

Review of the Treasury Management Policy**1. PURPOSE AND RECOMMENDATIONS**

Purpose of Report:	To advise members of necessary amendments to the Treasury Management Policy
Recommendations:	It is RECOMMENDED that: Members recommend the revised Treasury Management Policy for approval by the Council.
Lead Members:	Cllr Paul Bennett – Lead Member for Performance
Wards:	None
Contact Officer:	Debbie Wiltshire – Partnership Financial Services Manager Dan Povey – Group Accountant

2. BACKGROUND

- 2.1. The Council generates significant income from treasury management operations which is important in supporting the revenue budget. The Council has a policy of prioritising the security of investments whilst aiming to ensure the best return from investments is achieved.
- 2.2. The review of the Treasury Management Policy takes place against a background of a continued low base rate, and in turn low investment returns. The budget for investment returns for this financial year is £90,000 a reduction of £30,000 on the budget in the previous year. Although The Quarter 2 budget monitoring suggests the Council is on target to meet this forecast income but this is dependent on continuing access to a range of counterparties. Without revising the Treasury Management Policy the Council will have extremely limited access to suitable counterparties. As volatility in the national and international economies continues, which is reflected in the credit ratings of potential counterparties, it can also be difficult to find counterparties that meet the Council's strict investment criteria.
- 2.3. The current Treasury Management Policy was approved by Council on the 24th February 2014. This mid-year review of the Policy and the proposed changes to it reflects changes in the banking environment and advice from the Council's Treasury Management Advisors, Arlingclose.
- 2.4. The revised Treasury Management Policy presented today includes a change that will introduce the use of certain unrated Building Societies but within only tightly controlled limits and the use of certain UK Banks, other than the Council's own bank with a credit rating of BBB+.
- 2.5. In the New Year it is likely that the Government will withdraw its financial support (Bail Out) from UK banks. Currently credit ratings for UK banks contain an uplift for this Government support. Consequently when this support is withdrawn it is likely that banks with a current AAA rating will fall to BBB+.

Under the current policy this would mean that the Council could use only its own bank, Money Market Funds and the Debt Management Office. Advice from our Treasury Management Consultants, Arlingclose, is that we should consider using those UK banks that we currently use but might be reduced to BBB+ rating in order to maintain a diverse portfolio. We would only be using those BBB+ rated UK banks that Arlingclose advise are still suitable counterparties.

- 2.6. Arlingclose have also advised us that we can include Unrated Building Societies within our policy in order to maintain a diverse portfolio of counterparties. Building Societies do not use the rating scheme because of cost and the lack of necessity for them to be rated to undertake their business.

3. SUMMARY OF PROPOSED CHANGES

- 3.1. The inclusion of unspecified investments as advised by the Council's Treasury Management advisors, Arlingclose in the form of
- Unrated Building Societies
 - UK Banks with credit rating of BBB+
- 3.2 An adjustment to the time limits for Banks with certain credit limits.
- 3.3 A reduction of the overall limits for certain category of investment.

4. IMPLICATIONS

Corporate Plan & Council Objectives

- 4.1. Treasury Management falls under the Performance priority area within the Corporate Plan, ensuring the investment of surplus monies generate maximum interest whilst minimising risk.

Legal

- 4.2. There are no legal implications arising directly from this report.

Environmental

- 4.3. There are no environmental implications arising directly from this report.

Financial and Risk

- 4.4. The primary risks to which the Council is exposed in respect of its Treasury Management activities are adverse movements in interest rates and the credit risk of its investment counterparties.

Equalities

- 4.5. There are no equalities implications arising directly from this report.

5. CONCLUSION

- 5.1. That Members recommend the revised Treasury Management Policy to the Council for approval.

Background Papers: None