

# Report to Audit Committee

Agenda  
Item:  
  
**A.8**

Meeting Date: 22 July 2013  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Considered under general exception  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT COUNTERPARTIES  
Report of: DIRECTOR OF RESOURCES  
Report Number: RD08/13

## Purpose / Summary:

This report was previously considered by the Executive on 7 May, and has since been considered by ROSP on 6 June. The reports contents were approved at Council on 16 July

This report requested approval to amend the limits that can be invested with different counterparties.

## Recommendations:

Audit Committee are asked to note the contents of this report

## Tracking

Executive:	<b>7<sup>th</sup> May 2013 and 1<sup>st</sup> July 2013</b>
Overview and Scrutiny:	<b>6<sup>th</sup> June 2013</b>
Council:	<b>16<sup>th</sup> July 2013</b>
Audit Committee:	<b>22<sup>nd</sup> July 2013</b>

<b>Report to Executive</b>	Agenda Item:
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Meeting Date: 1 July 2013  
 Portfolio: Finance, Governance and Resources  
 Key Decision: Yes: Considered under general exception  
 Within Policy and Budget Framework YES  
 Public / Private Public

Title: TREASURY MANAGEMENT COUNTERPARTIES  
 Report of: DIRECTOR OF RESOURCES  
 Report Number: RD08/13

**Purpose / Summary:**

This report was previously considered by the Executive on 7 May, and has since been considered by ROSP on 6 June.

This report requests approval to amend the limits that can be invested with different counterparties.

**Recommendations:**

The Executive is asked to:

- (i) Consider any responses from ROSP with regard to changes to the Counterparty limits;
- (ii) approve the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7, for recommendation to Council;
- (iii) note that the contract for Treasury Management Advisory Services has been re-tendered and awarded under powers delegated to the Director of Resources.

**Tracking**

Executive:	<b>7<sup>th</sup> May 2013 and 1<sup>st</sup> July 2013</b>
Overview and Scrutiny:	<b>6<sup>th</sup> June 2013</b>
Council:	<b>16<sup>th</sup> July 2013</b>

## **1. BACKGROUND**

- 1.1 The Treasury Management Strategy for 2013/14 was approved at Council on 5 February. Since this date, average investment balances have increased as a result of assets sales, and there have been significant changes to investment return interest rates. As a result of these changes, this report requests approval to amend the limits that can be invested with different counterparties.

## **2. PROPOSALS**

- 2.1 As the Government backed banks, Lloyds Group and RBS have the security of Government backing, the current limit with these institutions is set at £8m. The investment strategy being followed is to place as much of the core cash balances of the Council with these two institutions in order to maximise returns whilst minimising the risk. Typical 1-year returns from these 2 institutions have fallen dramatically over the past 6 months from 3% to 1.1% as a result of the Bank of England's strategy of making funds available to the banks. As a result of this all banks are offering lower rates for investments as they have easier access to capital from the Bank of England.
- 2.2 Other credit rated banks that fall within the criteria set out in the Treasury Management Strategy Statement have a limit of £4m. This includes the Council's own bank, HSBC.
- 2.3 The Council has recently opened an overnight deposit account with HSBC that attracts a rate of 0.50%; typical overnight rates offered by other institutions, including Money Market Funds (MMF's) are around 0.40%. The Council has in the past used MMF's quite extensively for overnight deposits as the rates offered were close to 0.80%, but again, as a result of more capital in the banking system, rates have fallen. The added benefit of using the HSBC account is that there are no transaction charges for placing the funds in the account which are incurred when sending funds to other institutions.
- 2.4 HSBC is one of the largest global banks and has the highest short term credit rating of F1+ from Fitch and P1 from Moody's.
- 2.5 Therefore, it is proposed that the counterparty limit with HSBC be maintained at £4m for investments up to 3 years in duration but that an additional £2m be allowed for additional investments that are for less than 1 month in duration. This would give an overall limit of £6m which could be placed with HSBC at any one time, but that £2m would have a duration of less than 1 month.

The Council has approached its Treasury advisors, Sector, regarding these proposals and they have indicated that the strategy does not put the Council's investments at any additional risk.

2.6 Non credit rated institutions that have assets over £1bn be limited to investments of £2m. This would include the Cumberland Building Society.

2.7 The revised limits and investment criteria are set out at **Appendix A**, and in summary would be as follows:

Lloyds Group/ RBS	£8million
HSBC	£6million (split £4m long term, £2million less than 1 month)
Other Credit Rated banks/institutions	£4million
Non Credit Rated Banks/Building Societies	£2million

2.8 A further review of counterparty limits will be undertaken later in the year to ensure limits continue to best meet the investment needs. Officers attended a Treasury seminar on 25<sup>th</sup> April where alternative investments instruments were discussed such as corporate bonds; all alternatives will continue to be reviewed.

2.9 Under delegated powers, the Director of Resources has re-tendered and awarded the contract for Treasury Management Advisory Services for a two year period, with an option to extend for a further two years.

