

SOUTH BUCKS DISTRICT COUNCIL

Annual Investment Strategy Policies 2015-16

1. This Council has regard to the DCLG's Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sector Guidance Notes. The Council's investment priorities will be security first, liquidity second and then return.
2. This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heads of Specified investments and Non- Specified Investments. These are listed in Schedules A and B.
3. The policies underpinning the investment strategy for managing investments and for giving priority to the security and liquidity of those investments are set out in this document.

Treasury Management Policy Statement

4. This organisation defines its treasury management activities as "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
5. This organisation regards the successful identification, monitoring and control 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.
6. This organisation 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 techniques, within the context of effective risk management."

CIPFA Treasury Management Code of Practice 2009

Introduction

7. The CIPFA Code of Practice on Treasury Management in Local Authorities was last revised in 2009 in the light of the default by Icelandic banks in 2008, and was approved by the Council on 23rd February 2010.
8. The revised Code also includes the treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities.
9. The Code has also set out various requirements which have been summarised in section 1 of the Treasury Management Strategy Statement.

Resolutions

10. CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following.

1. This organisation will create and maintain, as the cornerstone for effective treasury management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
 - suitable treasury management practices (TMPs), setting out the manner in which the organisation 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 organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

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.
3. This organisation delegates responsibility for the oversight and regular monitoring of its treasury management policies and practices to the Resources Portfolio Holder, and for the implementation and administration of treasury management policy and decisions to the Director of Resources, who will act in accordance with the organisation's policy statement and TMPs and, as a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Treasury Management Role of the Section 151 Officer - Director of Resources

11. The responsibilities are summarised as follows.
 - Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
 - Submitting regular treasury management reports.
 - Submitting budgets and budget variations in respect of treasury management activities.
 - Receiving and reviewing treasury management information reports.
 - Reviewing the performance of the treasury management function.
 - Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
 - Ensuring the adequacy of internal audit, and liaising with external audit.

- Recommending the appointment of external service providers or advisors.

Investment Objectives

12. The general policy objective for this Council is the prudent investment of its treasury balances. The Council’s investment priorities are the security of capital and liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity, and in an ethical manner that does not put the Council’s reputation at risk. Investment of the Council’s funds will be in accordance with the Treasury Management Strategy and Policy. All investments will be in sterling.
13. The DCLG maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

Specified Investments

14. The idea of specified investments is to identify investments offering high security and high liquidity. These investments can be used with minimal procedural formalities. All these investments should be in sterling and with a maturity of no more than a year.

Non - Specified Investments

15. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for periods longer than one year or with bodies, and would be subject to appropriate credit rating.

Security of Capital: The use of Credit Ratings

16. This Council relies on credit ratings published by Fitch IBCA (Standard and Poor’s for Money Market Funds where applicable) to establish the credit quality of counterparties and investment schemes. The Council determines the appropriate credit ratings it deems to be sufficiently high for each category of investment. The 2015/16 counterparty credit matrix for investments made by Officers as part of the Treasury Management Strategy is as follows:

	Duration	Maximum Amount	Fitch Rating	Comment
UK Institutions	Up to 5 years	£5m	A- or better	
	Up to 3 years	£5m	BBB+ or better	
Non UK Institution	Up to 3 years	£2m	A- or better	Sovereignty rating AA or better
Corporate Bonds/Bond Funds	Up to 5 years	£5m	A- or better	

Monitoring of credit ratings:

- The Council has access to Fitch IBCA credit ratings and is alerted to changes through its use of its treasury management advisor's website. These ratings cover both the specific financial institution but also the credit rating for the country in which the institution is incorporated.
- If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately. The Council will also immediately inform any external fund manager that it may decide to use of the withdrawal of the same.
- The Council will establish with any fund manager that it may decide to use their credit criteria and the frequency of their monitoring of credit ratings so as to be satisfied as to their stringency and regularity.

Monitoring of Reputational Risk Issues

17. This will be undertaken by monitoring the financial press and media to identify any issues in respect of the non-public sector investments held by the Council, and where appropriate seeking advice from external sources.

Use of Non - Specified Investments

18. The use of non-specified investments is limited to those set out in Schedule B. The Principal Accountant - Capital & Treasury will keep the use of such investments under continuous review in the light of risk (including reputational risk), liquidity and return. No additions will be made without the approval of the Council.

Investment balances/Liquidity of Investments

19. Based upon its cash flow forecasts, the Council anticipates its average core cash reserves in 2015/16 will be £12m. A prime consideration in the investment of fund balances is liquidity and the Council's forecast cash flow. Any in-house investment of more than three months needs the approval of the Director of Resources or the Head of Finance. If the Council were to choose to use the services of a cash fund manager duration limits will be specified in the contract.

Provisions for Credit related losses

20. If any of the Council's investments appears at risk of loss due to default the Council will make revenue provision of an appropriate amount, or follow any guidance issued by Government in such circumstances.
21. Any cash fund manager appointed by the Council will manage the funds on a discretionary basis. The fund management agreement between the Council and the manager would formally

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document the instruments that could be used within pre-agreed limits. The fund manager would use the Council's credit rating criteria.

End of year Investment Report

22. At the end of the financial year, the Council will prepare a report on its investment activity as part of its treasury management activity report.

