

Report to the Council

Committee: Cabinet

Date: 28 September 2010

Subject: Revised Treasury Management Strategy Statement and Investment Strategy 2010/11 to 2012/13

Portfolio Holder: Councillor Chris Whitbread
(Finance & Economic Development)

Item: 10

Recommending:

(1) That the amended 2010/11 Treasury Management Strategy Statement and Investment Strategy 2010/11 to 2012/13 (attached) be approved; and

(2) That the deletion of the local performance indicator on investment returns be approved.

(The Strategy is being considered by the Audit and Governance Committee on 20 September 2010 and the views of that Committee will be reported orally).

1. The Council's Treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2009). There is a requirement for the full Council to approve its Treasury and Investment Strategy and Prudential Indicators each year.
2. The Council approved the Treasury Management Strategy and Investment Strategy for 2010/11 and the Prudential Indicators for 2010/11 to 2012/13 in February 2010 as part of the budget process.
3. The Strategy was prepared in line with advice from the Council's Treasury Advisors at that time, Butlers. However, the Council appointed Arlingclose to act as its Treasury Advisors from 1 May 2010 for a period of three years. The revised strategy which is before the Council brings it in line with advice from the new Treasury Advisors.
4. Although the layout between the Strategy approved in February 2010 and the proposed attached Strategy are different, there are very few changes in relation to how and when the Council can invest. The original Strategy had two minimum criteria for credit rated counterparties (i.e. banks) for investments up to £5m and £10m. Under the proposed revised Strategy there would be only one limit up to £10m. The changes in minimum credit ratings are shown in the table below:

Strategy	Limit up to	Rating Agencies					
		Moody's		S & P		Fitch	
		Short term	Long term	Short term	Long term	Short term	Long term
Original	£5 million	P-2	A2	A-1	A	F1	A
	£10 million	P-1	Aa3	A-1+	AA-	F1+	AA-
Revised	£10 million	P-1	A1	A-1	A+	F1	A+

5. There has been a change in the minimum credit score for short and long term ratings. The revised score has reduced when compared against the original rating required for investments up to £10m, but has increased when compared against the investment up to £5m. This has resulted in a number of counterparties being removed from the approved list, due to their credit ratings. In order to ensure that the Council can invest all of its money, it is now necessary to set up new accounts with foreign banks not previously used.
6. The maximum investments in a non-UK country by the Council has also been changed from an original agreed limit of 10% of the portfolio (approximately £5m) to now being £10m per non-UK country in line with Arlingclose advice.
7. A new investment activity has been added to the Strategy, being the purchase of bonds issued by multilateral development banks i.e. European Investment Bank. This will have a limit of £10m and can have a maximum maturity of 10 years, although any investments would only be undertaken on advice from the Council's Treasury Advisors.
8. Previously the Council included a local performance indicator measuring the Council's performance for average rate of interest earned against the 7 day London Interbank Bid rate. Following the changes in the revised Code of Practice on Treasury Management and the refocus on security and yield, it is now felt inappropriate for the benchmark to remain. The Council will continue to report at the Outturn, the average rate of interest against the 7 day London Interbank Bid rate but to set a target for officers to achieve could suggest that officers should be concentrating as much on rates, as it would on security and yield.
9. No changes to the Prudential Indicators are proposed.
10. We recommend that the amended Strategy be approved and that the local performance indicator on investment rates be deleted. The proposed Strategy will be considered by the Audit and Governance Committee on 20 September 2010 and the views of that Committee will be reported orally at the Council meeting.