
Appendix 8 – Local Government Investments - CLG guidance

8.1 Local Government investments – guidance under section 15(1) (a) of the Local Government Act 2003 - CLG letter dated 12 March 2004 and guidance.

<http://webarchive.nationalarchives.gov.uk/20081205143343/http://www.local.odpm.gov.uk/finance/capital/data/lginvest2.pdf>

8.2 Guidance on Local government Investments (second edition) issued 11 March 2010

<http://www.communities.gov.uk/documents/localgovernment/pdf/1501971.pdf>



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12 March 2004

Dear Colleague

**LOCAL GOVERNMENT INVESTMENTS
GUIDANCE UNDER SECTION 15(1)(a) OF THE LOCAL GOVERNMENT ACT 2003**

With my letter of 15 December 2003, I circulated for consultation draft guidance on local government investments. The consultation ended on 30 January and we are most grateful to all the authorities and other bodies who responded. We have considered the comments in liaison with the Local Government Association, the Audit Commission and CIPFA.

The guidance is now formally issued by the Secretary of State under section 15(1)(a) of the *Local Government Act 2003*. I enclose a copy of the guidance, together with an informal commentary and background information.

The guidance applies in relation to the financial year 2004-05 and subsequent financial years. However, authorities are required to have regard to it immediately, since action is needed now. Normally, an Annual Investment Strategy should be approved by the full Council before the start of the financial year (paragraph 11 of the guidance). If it is impracticable for the Council to meet before 1 April this year, approval may, on this occasion only, be obtained as soon as possible after the start of the financial year.

Authorities who have prepared their Strategies on the basis of the draft guidance are unlikely to need to revise them, since the content has not changed substantially. The main outcome of the consultation is outlined in paragraph 9 of the commentary, which explains that regulations have been made to ensure that certain investments (in *money market funds* and *multilateral development banks*) will not count as capital expenditure.

The present investments rules, in the *Local Authorities (Capital Finance) (Approved Investments) Regulations 1990*, made under Part 4 of the *Local Government and Housing Act 1989*, will of course cease to have effect when Part 4 is repealed on 1 April 2004.

Any enquiries about the guidance should be addressed to my colleague Ross Buchanan here at: ross.buchanan@odpm.gsi.gov.uk

Yours sincerely

Trevor Emmott

- (d) the investment is made with a body or in an investment scheme which has been awarded a high credit rating (see paragraph 13) by a credit rating agency (as defined in paragraph 5) or is made with any of the following:
- (i) the United Kingdom Government
 - (ii) a local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland
 - (iii) a parish council or community council.

13. For the purposes of paragraph 12(d) above, the Secretary of State recommends that the **Annual Investment Strategy** states:

- (a) how *high credit rating* is to be defined for the categories of investments which the local authority intends to use in the financial year
- (b) how and how frequently credit ratings are to be monitored and what action is to be taken when ratings change.

Non-specified Investments

14. With regard to non-specified investments (ie those not meeting the definition in paragraph 12), the Secretary of State recommends that the **Annual Investment Strategy**:

- (a) sets out procedures for determining which categories of such investments may prudently be used;
- (b) identifies which categories of such investments have so far been identified as prudent for use during the financial year; and
- (c) states the upper limits for the amounts which, at any time during the financial year, may be held in each identified category and for the overall amount which may be held in non-specified investments (the limits being defined by reference to a sum of money or a percentage of the local authority's overall investments).

LIQUIDITY OF INVESTMENTS

15. The Secretary of State recommends that the **Annual Investment Strategy** sets out procedures for determining the maximum periods for which funds may prudently be committed.

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12 March 2004

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