### **3. CONSULTATION**

3.1 The Council's Treasury Advisers have been involved in the Strategy and proposals contained within this report.

### **4. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

4.1 The Executive is asked to:

- (i) approve the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7, for recommendation to Council;
- (ii) note that the contract for Treasury Management Advisory Services has been re-tendered and awarded under powers delegated to the Director of Resources.

## **5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

5.1 To ensure that the Council's investments are in line with appropriate policies including the Treasury Management Strategy Statement.

**Contact Officer: Steven Tickner**

**Ext: 7280**

**Appendices attached to report: Appendix A - Approved investment instruments**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- None

### **CORPORATE IMPLICATIONS/RISKS:**

**Chief Executive's – n/a**

**Community Engagement – n/a**

**Economic Development – n/a**

**Governance** – The Council's Treasury Management Strategy is defined in Article 4 of the Constitution as being part of the authority's "Budget". As such, it is correct for the matter to be considered by Overview & Scrutiny prior to recommendation to the Council by the Executive.

**Local Environment – n/a**

**Resources** – Contained within the report

**APPROVED INVESTMENT INSTRUMENTS**

**Specified Investments**

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ rating criteria where applicable. **A maximum of £4m of the investment portfolio** will be placed with any one counterparty or banking group, or a maximum of **£8m of the investment portfolio for Lloyds Group banks and RBS Group Banks and £6m with HSBC Bank (with £2m being limited to investments less than 1 month in duration)** whether by way of specified or non-specified investments except for building societies without a credit rating where **the limit will be £2m**.

<b>Fixed Term Deposits with fixed rates and maturities:-</b>	<b>Minimum ‘High’ Credit Criteria</b>	<b>Use</b>
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – local authorities	--High level of security	In-house
Term deposits – U K banks**	Short-term F1 (Fitch) or P1(Moodys)	In-house
Term Deposits – UK building societies**	Short Term F1 (Fitch) or P1 (Moodys) or as determined by the Director of Resources	In-house
<b>Fixed term deposits with variable rate and variable maturities: -</b>	<b>Minimum ‘High’ Credit Criteria</b>	<b>Use</b>
Callable deposits	Short-term F1 (Fitch) or P1 (Moodys)	In-house
Certificates of deposits issued by UK banks and building societies	Short-term F1 (Fitch) or PI (Moodys)	In-house buy and hold
UK Government Gilts	Government backed	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house on a ‘buy-and-hold’ basis.
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a ‘buy-and-hold’ basis.
<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):</b>	<b>Minimum ‘High’ Credit Criteria</b>	<b>Use</b>
-		
1. Money Market Funds	Short-term AAA	In-house
2. Enhanced Cash Funds	Short-term AAA	In-house
3. Government Liquidity Funds	Short-term AAA	In-house

\*\* If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

## Non-Specified Investments:

**A maximum of 50% will be held in aggregate in non-specified investments**

### **1. Maturities of ANY period.**

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits with non credit rated UK Building Societies	As approved by the Director of Resources. Minimum asset base of £1bn	In-house	50	364 days

### **2. Maturities in excess of 1 year**

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	Any authority	In-house	50	3 Years
Term deposits – UK banks and building societies	Long-term A (Fitch) or A2 (Moody's)	In-house	50	3 Years
Fixed term deposits with variable rate and variable maturities	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Certificates of deposits issued by UK banks and building societies	Long-term A (Fitch) or A2 (Moody's)	In house on a 'buy and hold basis'	50	3 Years
UK Government Gilts	Government backed	In house on a 'buy and hold basis'	50	3 Years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
1. Bond Funds	Long-term AAA	In-house	50	3 Years
2. Gilt Funds	Long-term AAA	In-house	50	3 Years

The Council uses Fitch (primarily) or Moody's ratings to derive its counterparty criteria. All credit ratings will be monitored monthly. The Council is alerted to changes in credit ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

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## EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 7 MAY 2013

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**EX.42/13      TREASURY MANAGEMENT COUNTERPARTIES**  
(Key Decision)

(With the consent of the Chairman, and in accordance with Rule 15 of the Access to Information Procedure Rules; and Regulation 10 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 this item was included on the Agenda as a Key Decision, although not in the Notice of Executive Key Decisions)

**Portfolio**      Finance, Governance and Resources

**Relevant Overview and Scrutiny Panel**      Resources

**Subject Matter**

The Finance, Governance and Resources Portfolio Holder submitted report RD.08/13 concerning Treasury Management Counterparties.

The Portfolio Holder reminded Members that the Treasury Management Strategy for 2013/14 had been approved by Council on 5 February 2013. However, since that date average investment balances had increased as a result of asset sales, in addition to which there had been significant changes to investment return interest rates.

As a result of the above the Finance, Governance and Resources Portfolio Holder outlined a proposal to amend the limits which could be invested with different counterparties. He further summarised the revised limits and investment criteria (as set out at Appendix A), namely:

Lloyds Group / RBS	£8 million
HSBC	£6 million (split £4 million long term, £2 million less than 1 month)
Other Credit Rated Banks/institutions	£4 million
Non Credit Rated Banks/Building Societies	£2 million

A further review of counterparty limits would be undertaken later in the year to ensure limits continued to best meet the investment needs. Officers had attended a Treasury



Seminar on 25 April 2013 where alternative investments instruments were discussed such as corporate bonds; all alternatives would continue to be reviewed.

