidance. This is unchanged from the existing strategy for 2006/07. This strategy restricts itself to non-property investments. For property investment, Members should refer to the Investment Policy last agreed by the Council on 24 March 2004

1.4 The Contact Officer for this report is Steve Lawrence, Head of Asset Management 01235 540321.

## *2.0 Recommendations*

*2.1 Members are asked to approve:*

*the Annual Treasury Management & Investment Strategy for 2007/08 (set out at Appendix A), and the limits and guidelines specified in it.*

## 3.0 Relationship with the Council's Vision, Strategies and Policies

a) Vision strands A and B.

b) This report complies with the Council's strategies for sound financial management.

c) This report complies with the Council's Treasury Management Policy, approved by Council on 19 December 2001, and follows the procedure recommended in the revised CIPFA Treasury Management Code of Practice, January 2002.

## 4.0 Local Government Investments

4.1 Local Authorities' powers and practices for investing their surplus funds are contained in Part 1 of the *Local Government Act 2003.* The act allows the Secretary of State to issue guidance on investments and to specify other guidance which should be followed. The ODPM issued guidance in March 2004 and specified that regard should also be had to the *Treasury Management Code of Practice* and *The Prudential Code for Capital Finance* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

4.2 The general objective remains that local authorities should prudently invest surplus funds held. Priority should be given to security and liquidity but it is reasonable to seek the highest return consistent with those aims. The DCLG guidance specifically discourages the use of speculative investments such as equities. Borrowing purely in order to invest remains unlawful.

4.3 Somewhat confusingly the guidance introduces the concept of "specified" and "non-specified" cash investments. Specified investments are those offering high security, high liquidity and low risk. They should be in sterling and with a maturity of no more than 1 year. Investments made with the UK Government or a local authority are automatically included as are bodies with "a high credit rating", the definition of which is left to the authority. Non-specified investments are those that don't meet this description. The aim seems to be not to discourage authorities from using non-specified investments but to ensure that proper procedures are in place to assess any greater risk. These categories are considered separately in sections 4 and 5 of the Strategy.

4.4 The guidance also applies to investments made through external fund managers.

## 5.0 Treasury Management and Investment Strategy

5.1 The Treasury Management Policy requires an annual Treasury Management & Investment Strategy Statement. This sets borrowing limits, investment objectives, approved organisations for investment, guidelines and performance criteria for the in-house operation. Since there has been no significant change in the Council's circumstances or the investment market the Strategy Statement for 2006/07 agreed in March 2006 is still suitable and has just been updated where necessary. The proposed Strategy Statement for 2007/08 is set out at Appendix A.

5.2 Prudential indicators required by the Capital Finance Regulations issued under the 2003 Act and the limits for external borrowing were agreed at the Council meeting on 21 February 2007.

STEVE LAWRENCE
HEAD OF ASSET MANAGEMENT

Background Papers:

Treasury Management in the Public Services – Code of Practice and Cross-sectoral Guidance notes. Published by CIPFA Jan 2002.

Guidance on Local Government Investments ODPM 12 March 2004

TREASURY MANGEMENT & INVESTMENT STRATEGY STATEMENT 2007-08

1.0 **Investment Objectives**

1.1 The main objectives to be followed in 2007/08 are:

- to invest in instruments conducive to achieving optimum returns whilst ensuring the security of the principal invested.
- to ensure a balanced portfolio in terms of period and maturity date with specific regard to major cash inflows and outflows (e.g. precept payments and grant receipts);
- to have regard to protecting the Council's position against fluctuations in interest rates and enabling it to plan properly for future financial commitments;
- to maintain sufficient liquidity to allow for cash-flow variations arising from income receipts and expenditure commitments, and to take advantage of interest rate movements when favourable;
- to keep investment management expenses to a minimum whilst ensuring that the overall return to the Council is maximised.

1.2 Investment of the Council's funds will be in accordance with the Treasury Management Policy. The overriding factor will be the security of the principal invested. Investment returns are associated with risk and, therefore, the margin of interest attainable will generally be lower the more secure the investment.

**2.0 Liquidity of Investments**

2.1 This refers to how easily the investment can be converted into cash. In normal circumstances higher returns are achievable from investments with lower liquidity. The use of longer term instruments (greater than 1 year to maturity) will fall in the non-specified investment category. It is proposed that these will only be used for the Council's core funds and a maximum investment period of three years is proposed because this is consistent with the capital planning framework and forecasting interest rate movements beyond 18 months is difficult. The actual limits are included under non-specified investments below.

**3.0 Approved Organisations for Investment**

3.1 When assessing an organisation for investment purposes the Council will use Butlers creditworthiness advice for applying credit rating criteria. Butlers is a division of ICAP Securities plc and is the Council's appointed investment advisor. The Council receives updates from Butlers of changes to credit ratings as they occur. These updates will be incorporated into the Council's counterparty list on the same day. The criteria will be applied as follows:

Banks the Council will use all banks with the following ratings (or equivalent) from Fitch, Moody's or Standard & Poor's:
Short Term: F1 Long Term: A-
Individual: C Support: 3

Wholly Owned Subsidiaries: The Council will use these where the parent bank meets the rating requirement as above.