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LOCAL GOVERNMENT INVESTMENTS (ENGLAND)
SPECIFIED INVESTMENTS

All investments listed below must be sterling -denominated

Investment	Repayable/ Redeemable Within 12 Months?	Security/ Minimum Credit Rating	Circumstance of use	Maximum period
Term deposits with the UK government or with English local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)with maturities up to 1 year	Yes	High security although LA's not credit rated	In-house and by any external fund manager	1 year - in house 31 days - external fund manager
Term deposits with credit -rated deposit takers(banks & building socs) with maturities up to 1 year	Yes	Yes, use of Fitch ratings subject to counterparty matrix	In- house & by any external fund manager	1 year - in house 31 days - external fund manager. Internal forward deals subject to 3 months in advance only approved by DoR
Certificates of Deposit issued by credit - rated deposit takers banks and building socs): up to 1 year Custodial arrangement required prior to purchase	Yes	Yes, use of Fitch ratings subject to counterparty matrix	In- house & by any external fund manager	1 Year
Gilts: up to 1 year Custodial arrangement required prior to purchase	Yes	Govt- backed	In - house & by any External Fund Manager	1 Year
Money Market Funds	Yes	Yes, AAA rated	In -house & by any external fund manager	The period of investment may not be determined at the outset but would be subject to cash flow & liquidity requirements
Treasury bills (Government debt security with a maturity less than 1 year and issued through a competitive bidding process at a discount to par value) Custodial arrangement required prior to purchase	Yes	Govt- backed	In -house & by any external fund manager	1 Year

LOCAL GOVERNMENT INVESTMENT (England)
NON - SPECIFIED INVESTMENTS

Investment	(A) Why use it ? (B) Associated risks ?	Repayable /Redeemable Within 12 months ?	Security /Minimum credit rating	Used By	Maximum value	Length of investment
<p>UK government gilts with maturities in excess of 1 year</p> <p>Custodial arrangement required prior to purchase</p>	<p>(A)(i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return)per annum, aids forward planning. iv) Index linked gilts can offer means of insulating against effect of inflation on returns. (v)If traded, potential for capital gain through appreciation in value (i.e.sold before maturity) (vi) No currency risk</p> <p>(B)(i) Market or interest rate risk: Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e potential for capital loss.</p>	<p>Yes</p>	<p>Govt backed</p>	<p>In -house & by any external fund manager</p>	<p>No restriction on gilts</p>	<p>Average maturity of the fund not to exceed 5 years</p>

Investment	(A) Why use it ? (B) Associated risks ?	Repayable /Redeemable Within 12 months ?	Security /Minimum credit rating	Used By	Maximum value	Length of investment
<p>Supranational Bonds</p> <p>Custodial arrangement required prior to purchase</p>	<p>(A)(i)Excellent credit quality. (ii) Relatively liquid (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt - aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity)</p> <p>(B)(i) Market or interest rate risk: Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii)Spread versus gilts could widen</p>	<p>Yes</p>	<p>AAA or Government guaranteed</p>	<p>In- house & External fund manager</p>	<p>Not more than 25% of the external fund with no more than 10% in any one institution</p> <p>In house maximum of £5m</p>	<p>Average duration of the fund not to exceed 5 years.</p> <p>Maximum of 5 years</p>
<p>Property Funds The use of these constitute capital expenditure</p>	<p>Alternative to cash funds. Returns subject to property market and rental streams</p>	<p>Not always dependant on terms of each fund</p>	<p>Investment in blue chip public sector property</p>	<p>Any Fund Manager</p>	<p>None</p>	<p>Dependant on terms of each fund</p>
<p>Term deposits with the UK government or with English local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)with maturities up to 5 years</p>	<p>Gives a known rate of return</p>	<p>No</p>	<p>High security although LA's not credit rated</p>	<p>In-house</p>	<p>None</p>	<p>5 years - in house</p>

Investment	(A) Why use it ? (B) Associated risks ?	Repayable /Redeemable Within 12 months ?	Security /Minimum credit rating	Used By	Maximum value	Length of investment
<p>Term deposits with credit - rated deposit takers(banks & building socs), Including callable deposits with maturities up to 5 years</p>	<p>Gives a known rate of return</p>	<p>No</p>	<p>Yes, use of Fitch ratings Subject to counterparty matrix</p>	<p>In- house & by any external fund manager</p>	<p>None</p>	<p>5 years - in house Internal forward deals subject to 3 months in advance only approved by DoR</p>
<p>Corporate Bonds</p> <p>Custodial arrangement required prior to purchase</p>	<p>(A)(i) If held to maturity, known yield (rate of return) per annum (ii) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity)</p> <p>(B)(i) Market or interest rate risk: Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss.</p>	<p>Yes</p>	<p>Yes, use of Fitch ratings Subject to counterparty matrix</p>	<p>In- house & by any external fund manager</p>	<p>Maximum of £5m</p>	<p>Maximum of 5 years</p>
<p>Corporate Bond Funds</p> <p>Pooled Investment Vehicle Custodial arrangement not required</p>	<p>(A) Attractive returns, provides Diversification, no need for custodial facilities, professional fund management, has liquidity. (B) Market or interest rate risk, impact of credit rating changes, will attract fund management fees, would have to account for unrealised gains and losses annually.</p>	<p>Yes- redeemable at net asset value</p>	<p>Yes, use of Fitch ratings Subject to counterparty matrix</p>	<p>Fund Manager</p>	<p>Maximum of £5m</p>	<p>Maximum of 5 years</p>