

## RESOURCES POLICY ADVISORY GROUP

Meeting - 21 January 2013

Comments received via email: Mr Smith,(Chairman), Mr Anthony, Mr Hollis, Mr Jones, Mr Kelly and Mr Harding

### 83. TREASURY MANAGEMENT STRATEGY 2013/14

Members of the PAG considered, via email, a report setting out a Treasury Management Strategy and Annual Investment Strategy for adoption in 2013/2014. The following were attached to the report:

- Treasury Management Strategy Document 2013/12
- Appendix A - Treasury Management Policy Statement
- Appendix B - Annual Investment Strategy 2013/14
- Appendix C - Interest Rate Forecasts
- Appendix D - Economic Background
- Appendix E - Prudential Code and Investment Strategy
- Appendix F - Minimum Reserve Provision

The report, after explaining the various legal requirements under the Local Government Act 2003 and the Local Government Finance Act 1992, reminded the PAG that the investment interest target for 2012/13 had been set at £800,000 which was likely to be under - achieved by £25,000 by the end of the year.

The report went on to set a target for investment returns for 2013/14 of £775k as summarised in a table and discussed in more detail in the Treasury Management Strategy 2013/14. This target was based upon a level of capital balances for 2012/13 of £20m, the latest forecasts for interest rates and the assumption that the Council wished to remain debt free. The Strategy also assumed that the current challenging economic situation would continue through 2013/14.

The report referred to the discussion that had taken place with Sector at the meeting on 13 December 2012 concerning the potential for alternative investment approaches for part of the cash portfolio and the options were set out in detail in paragraph 4.7 of the Treasury Management Strategy 2013/14 as follows:

- Corporate Bonds/Bond Funds
- Property Funds
- Equity Funds
- Investment

The risks associated with these options were also set out in paragraph 4.7 which included a proposed counterparty matrix as set out below for 2013/14 based on an approach suggested by the Audit Commission's report on Icelandic Banks.

	Duration	Maximum Amount	Fitch Rating	Comment
UK Institutions	Up to 5 years	£5m	A- or better	
	Up to 3 years	£5m	BBB- or better	
Non UK Institution	Up to 3 years	£2m	A- or better	Sovereignty rating AA or better
Corporate Bonds/Bond Funds	Up to 5 years	£5m	BBB- or better	

A number of comments were received in connection with the Strategy including

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- equities/equity funds should not be excluded from consideration
- not in favour of reducing the minimum counterparty rating to BBB

Following consideration of the comments received from members of the PAG, the Portfolio Holder has agreed to **RECOMMEND** to Cabinet that the Treasury Management Strategy for 2013/14 be submitted to Council for approval to include:

1. investigating the diversification of up to £5 million of the investment portfolio into corporate bonds/bond fund or index linked gilts.
2. amending the draft counterparty matrix within the Treasury Management Policy, so that;
  - a. For UK institutions the minimum credit rating for investments up to three years is BBB+
  - b. For Corporate Bonds/Bond Funds the minimum credit rating for investments is A -
3. approving the Appendices to the Strategy covering:
  - a. Policy Statement & Code
  - b. Prudential Indicators
  - c. Minimum Revenue Provision
4. confirming that the authority will continue to remain debt free.