

EAST HERTS COUNCIL

COUNCIL – 4 JULY 2012

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE

INVESTMENT STRATEGY

WARD(S) AFFECTED: ALL

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**Purpose/Summary of Report**

- **To recommend to Council changes to the Council's Investment Strategy for 2012/13.**

<b><u>RECOMMENDATIONS FOR COUNCIL:</u> That:</b>	
<b>(A)</b>	<b>counterparty investment limits for Lloyds and Nat West be increased to £20m with immediate effect;</b>
<b>(B)</b>	<b>a minimum credit rating of "A" be applied for investments of up to 2 years with UK banks; and</b>
<b>(C)</b>	<b>the Executive Member for Finance be given delegated authority to vary the Council's investment strategy (as a matter of urgency) in agreement with the Leader, the Chairman of the Audit Committee and the Director of Internal Services and to report the changes to the Council.</b>

1.0 Background

- 1.1 At its meeting on 28 September 2011 Council resolved to authorise the Executive Member for Finance to vary the Council's Investment Strategy (if determined as a matter of urgency) before the December Council meeting in order to either protect the Council's funds or to take advantage of investment opportunities afforded by market volatility. The delegation was authorised at a time of market volatility prior to the Euro summit meeting in October 2011.

- 1.2 The Executive Member was authorised to vary the strategy in agreement with the Leader (or Deputy) of the Council and the Chairman of the Audit Committee (the body charged with oversight of Treasury management).
- 1.3 This report proposes that arrangements be incorporated into the Treasury Management Strategy until Council determines otherwise.

## 2.0 Report

- 2.1 An “informal” investment board currently meets approximately quarterly, or more frequently as necessary, in order to facilitate the Council’s management of its Treasury Management activities. The board currently comprises;

The Executive member for Finance  
Leader  
Chairman of Audit Committee  
Director of Internal Services  
Head of Finance & Performance  
Principal Accountant  
Sector (Council’s Treasury Management Advisors)  
External Member

- 2.2 The board is an informal source of information and sounding board for the Executive Member for Finance. It provides a forum for discussion about developments in the financial markets, interest rates and investment options.
- 2.3 At a meeting of the board on 1 June 2012 further opportunities were discussed for entering into fixed term investments of up to 2 years with UK banks. The board agreed that it would be appropriate to place a further £10m deposit with Lloyds given the returns currently being offered (circa 3%) having regard to the Government’s significant shareholding in this bank. This would increase the Council’s overall investments with Lloyds to £20m as the Council already has a £10m “structured deposit” in place. Council approval to increase the individual counterparty limit with Lloyds is sought.

An increase in the limit for holdings with the Councils banker, Nat West, is also recommended in order to both increase investment

options in the future and to facilitate the withdrawal and reinvestment of funds from Scottish Widows.

- 2.4 The Council's current Treasury Management Strategy (approved in February 2012) restricts investments in banks for more than 1 year duration to those with a minimum credit rating of "AA". Given current economic conditions and concerns in the Eurozone rating agencies have reduced ratings for many banks (see **Essential Reference paper 'B'**). The Council, is therefore invited to approve investments up to 2 years with banks rated "A".
- 2.5 Sector, the Council's Treasury Management advisors, whilst confirming that shorter duration limits counterparty risk, see the proposals outlined within the report as ones which the Council might reasonably consider in balancing security of investment and returns on these investments.
- 2.6 Given the continuing uncertainty in the financial markets it is recommended that Council gives further delegation to the Executive Member for Finance to vary the Treasury Management Strategy and in particular Investment criteria (counterparty limit and credit rating) in order that the Council can take "urgent" action to mitigate any escalation of risks and to take advantage of investment opportunities. Any decisions will continue to be agreed with the Leader, Chairman of Audit Committee and Director of Internal Services and have regard to the Council's priority objective of ensuring security of capital.
- 2.7 Any actions will be reported for endorsement at the next meeting of the Council.

### 3.0 Implications/Consultations

- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

### Background Papers

Treasury Management Report to Executive / Council February 2012.

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