Report To:	Council
Date of Meeting:	04 November 2014
Lead Member / Officer:	Cllr Julian Thompson-Hill
Report Author:	Head of Finance and Assets
Title:	Treasury Management Strategy Statement (TMSS) 2014/15 Amendments (Appendices 1 / 2)

1 What is the report about?

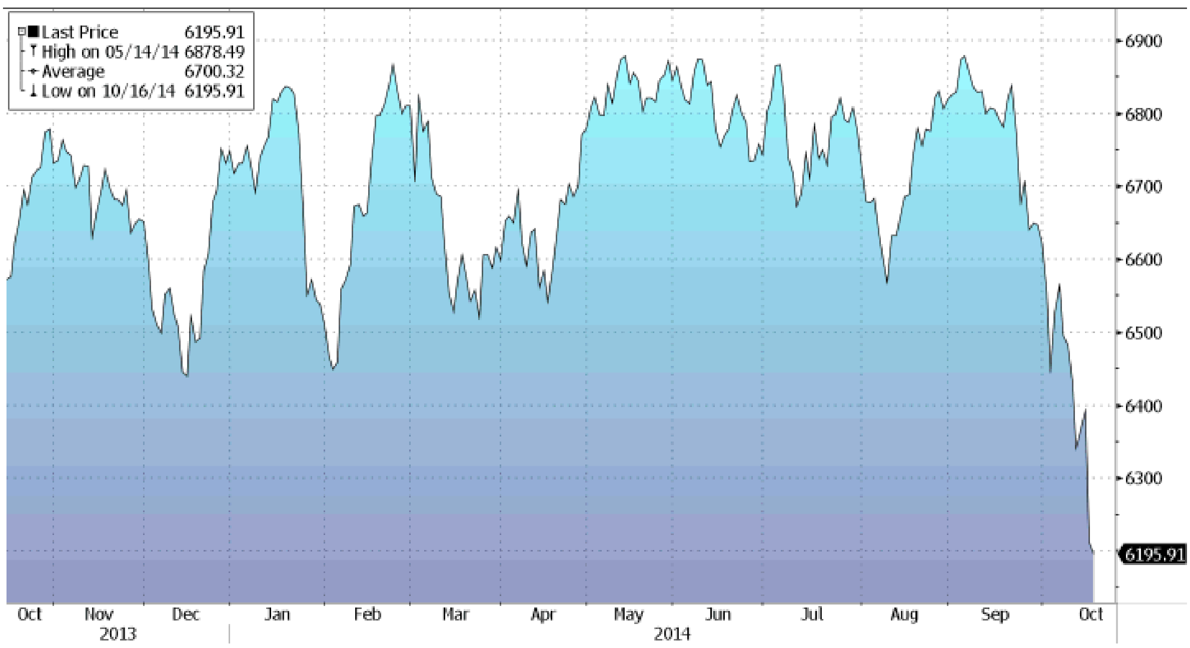
1.1 The TMSS (Appendix 1) shows how the Council will manage its investments and its borrowing for the year and sets the policies within which the Treasury Management (TM) function operates.

2 What is the reason for making this report?

2.1 Council approved the TMSS 2014/15 on 25 February 2014 but since that time, economic circumstances have changed and there is a need for amendments to be made to the original strategy statement (shown in Appendix 1) which need to be approved by Council.

2.2 Over the past few weeks we have seen sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone. Many of the international leading economic indicators have started to flash warnings of a period of instability ahead. This is illustrated in the graph below which shows that the FTSE 100 has fallen over 10% since the second week of September as investors seek the quality of safe haven assets such as government bonds.

FTSE 100 Share Index



2.3 As a result of the increased risks, we feel it is prudent to make a number of amendments to our strategy.

3 What are the Recommendations?

3.1 That Council approves the amendments to the TMSS for 2014/15 listed in Appendix 2.

4 Report details

Amendment 1 - Bank Deposits

4.1 Bail-in risk was referred to previously in the enclosed TMSS (Appendix 1) in paragraph 3.3. The UK is implementing bail-in provisions from January 2015, a year ahead of most other countries. This will mean that banks will not be able to rely on government support if they get into difficulty and will be required to bail themselves out by taking a proportion of investors' deposits to build up their capital.

4.2 There are many investors such as companies and charities which will be protected but local authorities' deposits will not be eligible for protection because public authorities have much better access to credit than citizens.

4.3 As a result of the removal of government support, there is a risk of major UK banks being downgraded to the "BBB" category which is lower than DCC's current acceptable minimum credit rating of "A-". This means that we need to amend the TMSS to allow investment in lower rated banks to ensure that we can continue to invest in the major UK banks should they be downgraded (see Appendix 2 - Amendment 1).

4.4 It is also prudent to reduce our duration limits for unsecured bank and building society investments from 1 year to 6 months in most cases. The only exception to this is the Barclays Bank limit which has been reduced further to 100 days.

Amendment 2 - Reverse Repurchase Agreements (REPOs)

4.5 These involve the purchase of a security (usually bonds, gilts or other government securities) tied to an agreement to sell it back later at a pre-determined date and price. REPOs provide protection through the ownership of collateral in the form of securities which is significantly more secure than investing in unsecured bank deposits. (The glossary in Appendix 3 provides definitions of the various treasury terms used)

4.6 These are therefore secured investments with banks which are exempt from bail-in risk so they offer a safer alternative at similar rates to unsecured bank deposits. We need to amend the TMSS to include REPOS in the list of approved investment instruments (see Appendix 2 - Amendment 2).

Amendment 3 - Covered Bonds

4.7 These are also secured investments with banks which are exempt from bail-in risk and they offer a secure option for our long term investments. We need to amend the TMSS to include the word ‘securities’ within the table on Approved Investment Counterparties (see Appendix 2 - Amendment 3).

5 How does the decision contribute to the Corporate Priorities?

5.1 An efficient TM strategy allows the Council to minimise its borrowing costs and release funding for its investment priorities.

6 What will it cost and how will it affect other services?

6.1 There are no cost implications arising as a result of this report. The point of the TM Strategy is to obtain the best return within a properly managed risk framework.

7 What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?

7.1 This is not required as a part of this report.

8 What consultations have been carried out?

8.1 The Council has consulted with its TM consultants, Arlingclose Ltd.

9 Chief Finance Officer Statement

9.1 TM involves looking after significant sums of cash so it is a vital part of the Council’s work. These amendments to our strategy will ensure that we have a sound strategy and appropriate controls to safeguard the Council’s money whilst achieving reasonable returns on investments.

10 What risks are there and is there anything we can do to reduce them?

10.1 TM is inherently risky as outlined in the Strategy Statement. The Council has a risk management policy but it is impossible to eliminate these risks completely.

11 Power to make the Decision

11.1 The Local Authorities (Capital Finance and Accounting) (Wales) Regulations require local authorities to have regard to the Chartered Institute of Public Finance and Accountancy’s Code of Practice on Treasury Management which determines the requirement for the Council to produce a TMSS.