

Decision Maker: Council

Date: 13th October 2014

Decision Type: Non-Urgent Non-Executive Non-Key

Title: **TREASURY MANAGEMENT – INVESTMENT STRATEGY REVIEW**

Contact Officer: Graham Walton, Democratic Services Manager
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Chief Officer: Mark Bowen, Director of Corporate Services

Ward: N/A

1. Reason for report

- 1.1 The attached report covers treasury management activity during the first quarter of 2014/15 and includes recommended changes to the Council's Treasury Management Investment Strategy. The report was scrutinised by Executive and Resources PDS Committee on 3rd September 2014 before consideration by the Executive on 10th September 2014. Draft minutes from both meetings are attached to this report. The Executive recommended to Council that the changes to the Treasury Management Investment Strategy be approved.
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2. **RECOMMENDATION**

Council is recommended by the Executive to approve the following changes to the Council's Treasury Management Investment Strategy –

- (i) **An increase in the total investment limit for the two part-nationalised banks, Lloyds and Royal Bank of Scotland, to £80m each and in the maximum investment period to 3 years (see paragraphs 3.27 to 3.29 in the report to the Executive.)**
- (ii) **A reduction in the minimum credit rating for corporate bond investments to A- (see paragraphs 3.30 to 3.34.)**
- (iii) **The addition of Diversified Growth Funds as permitted investments, with a total investment of up to £10m (see paragraphs 3.35 to 3.37.)**

Corporate Policy

1. Policy Status: Existing Policy: To maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.
 2. BBB Priority: Excellent Council:
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Financial

1. Cost of proposal: Not Applicable:
 2. Ongoing costs: Not Applicable:
 3. Budget head/performance centre: Interest on balances
 4. Total current budget for this head: £1.591m (net) in 2014/15; interest earnings estimated to be on target at this stage.
 5. Source of funding: Net investment income
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Staff

1. Number of staff (current and additional): 0.25fte
 2. If from existing staff resources, number of staff hours: 9 hours per week
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Legal

1. Legal Requirement: Non-Statutory - Government Guidance:
 2. Call-in: Not Applicable: Full Council decisions are not subject to call-in
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A

Non-Applicable Sections:	See attached report
Background Documents: (Access via Contact Officer)	See attached report

**EXECUTIVE
10th September 2014
Extract from Draft Minutes**

**60 TREASURY MANAGEMENT - INVESTMENT STRATEGY
REVIEW AND Q1 PERFORMANCE 2014/15
Report FSD14057**

Report FSD14057 summarised treasury management activity during the quarter ending 30th June 2014 and recommended changes to the Council's Treasury Management Investment Strategy.

The changes comprised an increase in the total investment limit for the two part-nationalised banks, Lloyds and Royal Bank of Scotland, to £80m each and in the maximum investment period to three years; a reduction in the minimum credit rating for corporate bond investments to A-; and the addition of Diversified Growth Funds as permitted investments, with a total investment of up to £10m.

The report also included an update on the Council's investment with Heritable Bank.

Investments at 30th June 2014 totalled £287.2m (excluding the balance of the Heritable investment) and there was no outstanding external borrowing.

Members were advised that recommended changes to the investment strategy would significantly improve income for the Council.

RESOLVED that:

(1) actual Treasury Management performance in the quarter ended 30th June 2014 be noted; and

(2) Council be recommended to approve the following changes to the Council's Treasury Management Investment Strategy –

- **an increase in the total investment limit for the two part-nationalised banks, Lloyds and Royal Bank of Scotland, to £80m each and in the maximum investment period to three years (paragraphs 3.27 to 3.29 of Report FSD14057);**
- **a reduction in the minimum credit rating for corporate bond investments to A- (paragraphs 3.30 to 3.34 of Report FSD14057);**
- **investment of up to £10m in Diversified Growth Funds (paragraphs 3.35 to 3.37 of Report FSD14057).**

EXECUTIVE AND RESOURCES PDS COMMITTEE
3rd September 2014
Extract from Draft Minutes

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PRE-DECISION SCRUTINY OF EXECUTIVE REPORTS
Report CSD14121

The Committee considered the following reports on the part 1 agenda for the meeting of the Executive on 10th September 2014.

(6) Treasury Management – Investment Strategy Review and Q1 Performance 2014/15
Report FSD14057

The report summarised treasury management activity during the quarter ending 30th June 2014 and recommended changes to the Council's Treasury Management Investment Strategy, which would require approval by full Council. These were an increase in the total investment limit for the two part-nationalised banks, Lloyds and Royal Bank of Scotland, to £80m each and in the maximum investment period to three years; a reduction in the minimum credit rating for corporate bond investments to A-; and the addition of Diversified Growth Funds as permitted investments, with a total investment up to £10m.

Councillor David Livett criticised the graph showing relative investment risk provided by the Council's advisors, Sector, and suggested that it would be more appropriate to limit investments to Investment grade, rather than A-, which was not used by Moody's. He was also against the use of Diversified Growth Funds, which he felt included risky investments in derivatives, currency positions and overseas investments which few people would be able to understand.

The Resources Portfolio Holder defended the recommendations and the expertise of the officers and the Council's external advisors making them. He stated that the Council remained risk averse and would only take careful and calculated risks to deliver improved returns.

RESOLVED that the recommendations be supported.

(Councillor David Livett requested that his objection to the use of diversified growth funds be recorded.)