Building Societies the Council will use building societies which have ratings as for banks above. In addition, it will use unrated Societies with assets in excess of £500 million. (This makes up the top 30).

Money Market Funds — Funds that have an AAA rating.

UK Government: Including gilts (to be used by the external fund manager) and the Debt Management Office (responsible for lending to local authorities).

Supranational Bonds: The Council's external fund manager is allowed to invest in these instruments through their mandate.

Other Local Authorities

## 4.0 Specified Investments

4.1 These are sterling investments of not more than one-year maturity in a body with a high credit rating and not defined as capital expenditure (making an investment in a company.) This would include investments with The UK Government, a Money Market fund which is rated AAA by Fitch, Moody's or Standard & Poor's, a local authority or an institution with a short term credit rating of either F1 *(Fitch)*, P-1 *(Moody's)* or A-1 *(Standard & Poor's)*.

## 5.0 Non-Specified Investments

5.1 These are any other type of permitted investment (i.e. not defined as specified above). This would include any sterling investments (there is no wish to invest in other currencies) with:

Gilt edged securities (over one year). These are used by the Council's Fund Manager. The mandate allows maximum duration of any investment to be 15 years but the average of all investments should not exceed 5 years.

Supranational bonds (over one year) (these are basically gilts but issued by foreign governments) with a AAA rating.

An institution with a long term credit rating of AA- *(Fitch and Standard & Poor's)* or Aa3 *(Moody's)* for deposits with a maturity greater than 1 year and less than 3 years.

Non-rated Building Societies with assets in excess of £1 billion (the top 21) limited to no longer than 9 months,

Non-rated Building Societies with assets in excess of £500 million (the next 9) limited to no longer than 6 months,

Unrated subsidiaries of an institution which meets the credit rating criteria outlined above limited to 6 months.

## 6.0 Limits with any institution

6.1 A balanced portfolio should be maintained to ensure sufficient liquidity is available to allow for cash flow variations, and to protect the Council against fluctuations in interest rates. The following limits will be applied (for organisations that meet the criteria above):

| | Fitch | Moody's | Standard & Poor's | Money Limit | Time Limit |
|---|---|---|---|---|---|
| Upper Limit Category | F1+ / AA- | P-1 / Aa3 | A-1+ / AA- | £5 m | 3 years |
| Lower Limit Category | F1 / A- | P-1 / A3 | A-1 / A- | £5 m | 1 year |
| Building Society Limits 1 | Assets in excess of £1bn | | | £3 m | 9 months |
| Building Society Limits 2 | Assets in excess of £500m | | | £3 m | 6 months |
| Unrated Subsidiaries | - | - | - | £3 m | 6 months |

| | | | | | |
|---|---|---|---|---|---|
| Other Institution Limits | - | - | - | £5 m | various |

1. The Upper and Lower Limit categories will include both banks and building societies.
2. The Other Institution Limit will be for other local authorities, the DMADF (Debt Management Account Deposit Facility – lending to the Government), Money Market Funds and Gilt and Supranational investments. These are all considered high quality names – although not always rated – and therefore will have the same limit as the Upper Category.

6.2 In exceptional circumstances short term variations to these limits will be allowed, subject to the written authority of the Strategic Director.

## 7.0 Borrowing Limits 2007/08

7.1 The Council is required to determine the following limits for the financial year 1 April 2007 to 31 March 2008. The Prudential Code for Capital Finance stipulates that these are set at the same time as the Prudential Indicators for Capital Finance are considered. Those indicators were included as part of the Executive Budget Proposal in Appendix A(i) of that report (yellow pages) and agreed on 21 February 2007.

| | Limit £'000 |
|---|---|
| Operational boundary for external debt | 2,000 |
| Authorised limit for external debt | 5,000 |
| limit for amounts at variable interest rates | nil |

## 8.0 Guidelines for In-house Investment

8.1 The brokers listed below are currently authorised to arrange the Council's cash investments:

Prebon Marshall Yamane (UK) Ltd
Tradition UK Limited
Intercapital Europe (Icap) (a division of ICAP Securities plc.)

8.2 New brokers can only be used after written consent from the Strategic Director.

8.3 Investments may only be made with Local Authorities and other organisations as authorised by the Bank of England under the Banking Act 1987, subject to fulfilling the criteria above and up to the limits above.

8.4 The Principal Accountant has responsibility for the daily management of cash and has the authority to agree investments for a period of up to three months within policy guidelines (the actual transaction must be authorised by one of the three bank signatories as with any payment).

8.5 Money invested for a period exceeding three months requires the prior written authorisation of the Head of Asset Management.

8.6 A weekly report will be produced to provide the Strategic Director & Chief Finance Officer with details of all investment activities.

## 9.0 Performance Measures

9.1 The Executive will receive regular reports on Treasury Management activities as detailed in the Treasury Management Policy.

9.2 The following key performance measures are recommended:

- in-house investment rates achieved compared to the LGC 7 day rate;
- adherence to investment policy and strategy;
- full investment of daily balances;
- maintenance of a balanced portfolio;
- weekly reports produced (in-house) or monthly (externally managed funds).

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