



CABINET

11 July 2012

Subject Heading:

Amendment to the 2012/13 Annual Investment Strategy

Cabinet Member:

Cllr Roger Ramsey

CMT Lead:

Andrew Blake-Herbert

Report Author and contact details:

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Policy context:

The Council is required to approve any changes to the Annual Investment Strategy

Financial summary:

There are no direct financial implications from the strategy. Treasury management activities are considered as part of the overall budget strategy.

Is this a Key Decision?

No

Is this a Strategic Decision?

No

When should this matter be reviewed?

Bi-Annually

Reviewing OSC:

Audit Committee

The subject matter of this report deals with the following Council Objectives

Ensuring a clean, safe and green borough	<input type="checkbox"/>
Championing education and learning for all	<input type="checkbox"/>
Providing economic, social and cultural activity in thriving towns and villages	<input type="checkbox"/>
Valuing and enhancing the lives of our residents	<input type="checkbox"/>
Delivering high customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

The Council's investment policy is set out in the Treasury Management Strategy Statement which was agreed by full Council as part of the budget setting process in February.

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

This report sets out 2 amendments to the approved investment policy

RECOMMENDATIONS

Cabinet to agree the two changes set out below to the Annual Investment Strategy

REPORT DETAIL

With the economic situation in Europe worsening over the last couple of months there have been credit rating downgrades and negative rating watches to the majority of leading financial institutions. This has meant that the Authorities eligible counterparties have reduced even further, most recently with Santander UK now temporarily being removed from the list following a negative ratings watch.

The reduction in available counterparties, coupled with an increase in cash from the HRA self financing changes has meant that the Council has often had no room with any of its approved counterparties. As a result deposits have been placed with either central government via the debt management office or with other local Authorities earning very low interest rates (often the bank charge associated with the money transfer has been greater than the actual interest earned).

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To react to the changing financial environment the following two changes to the Annual Investment Strategy are being requested

- 1) Amend the group limit for UK institutions to the higher of £25m or 25% of the investments opening balance at the start of the month

Previously this had been the lower of £25m or 25% of the investments opening balance at the start of the quarter as prior to the introduction of the HRA refinancing reform traditionally the start of the quarter was always the highest cash position. With rental incomes being generated throughout the month this is now no longer the position so by changing the lending limit, this will allow enough flexibility should cash levels increase.

- 2) to create an additional £5m overnight limit (in excess of any previously set limit) with the Council's banker to allow for late receipt of cash. Should this additional limit be used the Director of Finance and Commerce and the Head of Finance will be notified and the cash would be placed with a more suitable counterparty the following working day.

This has never been an issue before as there has always been available headroom however following the conditions set out above there is not always the necessary headroom available now.

REASONS AND OPTIONS

Reasons for the decision:

The statutory Codes set out that the Members approve any amendments to the Annual Investment Strategy for 2012/13.

Other options considered:

- 1) To not implement the changes to the strategy. This would mean that the Council would continue to utilise the Debt Management Office and other Local Authorities often at a cost to the Council.
 - 2) To increase the number of available counterparties used by the Authority. This would mean using lesser rated institutions or those that for various reasons do not appear on the Council's approved lending list. Officers were not happy to recommend this approach to Members.
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IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications associated with the proposed changes to the strategy as it would continue to deliver the planned level interest earnings from its Investments.

The downgrading of Santander reduces the number of available counterparties with whom the Council may deposit funds. As a consequence the Council runs the risk of being left with surplus cash which can only be deposited as a last resort with the Debt Management Office. There is also a risk that the DMO would refuse to accept deposits at short notice leaving the Council with no valid counter party or that funds are received too late in the day to be deposited with the DMO.

The proposed changes to the strategy allow for a small increase in the level of funds deposited with remaining counter parties including an increase in overnight exposure with our bankers, RBS. As such the Council would have a higher exposure to losses in the event of any of the remaining counterparties defaulting on repayment. However, the proposed counterparty limits are not considered to be large by comparison with other London Authorities.

Legal implications and risks:

There are no apparent legal implications arising as a result of this Report.

Human Resources implications and risks:

There are no direct Human Resources implications arising as a result of this report

Equalities implications and risks:

There are no equalities implications within this report

BACKGROUND PAPERS

- 1 CIPFA Prudential Code
 - 2 CIPFA Treasury Management Code of Practice
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