

TREASURY MANAGEMENT STRATEGY 2011/12 – PROPOSED AMENDMENT

EXECUTIVE MEMBER: Councillor G Troughton

LEAD OFFICER: Joanne Wagstaffe , Corporate Director – Resources and Transformation

REPORT AUTHOR: Angela Brown, Interim Finance Manager

SUMMARY:

In light of the current heightened uncertainty in the financial markets and advice from our Treasury Advisors urging caution and to further restrict our investment criteria, we have reviewed our Treasury Management Strategy and there are some proposed amendments to reflect the current economic position. This report seeks the approval of Council to update the operation of the current Treasury Management Strategy, which was previously approved at Council on 22nd February 2011.

RECOMMENDATIONS:

We ask Council to note the report and approve:

- i) the changes to the Treasury Management Strategy as outlined in this report, which is to increase - with immediate effect - the level of investment with UK semi nationalised institutions (only) from a daily operational limit of £5m to a new limit of £7.5m per counterparty.
- ii) In extreme circumstances and with the prior approval of the Corporate Director - Resources and Transformation that the above daily operational limit of £7.5m is increased to an ultimate limit of £10m per counterparty for UK semi nationalised institutions for short term investments only.

1. INTRODUCTION

- 1.1 A newsflash was received on 8th September 2011 from our Treasury Advisors, Sector, alerting us to the increasing uncertainty in the current economic climate; specifically surrounding the present deterioration of the Eurozone. They encouraged the placement of greater restrictions on our counterparty criteria and stressed a strong need for caution when making new investments.

- 1.2 The key advice from Sector was to restrict investments to a maximum of 3 months (with a few exceptions) and utilise safe havens i.e. UK Government and related entities, UK semi-nationalised institutions or Money Market Funds.
- 1.3 These additional restrictions on our counterparty list would further reduce an already limited amount of investment opportunities. We therefore need to take precautionary measures to ensure we can continue to make necessary investments whilst ensuring that the principal is safeguarded.

2. PROPOSALS

- 2.1 We propose that the current limit of £5m per counterparty be increased solely for the UK semi nationalised banks to a daily operational limit of up to £7.5m. We also request that in extreme circumstances this limit may be expanded from £7.5m to an ultimate level of £10m solely for short term investments and with the prior approval of the Director for Resources and Transformation. This amendment was discussed with our Treasury advisors and agreed as a prudent and secure option in the current climate.
- 2.2 To alleviate the immediate constraint on the counterparty list, we are in the process of opening another two Money Market Funds, in addition to the one already held. These are highly rated institutions allowing instant access to our investments of a maximum of £5m into each Fund.
- 2.3 The review has highlighted that the current Treasury Management Strategy is not clear on the use of investments placed with institutions which are members of the same Group. We propose that the Strategy be reworded to clarify that in future institutions that are part of the same Group and that share the same asset base will be classified as one Counterparty. Although further restrictions could hinder the potential number of counterparties we are able to invest with, the proposal to increase the Counterparty limits as set out in 2.1 should serve to alleviate this. The formal amendment will be made as part of the revision of the 2012 Treasury Management Strategy Statement which is currently underway.
- 2.4 The implications of the further limitations of Counterparties on our investment returns will be monitored and reported as part of the budget monitoring process. We will continue to seek the best returns available within the extreme limitations of the current market, and ensuring the principles of Security, Liquidity and Yield are upheld in our approach.

3. CONCLUSIONS

- 3.1 Following advice from our Treasury Advisors to further limit our counterparty list and restrict the majority of investments to a maximum of 3 months due to the current economic difficulties in the Euro zone, we need to ensure our Treasury Management Strategy is updated to reflect the current financial situation, but also to enable us to continue to place investments.
- 3.2 We propose that the recommendation to increase the level of investment with UK semi nationalised institutions only, as outlined in the above proposal, is agreed in recognition that this is the most cautious approach in the operation of our Treasury Management in the current climate.

4. STATUTORY OFFICER COMMENTS

- 4.1 The Monitoring Officer's comments are: None
- 4.2 The Section 151 Officer's comments are: Included in the report.
- 4.3 Community Impact Assessment Comments: None
- 4.4 Other Consultee Comments, if any: Our advisors, Sector Treasury Management Services have been consulted and concur with the proposals.

5. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

- 5.1 The Treasury Management monitoring is reported to Executive on both a quarterly and half yearly basis and at the financial year end. It also forms part of the revenue monitoring report distributed to Heads of Service on a monthly basis. The principles set out in the Treasury Management Strategy ensure that we have a balance between security and liquidity of funds and the yield achieved, with security being the principle concern particularly in the current economic climate.

6. WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

- 6.1 The recommendations from this report will form part of the daily working operation of Treasury Management with immediate effect. The amendments required to the current Treasury Management Strategy will be encompassed within the revision work to produce the Treasury Management Strategy Statement for 2012 (currently underway). This will then be presented to Full Council prior to the start of the new financial year.

List of Appendices

None

List of Background Documents:

Credit Issues Newsflash – Sector Treasury Services