

Financial Management: Investment Options for Counties & Local Authorities

World Context

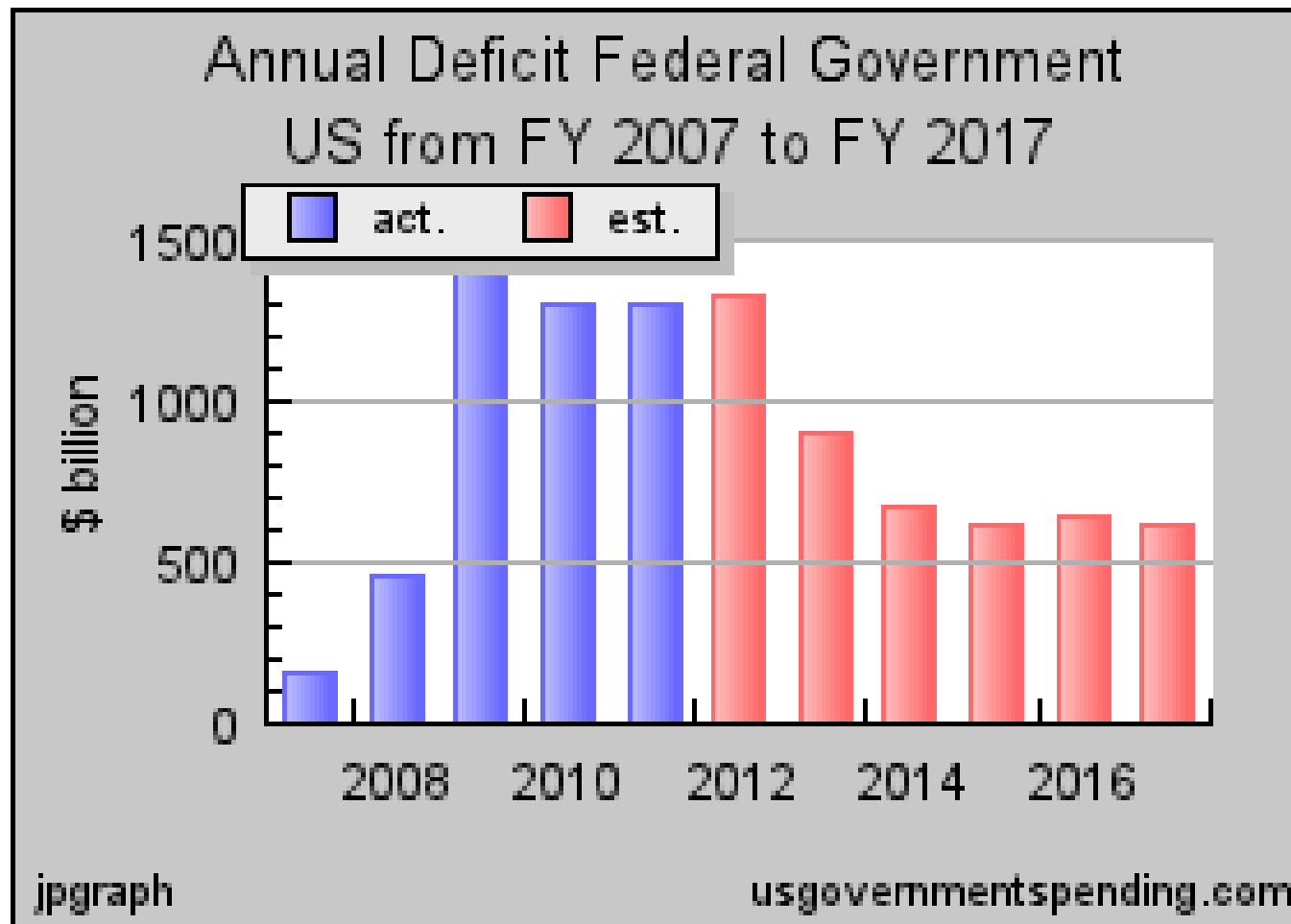
- The richest state in the USA is California, which ran a budget deficit of \$60Bn in 2009
- The world's superpower – the USA runs a budget deficit of \$1.3tn
- The and foreign holders of US Debt of \$ 5tn
- PRC holds \$1.2tn of US treasury Bonds
- **US States and Local Governments**

