

Report to the Council

Committee: Cabinet

Date: 27 September 2005

Portfolio Holder: Councillor J Knapman

Item: 5(a)

1. TREASURY MANAGEMENT POLICIES AND INVESTMENT PRACTICES

Recommending:

That the alteration from £5,000,000 to £8,000,000 as the maximum investment limits in respect of the highest rated counterparties be approved.

Introduction

- 1.1 The Annual Treasury Report is a requirement of the CIFPA Treasury Management Code and covers the Treasury activity for the financial year.
- 1.2 The Cabinet has considered a summary of the strategy agreed for 2004/05; the Council's Treasury position as at 31 March 2005; the main Prudential Indicators and compliance with limits; a summary of the economic factors affecting the strategy over 2004/2005; the Treasury decisions taken and their revenue effects; the associated risks of any of these decisions; and the performance of these decisions.

Proposed Change to Maximum Investment Limits

- 1.3 In October 2004, the Treasury Management Policy was altered to allow investment terms of up to five years. Following this change, investigations into long-term investments revealed that most instruments require a minimum investment of £5,000,000 - the maximum limit per counterparty allowed by the Council's current Treasury Policy.
- 1.4 The result of placing a long-term investment is to bar the Council from placing further investments with that counterparty for five years - even to the extent that a High Street Bank holding a £5,000,000 investment would have to be excluded from bank tendering exercises, as a credit balance in a current account would breach the maximum £5,000,000 counterparty limit.
- 1.5 To overcome this issue, it is proposed that any counterparty on the Council's approved list with a credit rating higher than F1+ (short-term) and AA- (long-term) should be allowed a maximum total investment limit of £8,000,000 rather than £5,000,000.
- 1.6 The proposed increase in maximum total investment with each counterparty at anyone time is considered to represent a reasonable balance between risk management and increased flexibility following the change of maximum investment term.