

EAST HERTS COUNCIL

AUDIT COMMITTEE – 16 JULY 2014

COUNCIL – 30 JULY 2014

REPORT BY EXECUTIVE MEMBER FOR FINANCE

REVISION TO TREASURY MANAGEMENT ARRANGEMENTS

WARDS AFFECTED: None specific

---

**Purpose/Summary of Report**

- The Council's Treasury Management Strategy has been updated to include Non Treasury Investments – Pooled Property Funds.
- The report sets out the proposed changes to the Council's credit criteria for Investments as a result of the Government's regulatory changes for Financial Institutions and updates the Treasury Management Strategy accordingly.
- The opportunity has also been taken to review the format of the Treasury Management Strategy.

**RECOMMENDATIONS FOR AUDIT COMMITTEE:**

**That Audit Committee consider and make recommendations to Council on:**

<b>(A)</b>	<b>The inclusion of Non Treasury Investments in the Treasury Management Strategy and associated criteria for selection as detailed within the Essential Reference Paper "B" paragraph 9.6.2 and Essential Reference Paper "C" (Annex 2c); and that</b>
<b>(B)</b>	<b>the proposed steps to mitigate investment credit risk as detailed at Essential Reference Paper "B" paragraph 9.6.2 and Essential Reference Paper "C"(Annex 2) be noted;</b>
<b>(C)</b>	<b>the credit criteria changes for the selection of investment counterparties as detailed at Essential Reference Paper "C" Annex 2a, b and c, as a result of proposed Government regulatory changes be noted; and</b>
<b>(D)</b>	<b>the revised format for the Treasury Management Strategy be noted as set out in Essential Reference Paper "B".</b>

<b><u>RECOMMENDATIONS FOR COUNCIL</u></b>	
<b>That :</b>	
<b>(A)</b>	<b>the inclusion of Non Treasury Investments in the Treasury Management Strategy and associated criteria for selection as detailed at Essential Reference Paper “B”, paragraph 9.6.2 and Essential Reference Paper “C” (Annex 2c); be approved; and that</b>
<b>(B)</b>	<b>the proposed steps to mitigate investment credit risk as detailed at Essential Reference Paper “B” paragraph 9.6.2 and Essential Reference Paper “C”(Annex 2) be noted;</b>
<b>(C)</b>	<b>the credit criteria changes for the selection of investment counterparties as detailed at Essential Reference Paper “C” Annex 2a, b and c, as a result of proposed Government regulatory changes be noted; and</b>
<b>(D)</b>	<b>the revised format for the Treasury Management Strategy be noted as set out in Essential Reference Paper “B”.</b>

## 1 Background

- 1.1 The Council approved the 2014/15 to 2016/17 Treasury Management Strategy at its meeting on 19 February 2014 (Minute reference 551).
- 1.2 The Strategy included a reference to consideration being given to a Pooled Property Fund. In order to progress with the proposal and progress a report on the business case for the relevant funds; the treasury strategy needs to include a framework of criteria for managing such an arrangement.
- 1.3 The opportunity has also been taken to review the format of the Treasury Management Strategy to provide a suitable template for future strategy reports.
- 1.4 Proposed Government Regulatory changes will also have an impact on the 2014/15 Treasury Management Strategy.

## 2 Report

- 2.1 Essential Reference Paper B provides a template for future treasury management strategies and assists compliance with

CIPFA's Treasury Management Code of Practice (2011), which is required under the Local Government Act 2003.

2.2 More important the UK government is proposing to make the following changes to the regulatory framework for financial institutions (as is Europe and the USA). These changes will have a material impact on the credit risk of local authority's treasury management operations.

2.2.1 The Government intends to make changes to Financial Institutions 'implied sovereignty status'. A factor currently influencing institutions credit ratings, there will therefore be a lowering of credit ratings across the board. The most significant change is the introduction of a 'Bail in' arrangement which requires holders of debt - including fixed term deposits to bear the costs associated with an institutions collapse. This introduces a significant new treasury management risk for Local Authorities. Paragraph 9.6.2 of the treasury management strategy update (**Essential Reference Paper "B"**), sets out proposed steps to mitigate the risk. Although these steps will only be agreed once the regulations have actually come into force, proposals are set out in the strategy given this may happen within the timeframe for the strategy. Formal adoption will still be required once we know the adoption timetable.

2.2.2 Government regulations will also be introduced which will prevent Money Market Funds (MMF's) from being credit rated. The Council currently has an investment of £10,000,000 as at 31 May 2014 with Morgan Stanley. In implementation of the regulatory changes the Council will only undertake investments in MMF's following an external credit assessment from its treasury management advisors.

2.2.3 The Council's Counterparty listing (**Essential Reference Paper "C"**), Annex 2a, b, and c) now includes criteria for investment in Non-Treasury investment vehicles such as Pooled Property Funds and direct investment in property to support the Councils' revenue budget and achieve a long term capital gain (**Essential Reference Paper "C"**), 2 Annex 2c)

### 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

CIPFA Code of Practice on Treasury Management (2011).  
CIPFA Prudential Code of Capital Finance in Local Authorities (2011).  
Treasury Management Strategy Statement 2014/15 and Minimum  
Revenue Provision Policy Statement – Audit Committee 22 January  
2014/Executive 4 February 2014 and Council 19 February 2014.

Contact Member: Councillor Michael Tindale, Executive Member for  
Finance  
[Michael.tindale@eastherts.gov.uk](mailto:Michael.tindale@eastherts.gov.uk)

Contact Officer: Adele Taylor, Director of Finance & Support  
Services  
Ext 1401  
[Adele.taylor@eastherts.gov.uk](mailto:Adele.taylor@eastherts.gov.uk)

*Simon Chancellor, Head of Finance & Performance*  
Ext.2050

Report Author: Margaret Donaldson, Interim Principal Accountant  
[margaret.donaldson@eastherts.gov.uk](mailto:margaret.donaldson@eastherts.gov.uk)  
Ext 2054