

## SOUTH BUCKS DISTRICT COUNCIL

### Annual Investment Strategy 2012-13

1. This Council has regard to the DCLG's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes.
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&B.
3. This strategy sets out this Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

#### Investment Objectives

4. 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.
5. 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

6. 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

7. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies which do not have a "high" credit rating.

#### Security of Capital : The use of Credit Ratings

8. 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 has also determined the appropriate credit ratings it deems to be "high" for each category of investment.

#### Monitoring of credit ratings:

- The Council has access to Fitch IBCA credit ratings and is alerted to changes through its use of the Sector 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**

9. This will be undertaken by monitoring the financial press to identify and 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**

10. The use of non-specified investments is limited to those set out in Schedule B. The Principal Accountant 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**

11. Based upon its cash flow forecasts, the Council anticipates its average core cash reserves in 2012/13 will be £20m. 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**

12. 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.
13. 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 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**

14. 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.

**LOCAL GOVERNMENT INVESTMENTS (ENGLAND)**  
**SPECIFIED INVESTMENTS**

All investments listed below must be sterling -denominated

<b>Investment</b>	<b>Repayable/ Redeemable Within 12 Months?</b>	<b>Security/ Minimum Credit Rating</b>	<b>Circumstance of use</b>	<b>Maximum period</b>
<b>Term deposits</b> 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
<b>Term deposits</b> 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
<b>Certificates of Deposit</b> 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
<b>Gilts:</b> up to 1 year  Custodial arrangement required prior to purchase	Yes	Govt- backed	In - house & by any External Fund Manager	1 Year
<b>Money Market Funds</b>	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
<b>Treasury bills</b> (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><b>UK government gilts with maturities in excess of 1 year</b></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)If traded, potential for capital gain through appreciation in value (i.e.sold before maturity) (v) 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>	Yes	Govt backed	In -house & by any external fund manager	No restriction on gilts	Average maturity of the fund not to exceed 5 years
<p><b>Supranational Bonds</b></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</p>	Yes	AAA or Government guaranteed	In- house & External fund manager	<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>

Investment	(A) Why use it ? (B) Associated risks ?	Repayable /Redeemable Within 12 months ?	Security /Minimum credit rating	Used By	Maximum value	Length of investment
	before maturity)  (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					
<b>Property Funds</b> The use of these constitute capital expenditure	Alternative to cash funds. Returns subject to property market and rental streams	Not always dependant on terms of each fund	Investment in blue chip public sector property	Any Fund Manager	None	Dependant on terms of each fund
<b>Term deposits</b> with credit - rated deposit takers(banks & building socs), Including callable deposits with maturities up to 5 years	Gives a known rate of return	No	Yes, use of Fitch ratings Subject to counterparty matrix	In- house & by any external fund manager		5 years - in house Internal forward deals subject to 3 months in advance only approved by DoR
<b>Corporate Bonds</b>  Custodial arrangement required prior to purchase	(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)  (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.	Yes	Yes, use of Fitch ratings Subject to counterparty matrix	In- house	Maximum of £2m	Maximum of 3 years