The Finance, Governance and Resources Portfolio Holder added that the Director of Resources had, under delegated powers, re-tendered and awarded the contract for Treasury Management Advisory Services for a two year period, with an option to extend for a further two years.

In conclusion the Finance, Governance and Resources Portfolio Holder moved the recommendations which were duly seconded by the Leader.

**Summary of options rejected** None

## **DECISION**

That the Executive:

1. Approved the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7 of Report RD.08/13 for recommendation to Council.
2. Noted that the contract for Treasury Management Advisory Services had been re-tendered and awarded under powers delegated to the Director of Resources.

## **Reasons for Decision**

To ensure that the Council's investments are in line with appropriate policies, including the Treasury Management Strategy Statement

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## EXCERPT FROM THE MINUTES OF THE RESOURCES OVERVIEW AND SCRUTINY PANEL HELD ON 6 JUNE 2013

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### ROSP.38/13 TREASURY MANAGEMENT COUNTERPARTIES

The Director of Resources submitted report RD.08/13 concerning Treasury Management Counterparties.

The Director reminded Members that the Treasury Management Strategy for 2013/14 had been approved by Council on 5 February 2013. However, since that date average investment balances had increased as a result of asset sales, in addition to which there had been significant changes to investment return interest rates.

As a result of the above the Director of Resources outlined a proposal to amend the limits which could be invested with different counterparties. He further summarised the revised limits and investment criteria (as set out at Appendix A), namely:

Lloyds Group / RBS	£8 million
HSBC	£6 million (split £4 million long term, £2 million less than 1 month)
Other Credit Rated Banks/institutions	£4 million
Non Credit Rated Banks/Building Societies	£2 million

A further review of counterparty limits would be undertaken later in the year to ensure limits continued to best meet the investment needs.

The Executive had on 7 May 2013 (EX.43/13) considered the report and decided:

“That the Executive:

1. Approved the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7 of Report RD.08/13 for recommendation to Council.
2. Noted that the contract for Treasury Management Advisory Services had been re-tendered and awarded under powers delegated to the Director of Resources.”

RESOLVED – That the Treasury Management Counterparties report (RD.08/13) be noted.

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## EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 1 JULY 2013

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**EX.067/13    \*\*TREASURY MANAGEMENT COUNTERPARTIES**  
(Key Decision – KD.013/13)

(In accordance with Paragraph 15(i) of the Overview and Scrutiny Procedure Rules, the Mayor had agreed that call-in procedures should not be applied to this item)

**Portfolio**      Finance, Governance and Resources

**Relevant Overview and Scrutiny Panel**      Resources

**Subject Matter**

Pursuant to Minute EX.42/13, the Deputy Leader and Economy and Enterprise Portfolio Holder submitted report RD.08/13 concerning Treasury Management Counterparties.

The Portfolio Holder reminded Members that the Treasury Management Strategy for 2013/14 had been approved by Council on 5 February 2013. However, since that date average investment balances had increased as a result of asset sales, in addition to which there had been significant changes to investment return interest rates.

As a result of the above the Deputy Leader and Economy and Enterprise Portfolio Holder outlined a proposal to amend the limits which could be invested with different counterparties. He further summarised the revised limits and investment criteria (as set out at Appendix A), namely:

Lloyds Group / RBS	£8 million
HSBC	£6 million (split £4 million long term, £2 million less than 1 month)
Other Credit Rated Banks/institutions	£4 million
Non Credit Rated Banks/Building Societies	£2 million

He added that a further review of counterparty limits would be undertaken later in the year to ensure limits continued to best meet the investment needs. Officers had attended a Treasury Seminar on 25 April 2013 where alternative investments instruments were discussed such as corporate bonds; all alternatives would continue to be reviewed.

The Director of Resources had, under delegated powers, re-tendered and awarded the contract for Treasury Management Advisory Services for a two year period, with an option to extend for a further two years.

The Resources Overview and Scrutiny Panel had, on 6 June 2013, considered the matter and resolved that the report be noted.

A copy of Minute Excerpt ROSP.38/13 had been circulated.

In conclusion the Deputy Leader and Economy and Enterprise Portfolio Holder moved the recommendations which were duly seconded by Culture, Health, Leisure and Young People Portfolio Holder.

**Summary of options rejected** None

## **DECISION**

That the Executive:

1. Had considered the response provided by the Resources Overview and Scrutiny Panel with regard to changes to the counterparty limits (as detailed in Minute ROSP.38/13).
2. Approved the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7 of Report RD.08/13 for recommendation to Council.
3. Noted that the contract for Treasury Management Advisory Services had been re-tendered and awarded under powers delegated to the Director of Resources.

## **Reasons for Decision**

To ensure that the Council's investments are in line with appropriate policies, including the Treasury Management Strategy Statement