HOF/0111/2008

KENNET DISTRICT COUNCIL

RESOURCES EXECUTIVE COMMITTEE
to be held on 25th November 2008

Report by Andrew Hart, Head of Financial Services

Amendment to the Treasury Management Policy Statement and Annual Investment Strategy 2008/09, together with a general update on treasury activity

1. Purpose of Report

The purpose of this report is to update Members on current portfolio of investments and request changes to the Treasury Management Policy Statement and Investment Strategy that are recommended to apply to the financial year end

2. Financial and Staffing Implications

There are no staffing implications. Financial implications are included within the body of the report.

3. Legal Implications

The Local Government Act 2003, requires the Council to "have regard to" the the Treasury Management Code of Practice, issued by CIPFA, and the Guidance on Local Authority Investments (issued by the ODPM, as was).

The Code requires the Council to set and approve its Treasury Management Policy Statement. In addition, the Guidance on Local Authority Investment requires the Council to set an Annual Investment Strategy that gives priority to security and liquidity of investments.

The documents appended to this report, will ensure that the Council fulfil these requirements until the end of the financial year given the current uncertainty around financial markets.

4. Risk Implications

There is inevitably an element of risk associated with the investment of the Council's surplus capital and revenue reserves. These risks have been highlighted over recent weeks with the collapse of several large national banks (Iceland) and the uncertainty of interest rate levels over the short / medium term. (i.e. the recent drop of the base rate from 4.5% to 3.0%) However, the adoption of requirements of the Treasury Management Code of Practice and Guidance on Local Authority Investments ensure that this risk is minimised. The adoption of the revised Treasury Management Policy Statement and revised Annual Investment Strategy ensure that the Council has actively managed its risk given current financial markets and the move to a single council from April next year.

5. Background

In the light of the recent problems experienced by many local authorities and other public sector institutions the councils current Investment Strategy has been critically examined to ensure that investments continue to be made with minimum risk. In addition, with the move to a single unitary authority now only months away, the County Council have stated that it is their wish to take over investments that are very liquid in nature (cash). As a result, notice has been given to the Council's Fund Manager Invesco to avoid investments in Gilts and to invest only in Certificates of Deposit (which are tradable) and cash with maturity dates of less that 31 March 2009. The changes to the Investment Strategy reflect these principles.

Assurances have also been gained from Invesco as to how they manage credit risk when selecting their counterparty lending list and a letter is attached at Appendix A which provides comforting assurance. Invesco's current lending list is attached at Appendix B.

The Council also invests in Building Societies with assets in excess of £1 billion. Many Building Societies do not hold a credit rating, so this measure allows a level of assurance but provides no guarantee in the current climate. A number of Societies that fall within the £1 billion measure have been taken over in recent months (Derbyshire, Cheshire) due to worries about their balance sheets in the medium to long term. However for short term cash I am happy to recommend that members continue to use the Building Society's listed but within the strict limits set within the Investment Strategy (£1 million maximum with any one Society bar Nationwide whose limit is £5 million (f1+/ aa- rated)The current list of Building Societies is attached at Appendix C. The Council use the services of a cash manager Tradition to help secure investment deals but notice has also been given that funds will not be reinvested at maturity.

Kennet also use money market funds (MMF) (aaa rated) for managing in house cash. These instruments spread the risk over many investments so the risk of loss is extremely small and the returns are generally good.

Current Investments

The following is a list of current investments as at 31 October 2008

Managed by Invesco

Security Description	Investment	Maturity	Int Rate
Bank Nova Scotia C/D	1,400,000	14/11/08	5.85
Bank of Ireland C/D	1,400,000	22/01/09	5.96
Barclays Bank C/D	900,000	18/05/09	5.82
Credit Suisse C/D	1,300,000	28/05/09	6.02
ING Bank C/D	1,400,000	03/11/08	5.90
Lloyds C/D	1,500,000	10/11/08	5.95
Nordea Bank C/D	800,000	24/11/08	5.80
RBS C/D	1,400,000	08/05/09	5.72
Societe Generale C/D	1,400,000	14/11/08	5.80
Westpac Bk Corp T/D	1,419,142	03/11/08	4.00
UBS T/D	1,403,039	10/11/08	4.25
Cash	323	03/11/08	0.00
TOTAL	**14,322,504**		
TOTAL ACCRUED INTEREST	**243,293**		

Managed by Tradition

NAME OF BORROWER	AMOUNT INVESTED	DATE	MATURITY	INT RATE
HSBC	2,000,000.00	10/01/2006	07/01/2011	5.16%
Cumberland BS	2,000,000.00	02/05/2008	23/04/2009	5.99%
Stroud & Swindon BS	2,000,000.00	21/08/2008	31/03/2009	6.00%
Nottingham BS	2,000,000.00	08/02/2008	10/11/2008	5.50%

Managed In House

HSBC MMF	2,340,000.00	4.47%

Strategy towards the end of the financial year

Members should be assured that the proposed Investment Strategy minimises the credit risk within the current portfolio of investments. The only completely risk free investment which guarantees all deposits is directly with the Bank of

England in a Debt Management Account. However, this guarantee does come at a price as interest rates are often as much as 1.5% below market rates. Clearly, if the authority were to invest in such an account, investment interest would not be maximised. Kennet is reliant on investment interest to balance its revenue activities. The general principle of maximum return for minimum risk can be achieved by using the other investment vehicles allowed within the Strategy. It is proposed however, that such an account with the Bank of England could be useful towards the financial year end when the Council is expecting funds to be returned from Invesco. Money may be difficult to place on the markets at that time and surplus cash could be placed with the Bank of England DMA Account. By then the loss of interest will have minimal impact upon the revenue budget, but allow cash to be handed over to the new Unitary on 1st April 2009

6. Conclusions

In the current climate, Members will need to satisfy themselves that they are happy with the revised Investment Strategy (Appendix E) to the year end, together with the assurances given by Invesco (Appendix A) and that they are happy with Invesco's counterparty list (Appendix B) currently in use.

7. Recommendations

IT IS THEREFORE RECOMMENDED THAT the committee

(1) Adopt the revised Treasury Management Policy Statement and Treasury Management Practices (Appendix D),

(2) Adopt the revised Annual Investment Strategy for 2008/2009 (Appendix E within the Treasury Management Policy Statement)

(3) Approve the use of the Building Societies attached at Appendix C subject to the limits set out in the Treasury Management Policy Statement

(4) Approve the counterparty list used by Invesco (Appendix B)

(5) Approve the use of a Bank of England DMA Account for the investment of surplus funds towards the end of the financial year.