U.S. debt holdings: \$484.4 billion
7th after Fed, China, Savings bonds, Japan ,Pension funds and mutual funds

US Government Deficit Figures

- FY 2012: \$1,327 billion
- FY 2011: \$1,300 billion
- FY 2010: \$1,293 billion
- FY 2009: \$1,413 billion
- FY 2008: \$459 billion
- FY 2007: \$161 billion

US Government Deficits



List of U.S. states by GDP in 2010 \$m

• <u>California</u>	1,936,400	307,000
• <u>Texas</u>	1,207,432	
• <u>New York</u>	1,156,500	
• <u>Florida</u>	754,000	
• <u>Illinois</u>	644,200	150,000
• <u>Pennsylvania</u>	575,600	
• <u>New Jersey</u>	497,000	183,000
• <u>Ohio</u>	483,400	
• <u>Virginia</u>	427,700	
• <u>North Carolina</u>	407,400	
• <u>Georgia</u>	404,600	
• <u>Massachusetts</u>	377,700	



When life gives you a lemon,.....

Las Vegas by Night



What is Financial Management

- “An attempt to use limited financial resources to meet limitless needs”

County/Local Government needs

- Provide Services to the resident of the counties, local government jurisdiction
- The services include;
 - Education, Training
 - Health,
 - Water & Sanitation
 - Environment,
 - Transport,
 - Maintenance of infrastructure,

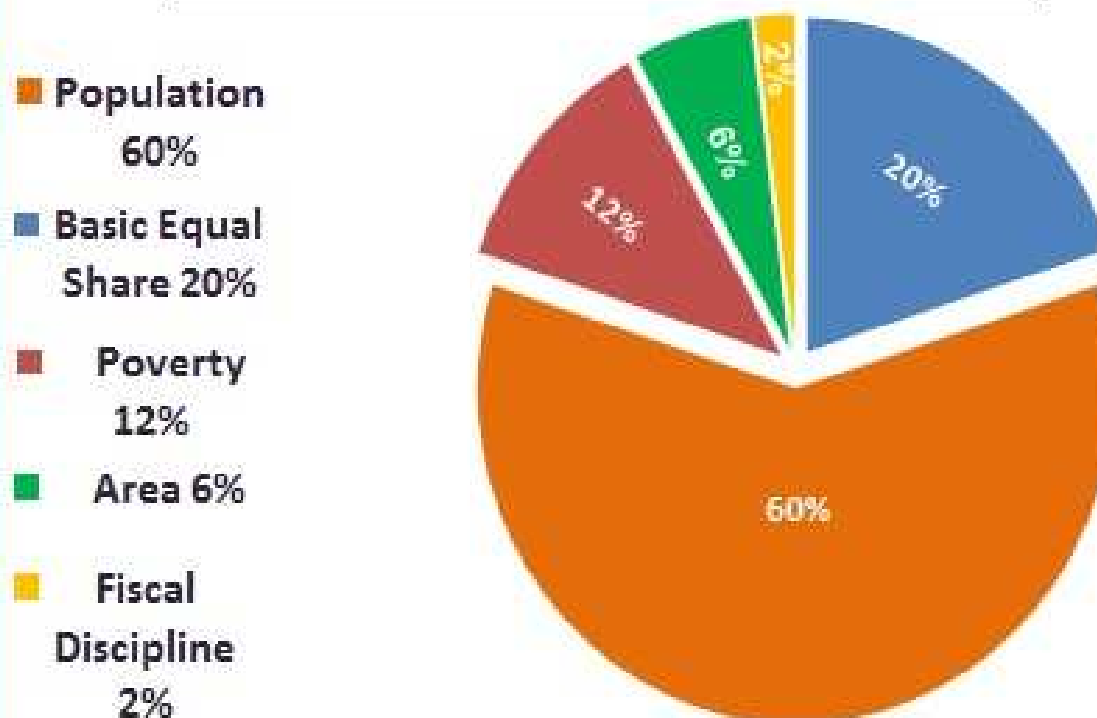
County Government Responsibilities

- Meet the recurrent needs, through
 - Central Government allocations
 - Levies and projects income
- Finance development projects
 - Surplus from recurrent expenditure,
 - Central Government funding
 - Development partners
 - Local Investors
 - County / Municipal Bonds

