**REPORT OF THE CORPORATE COMMITTEE No. 02/2012**
**COUNCIL 28 February 2012**

Chair: Councillor George Meehan

Deputy Chair: Councillor Rahman Khan

## INTRODUCTION

1.1 This report to full Council arises from the Treasury Management Strategy Statement considered by the Corporate Committee at their meeting on the 23 January 2012.

## SUMMARY

2.1 Treasury Management strategy Statement 2012/13 - 2014/15

2.4 We were asked to consider the proposed Treasury Management strategy statement and prudential indicators for 2012/13 to 2014/15 prior to them being scrutinised by Overview and Scrutiny Committee and presented to full Council for final approval.

2.5 The Council is responsible for its treasury decisions and activity. We were advised that no treasury management activity is without risk. The successful identification, monitoring and control of risk were integral elements of treasury management activities and include Credit and Counter party Risk, Liquidity Risk, Interest rate Risk, Refinancing Risk and Legal and Regulatory Risk. The strategy took into account the impact of the Council's proposed Revenue Budget and capital programme on all figures contained in it and on the proposed Prudential indicators and also took into account the outlook for interest rates.

2.6 The Assistant Director for Finance referred to the list of counterparty financial institutions which the Council can lend to and that meet with the proposed criteria for investment, set out in Annex 5 .Since the compilation of the report, Deutsche Bank AG, ING Bank NV and Rabobank had been upgraded meaning they could now move to the main list of banks meeting the criteria for lending. We agreed that the remaining counterparty financial institutions currently not meeting the lending criteria be removed completely from the document.

2.7 The Assistant Director for Finance further highlighted two changes to the Council's lending list of counterparties for investments which was the addition of Canadian and Australian banks with London offices, a minimum long term rating of A+ and on the basis these countries retain a AAA sovereign rating from all ratings agencies. He had consulted the Cabinet Member for Finance and the Opposition Spokesperson for Finance about the criteria for the lending list and provided reasons for including banks from these countries.

2.8 We considered this information with the proposed Treasury Management Strategy and made the following observations:

- Paragraph 4.4, in the policy, advised that there were no current plans for additional HRA capital expenditure funded through borrowing in the coming three financial years and comment was made on the need to make this statement at this stage. The Committee noted that this was open to change according to the Council's position.

- Paragraph 5.1.7 explained how the monitoring of large concentrations of maturing fixed rate debt would be achieved with limits in place to control exposure to volatility in interest rates when refinancing is required. The limits proposed were set out at table 11 and a member queried the high percentage range between the lower and upper limits to be used as this was at odds with the statement above and brought into question how control to exposure could be achieved. It was explained that wide limits were required to provide enough flexibility given the refinancing required in 2012/13. We agreed that the wording be reviewed and amended further to better reflect this intention and that the limits in the table be reviewed again to ensure they balance control with the flexibility needed.

- In relation to the addition of Canadian and Australian banks with London offices to the Council's lending list, we sought understanding on why there was not focus on investment in government funded banks in the UK or with the UK Debt Management Office as these seemed the less risky options in the current financial climate. We noted that the opportunity cost of investing solely with the UK Debt Management Office would be between £200K and £300K per annum. The Council's Treasury Management advisors were recommending investment in the Canadian and Australian banks as they were countries with a sovereign triple A rating, and the banks are rated higher than the majority of UK banks. There was also a proposed limit to how much exposure there was to investments, outside of the UK, which was set at 15% of the portfolio in any one country. We considered this information and were aware that these banks would only be used for short term investments as the Council were maintaining the strategy of low investment balances. However we needed to be further convinced of the need to add Canadian and Australian banks to the lending list as the increase in the number of overseas banks used would increase exposure to risk. We wanted a better understanding of the current number of banks actively used for investments to further understand the likelihood of the overseas banks being called upon for use. We asked that a report be compiled on this for the March meeting of the Committee. We further proposed that only: UK banks & building societies, Money Market Funds, and the Debt Management Office were used until the report back in March. Officers agreed that this proposal was workable and the Corporate Committee's comments would be reported to the Overview and

Scrutiny Committee who were considering this report at their meeting on the 06th February 2012.

2.9 The policy alluded to how the debt portfolio for the HRA would be split. We felt that there should be a future discussion on the HRA when the council considers decisions on Housing Stock options. It was noted that the borrowing limits on the HRA would need to be reviewed once decisions are made about future HRA borrowing in light of the decisions on Housing stock options.

**WE RECOMMEND**

Treasury Management Strategy Statement 2012/13 - 2014/15

i) The approval of the proposed Treasury Management Strategy Statement (TMSS) and prudential Indicators for 2012/13 to 2014/15 at Appendix 5 of the Financial Planning report to Council.

ii) In respect of the above recommendation, and in reference to the Treasury Management Strategy Statement Annex 6; Lending list of counterparties for investment, that only UK banks & building societies, Money Market Funds, and Debt Management Office facilities are used. This recommendation is already incorporated within the TMSS to be approved by Council. Corporate Committee will consider a further report in due course considering the potential inclusion of some non UK banks. Any resultant recommended change will be part of a further report to Council for its approval.