

REPORT TO COUNCIL

REPORT OF: CORPORATE HEAD OF FINANCE AND CUSTOMER SERVICES

REPORT NO.: CHFCS17

DATE: 22nd January 2009

TITLE:	Revision of Treasury Management Strategy 2008-09	
FORWARD PLAN ITEM:	Yes	
DATE WHEN FIRST APPEARED IN FORWARD PLAN:	November 2008	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	Policy Framework Proposal	
COUNCIL AIMS/ PORTFOLIO HOLDER NAME AND DESIGNATION:	Cllr Mrs Maureen Spencer-Gregson O.B.E. Assets and Resources Portfolio Holder	
CORPORATE PRIORITY:	Quality Organisation	
INITIAL IMPACT ASSESSMENT:	Carried out and appended to the report:	Full impact assessment required:
Equality and Diversity	N/A	
Crime and Disorder	N/A	
Risk	Included in medium term financial plan	
Climate Change	N/A	
Health and Safety	N/A	
Data Quality	Included in medium term financial plan	
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS:	CHFR91, CHFCS13	

1. INTRODUCTION

Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services. In line with the Code the Council has adopted a treasury management strategy which was approved by Council on 3 March 2008.

Due to the uncertainty in the investment markets the Council needs to ensure prudent financial management in the current climate and is therefore seeking to update its current Investment Strategy for 2008/09.

2. RECOMMENDATION

The Cabinet, at its meeting on 5 January 2009, made the following decision:

‘to recommend to Council for approval the revised Treasury Management Strategy for 2008/09’.

3. DETAILS OF REPORT

In accordance with the requirements of Local Government Act 2003 a Treasury Management Strategy is provided within Appendix A. This appendix provides:

- the reporting requirements of prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Annex A of Appendix A)
- the Treasury Strategy in accordance with CIPFA Code of Practice on Treasury Management (Annex B of Appendix A)
- the investment strategy in accordance with the Department of Communities and Local Government Investment Guidance (Annex C of Appendix A).

Annex A and Annex B have remained unchanged from that approved by Council on 3 March 2008. Annex C – Investment Strategy has been updated to reflect the changes in investment criteria for institutions that the Councils invests money with and these are outlined in section 4 of the report (pages 14-16 refer).

4. INVESTMENT STRATEGY

Due to the current economic climate and instability in the money markets it is proposed that the level of financial standing of an institution should be increased. Annex C of Appendix A sets out the new criteria expected of institutions when investing money which has been based on the highest financial rating. It also sets out the maximum amount of money that can be invested with one institution for both specified and non-specified investments. This will ensure the Council has a robust and low risk investment strategy that will protect the Council from any significant financial loss. It may also mean the Council it is not always achieving the highest rate but is ensuring investments are managed on a low risk basis during the current economic climate.

The summary of the proposed changes is as follows:

- Page 14 - Specified investments previously stated that the Council's loan officer is restricted to placing funds with:
 - The NatWest Bank (the Council's Bank) either via their Deposit Dealing desk or a Special Interest Bearing Account (SIBA);*
 - The Alliance and Leicester Bank;*
 - HBOS Bank;*
 - The Principality Building Society;*

This has been amended to reclassify the restricted institutions and now includes a financial rating table that specifies the criteria institutions need to meet (where there is a rating available. This is outlined below:

- UK Institutions based on the ratings in the table below*
- Foreign Institutions base on the ratings in the table below*
- Building Societies with assets over £1billion and based on the ratings table below*

The ratings table below is based on the Lowest Common Denominator method (this includes ratings by Standard and Poor's, Moody's and Fitch) and institutions must meet all criteria (where there is a rating available) in order for the Council to place investments with them.

<i>Rating</i>	<i>Fitch</i>				<i>Moody's</i>			<i>Standard and Poor's</i>	
<i>Institution</i>	<i>Short Term</i>	<i>Long Term</i>	<i>Individual</i>	<i>Support</i>	<i>Short Term</i>	<i>Long Term</i>	<i>Financial Strength</i>	<i>Short Term</i>	<i>Long Term</i>
<i>UK banks and building societies</i>	<i>F1</i>	<i>AA-</i>	<i>C</i>	<i>3</i>	<i>P1</i>	<i>Aa3</i>	<i>C</i>	<i>A1</i>	<i>AA-</i>
<i>Foreign</i>	<i>F1+</i>	<i>AAA</i>	<i>A</i>	<i>1</i>	<i>P1</i>	<i>AAA</i>	<i>A</i>	<i>A1+</i>	<i>AAA</i>

(The ratings criteria in respect of foreign institutions is the highest rating)

- Page 15 states the investment limit that the Council can place with any one institution for specified investments, previously this read:

Amounts invested with any one institution shall not exceed £7m for periods of more than one month

To take account of the fact that the authority has more institutions it can invest in for specified investments following the change in rating criteria outlined above, this has resulted in a reduction in the investment limit to reflect a more low risk strategy. This now reads:

Amounts invested with any one institution shall not exceed £5m for periods of more than one month

- Page 15 – a condition has been added which specifies limits on the amounts the Council may invest on non-specified investments.

Amounts invested with any one institution shall not exceed £2m for periods of more than 2 years

- Page 15 category C in the Non Specified Investment Category table has been amended. Previously this read:

Building societies not meeting the basic security requirements under the specified investments. The Council will include the top 30 building societies.

This has subsequently been amended to increase the criteria for Building Societies and now reads:

Building societies not meeting the basic security requirements under the specified investments. The Council will include building societies with assets over £1billion

- Page 15 the category C and D Limits in the Non Specified Investment Category table have been amended.

Previously these were both 25% and have both been changed to 15% to reflect a lower risk strategy.

- Page 16 paragraph 3 bullet point 2 states which financial institutions the Councils investment brokers can place investments with. Previously this read:

Investments made with local authorities, the top 30 building societies, English and Scottish clearing banks (and their subsidiaries) and overseas banks. The placing of funds with overseas banks is restricted to institutions with a credit rating of F1+ (short term loans) and AA rating (long term loans)

Following the amended criteria for rating financial institutions the Council invests with as outlined previously this now reads:

Investments made with local authorities, building societies with assets over £1billion, English and Scottish clearing banks (and their subsidiaries) and foreign banks will be in accordance with the ratings identified for specified investments outlined above

- Page 16 paragraph 3 bullet point 3 states the financial limits the Councils investment brokers should adhere to when placing investments with financial institutions. Previously this read:

Amounts invested with anyone institution or group should not exceed 25% of the fund value or a maximum of £7m for periods of more than one month.

Following the revised limits for specified investments and new limits for non-specified investments this has now reads:

Amounts invested with any one institution or group should not exceed 15% of the fund value or a maximum of £5m for periods of more than one month for specified investments and £2m for non-specified investments.

It should be noted whilst all investments placed after the approval of this strategy will comply with the updated specifications there may be some current investments that fall outside the revised boundaries. These investments will be closer monitored till maturity and any subsequent re-investments will then made in line with the updated strategy.

7. COMMENTS OF SECTION 151 OFFICER

My comments are contained within the body of the report.

8. COMMENTS OF MONITORING OFFICER

The treasury management strategy should be reviewed constantly to ensure suitability for changing markets. The strategy will be reviewed annually in any event and is next due for review in readiness for the start of the financial year 09/10.

9. CONCLUSION/SUMMARY

The Cabinet is asked to recommend for approval the revised Treasury Management Strategy for 2008/09.

10. CONTACT OFFICER

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