- **COUNTY EQUITABLE SHARE FORMULA**
- **EQUITABLE SHARE $C_a = \sum (P_i + P V_i + A_i + B S_i + F D_i)$**
- **WHERE**
- **C_a = COUNTY REVENUE SHARE**
- **P = COUNTY'S SHARE OF POPULATION COMPONENT**
- **$P V$ = COUNTY'S SHARE OF POVERTY COMPONENT**
- **A = COUNTY'S SHARE OF LAND AREA COMPONENT**
- **$B S$ = COUNTY'S EQUAL SHARE COMPONENT**
- **$F D$ = COUNTY'S SHARE OF FISCAL DISCIPLINE COMPONENT**

COMMISSION ON REVENUE ALLOCATION

PARAMETERS AND WEIGHTS OF THE FORMULA



Investment Policy

First step in investments is to establish an Investment Policy

An investment policy is meant to align the vision of the county to the investment characteristics

It outlines the Investment Strategy to be deployed by the County

It Profiles the Investments, the Risks and expected Returns

Consult an Investment Expert for drafting an IP

Characteristics of a good IP

- Defines long-range objectives
- Recommends asset allocation strategy
- Matches sources of funds to investments
- Realistic
- Unambiguous
- Sustainable
- Subject to regular review

Investment can only be considered

- When the county has temporary excess cashflow
- If the county generates surplus funds from its operations and investments
- Raises investment funds form long term sources

When the county has temporary excess cashflow

- May arise from
 - County receives allocation in lumpsum but will pay for services evenly throughout the year,
 - County collects Fees and Licences annually in advance but will provide services over the year
- Consider only short to medium term investments
- Short term are $< 1\text{yr}$, medium term $>1\text{yr}<5\text{yrs}$

Short Term Investments

Use Money Market Instruments

- Deposits – Call, term deposits
- Treasury Bills – 90, 180, 364 days
- Treasury Bonds – when rates are going down
- Rates are dynamic depending on the economic realities of the day
- The Key characteristics to consider are LIQUIDITY and SAFETY

Medium Term

Use Capital Market Instruments

- Treasury Bonds
- Strategic Equities
- Corporate Bonds
- Economic performance forms a key determinant of investment performance
- The Key characteristics to consider are SAFETY and RETURN

Long Term Investments

- Long term Investments go beyond 5 years
- Sources of Long Term funds
 - County generates surplus funds
 - County Receives development funds/loans/assistance
- Establish a county “sovereign” fund
- Look for opportunities in other counties
- Invest in Vision 2030 flagship projects

For Long Term Investments

Carry out Investment appraisal

- **Economic Appraisal**
- **Technical Appraisal**
- **Commercial Appraisal**
- **Economic Appraisal**
- **Financial Appraisal**
- **Management Appraisal**
- **Social Cost Benefit Analysis**
- **Ecological Analysis**

Financial Analysis

- Financial analysis falls into the following categories
 - Non-discounted cash flow techniques
 - Payback Period
 - Average Rate of Return (ARR)
 - Discounted cash flow techniques
 - Net Present Value Method (NPV)
 - Internal Rate of Return (IRR)
 - Profitability Index (PI)
 - Benefit to Cost Ratio (BCR)

Investment Risk Management

- Short Term & Medium Term
 - Establish market depth and liquidity
 - Determine the free float for equities
 - Stability of the institution,
- Long Term
 - Proper Appraisal
 - Regular Reviews – Quarterly
 - Manage operational Risks

To be an Effective County Finance Manager

- Be proactive
- Be alert
- Involve experts
- Communicate objectives effectively
- Be a team player



Thank you

Questions?