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<b>Subject:</b>	<b>REVISED 2015/16 TREASURY MANAGEMENT STRATEGY</b>
<b>Meeting and Date:</b>	<b>Cabinet – 7 September 2015</b> <b>Council – 30 September 2015</b>
<b>Report of:</b>	<b>Mike Davis – Director of Finance, Housing and Community</b>
<b>Portfolio Holder:</b>	<b>Councillor Mike Conolly – Portfolio Holder for Corporate Resources and Performance</b>
<b>Decision Type:</b>	<b>Non-Key Decision</b>
<b>Classification:</b>	<b>Unrestricted</b>

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<b>Purpose of the report:</b>	To update the 2015/16 Treasury Management Strategy
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<b>Recommendation:</b>	(a) It is recommended that Cabinet recommend to Council that the revised 2015/16 Treasury Management Strategy be approved.  (b) It is recommended that Council approve the revised 2015/16 Treasury Management Strategy.
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## 1. Summary

The purpose of this report is to update the 15/16 Treasury Management Strategy Statement with a revised investment strategy. This is required as Investec, the Council's external fund manager, decided to withdraw from the segregated fund market, meaning that the funds of approx. £12.5m have been brought back in-house. This has caused the Council to temporarily be in breach of the TMS.

## 2. Introduction and Background

The Council produces an annual Treasury Management Strategy Statement (TMSS) as part of the budget setting process, which is incorporated within the Medium Term Financial Plan each year. The strategy outlines the criteria that investments need to meet. As such, limits have been put in place for how much in-house money can be invested with any one bank or building society. This limit is currently £5m for all institutions except NatWest, the Council's operating bank, for which the limit is £10m.

In April 2015 Investec advised that it would no longer run the investment fund in which the Council had circa £12.5m invested. Investec were the main fund manager in this market and therefore, given the Council's low risk appetite, there is little option but to bring the funds back in-house, rather than place it in a higher risk fund with Investec that was offered as an alternative.

£1.9m worth of gilts have been retained and transferred to Kings and Shaxson to hold in custody until they mature in 2018.

The balance of circa £11m was repaid in cash by Investec on 30<sup>th</sup> June 2015. This has been temporarily deposited in the Council's NatWest SIBA account whilst alternative investment options have been investigated, leading to the £10m limit for NatWest being breached. However, these extra funds are instantly available and therefore very secure, but are also earning much reduced returns due to the low interest accrued on such instant-access accounts.

To take into account the increase in in-house funds and earmarked reserves, it has been necessary to revise the TMSS investment criteria as, currently, the SIBA account holds more than its limit, and options for depositing the money with higher interest-bearing accounts are impacted by the restrictions imposed by the existing criteria.

The revised TMSS gives more flexibility, increasing the number of counterparties that can be used and increasing the limit allowed to be deposited with some, whilst being mindful of the Council's main objective for investments that the funds should be placed with high quality counterparties to ensure the security of the deposits. This maintains the objectives of security first, liquidity second and then maximising returns.

### **Options**

**Option 1.** To accept the revised 2015/16 Treasury Management Strategy Statement to enable diversification of investments, including use of money market funds, and placing higher amounts with highly credit-rated banks and institutions in accordance with the statistics and credit ratings provided and assessed by the Council's investment advisors, Capita Asset Services. This is the recommended option.

**Option 2.** Not to accept the revised 2015/16 Treasury Management Strategy. This is not recommended as it means that the Council will remain in breach of the existing TMSS and its ability to derive better returns from its investments will be impaired.

**Option 3.** To propose alternative investment criteria, including revisiting the Council's appetite for risk, the kinds of investment vehicles available (incl. property funds, etc.) and reconsidering its existing investment objectives of security first, liquidity second and then maximisation of returns. This is not recommended, as the Council primarily seeks to protect the security of its investments. To diversify extensively into other complex products would require greater financial resource and result in greater risk with no absolute guarantee of greater returns. The collapse of the Iceland banking system several years ago led to adverse publicity over the Council's £1m deposit, despite the Council recovering substantially the whole of the capital value of its initial outlay eventually. However, the situation highlighted the scrutiny and sensitivity of investment decisions over money held for public services and projects.

## **3 Corporate Implications**

- 3.1 Comment from the Section 151 Officer: Finance have no further comments to make. (DL)
- 3.2 Comment from the Senior Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make. (HR)
- 3.3 Comment from the Equalities Officer: This report does not specifically highlight any equalities implications however, in discharging their responsibilities members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15> (KM)

## **Appendices**

Appendix 1 – Revised 15/16 Treasury Management Strategy

## **Background Papers**

Medium Term Financial Plan 2014/15 – 2016/17

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