PART A

Report to:	Audit Committee
Date of meeting:	10th January 2013
Report of:	Head of Strategic Finance
Title:	Treasury Management Update Report

1.0 **SUMMARY**

1.1 This report provides the regular review of the Council's Treasury Management Strategy and investment performance.

2.0 **RECOMMENDATIONS**

2.1 That the Committee notes the report.

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3.0 Background

3.1 The uncertainties within the Eurozone have temporarily abated but could well flare up during 2013. The announcement from the ECB of an ‘unlimited’ bond buying programme that would provide a ‘fully effective’ backstop to the stricken eurozone economies (called the ‘Outright Money Transactions’ initiative) has helped to calm markets.

3.2 Spain has still to request any help from this source as it does not wish to lose control of its national budgets (which would probably be a requirement if any assistance were to be requested).

3.3 All 17 members of the Eurozone have agreed that they should move to a situation whereby banking institutions within their borders should be subject to overall control from the ECB (who would have the power to order the closure of any unstable banking institution). Germany has succeeded in ensuring this would only apply to the larger banking institutions (as it wished to exempt smaller community/ landesbanks of which it has many and where it would wish to continue to maintain control).

3.4 The United Kingdom would appear to have succeeded in protecting banking institutions located outside the Eurozone area. There is however no doubt that both Germany and France would like to see the relocation of major financial institutions from the City of London to Frankfurt and Paris. So the war of attrition will probably continue at some point.

3.5 Domestic politics continue to dominate throughout the wider EC community. Italy has a general election early in the new year and Germany a little later. Demonstrations continue in Greece, Spain and Portugal.

3.6 Within the United Kingdom potential Scottish Independence and the growth in support for UKIP (on an anti EC platform) will continue to fester. All three credit rating agencies have placed the UK on a credit rating watch and it is forecast that the triple AAA rating will be down graded to AA+ (the same as the USA and France) during 2013.

3.7 China appears to have engineered a soft landing albeit growth has reduced to a more sustainable level. In the USA, newly re-elected President Obama has to deal with the impending ‘fiscal cliff’ of reductions in public spending and tax increases.

4.0 The Council’s Current Investment Strategy

4.1 The Council’s strategy gives priority to the security of its assets before seeking a high interest rate return The uncertainties within Europe could have affected UK financial institutions and this has caused the Council’s portfolio to have a generally short maturity profile in order to be able to react to ‘events’.

4.2 The current relative calm within the Eurozone combined with the abysmal returns on short dated investments has caused a re-think on current policies. The intention is therefore to lengthen the maturity profile to an average of three to six month maturity for the largest UK banks.

4.3 In that respect the Council has placed an investment with Santander UK Ltd after having ‘shunned’ it for a short period. There are two reasons for this re-emergence. Firstly the ECB has effectively guaranteed support to all Spanish financial institutions and this back stop removes any minor fears about Santander Spain (the parent company). Secondly, Santander UK has pulled out of the proposed purchase of circa 600 odd outlets held by Lloyd's. This has resulted in Santander UK now having an additional £2 billion in its coffers and which has made its capital ratios very healthy indeed.

The £3m investment with Santander UK is for a 95 day rolling maturity at 1.30% and has been placed through the local branch of Santander in Clarendon Road and which is being 'grown' as a regional centre. Whilst enjoying the full protection of Santander UK, the £3m is actually used to support local businesses.

4.4 Building Societies provide no value whatsoever at the moment where interest rates are lower than the banks although the Societies often have a lower credit rating. There is also the fear that as mortgage rates start to inexorably increase then the number of 'zombie' households will finally 'go under' and the consequent bad debts will have to be fully reflected within the building societies balance sheets.

4.5 The Council's current investment portfolio is attached **Appendix 1.**

5.0 IMPLICATIONS

5.1 **Financial Issues**

The Head of Strategic Finance comments that the revenue estimates for 2012/2013 has assumed £325k of investment interest will be achieved (based upon a 1.3% rate of return). It is anticipated that this will be achieved due to fact that the investment portfolio has been larger than originally anticipated which has offset the fact that the investment return is likely to be closer to 1.15%.

5.2 **Legal Issues** (Monitoring Officer)

The Head of Legal and Property Services comments that there are statutory limitations governing cash fund investments and all proposals within this report ensure continued compliance.

5.3 **Potential Risks**

Potential Risk	**Likelihood**	**Impact**	**Overall score**
Investment with non approved body	1	3	3
Investment with an approved counterparty that subsequently defaults	1	4	4
Failure to achieve investment interest budget targets	2	2	4
Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the service's Risk Register.			

5.4 **Staffing & Equalities**

None Directly

5.5 **Accommodation**

None Directly