



SPECIAL POLICY AND RESOURCES SCRUTINY COMMITTEE – 8TH DECEMBER 2014

SUBJECT: INVESTMENT STRATEGY

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151
OFFICER**

1. PURPOSE OF REPORT

- 1.1 To provide the Scrutiny Committee with additional information in relation to proposals to review the Authority's investment strategy.

2. SUMMARY

- 2.1 A report was presented to the Special Policy and Resources Scrutiny Committee on the 24th September 2014 proposing a change in the Authority's Treasury Management Investment Strategy. The report provided details of various investment portfolios that the Authority could adopt to enhance investment returns to support the Medium-Term Financial Plan (MTFP). The MTFP has an additional £263k of investment income included supporting the Authority's 2015/16 draft budget savings proposal.
- 2.2 After considering the content of the report additional information was requested in relation to Model 1, as this offered the highest returns. Officers had expressed concerns around the amount of cash readily available in the short-term under Model 1 to meet the Authority's liquidity requirements as almost two thirds of the portfolio was tied up in investments greater than 1 year.
- 2.3 This report provides an updated position on the investment portfolios previously presented and outlines further advice received from the Authority's Treasury Advisors, Arlingclose.

3. LINKS TO STRATEGY

- 3.1 Treasury Management Strategy 2014/2015 as agreed by Council on the 26th February 2014.

4. THE REPORT

- 4.1 The report presented to the Special Policy and Resources Scrutiny Committee on the 24th September is attached as Appendix 1. The report outlined details of the current approach to investments (i.e. depositing with the Debt Management Office (DMO) and other Local Authorities, including Police and Fire Authorities), with an annual return of circa £230k. A further £263k of investment income has been included in the MTFP, a total of £493k of investment income needed to support the Authority's 2015/16 draft budget savings proposal. The report presented three indicative alternative investment portfolios along with the potential returns for each Model, as summarised below: -

Model	Rate of Return	Value
1	1.36%	£1,020k
2	0.67%	£500k
3	0.88%	£655k

4.2 Arlingclose has recently updated the indicative investment portfolios previously presented. The revised portfolios continue to follow the same underlying make up as proposed in the earlier Committee report, in so far as an average investment of £74.8m is assumed spread across a mixture of 20 to 22 investment instruments with an average balance of £3.74m. At the request of the Scrutiny Committee, Model 1 has been modified to increase the amount of readily available cash. Furthermore, Models 1, 2 and 3 have been updated to reflect changes in investment yields.

4.3 Members will note from the table below that the updated potential yields for each Model have reduced as financial markets have reacted to economic, political and regulatory developments, as well as the Ebola outbreak that is threatening to spread globally impacting on global economic recovery.

Model	Rate of Return	Value
1	1.02%	£764k
2	0.59%	£438k
3	0.74%	£550k

4.4 Model 1 (revised) has average investment duration of 768 days, with a return of 1.02% (£764k). £33m is available within a day's notice, £8.3m is invested between 6 to 12 months and £33.5m is invested for longer than 1 year. Although the cash available within a day's notice has increased from £20.3m to £33m this portfolio continues to represent liquidity risk, as there is not enough cash available to cover the short-term period (3 months to 1 year). This would result in the Authority borrowing short-term cash from the money markets to cover cashflow requirements to ease liquidity concerns. As a result investment income would reduce due to an increase in borrowing costs and associated brokerage fees. The use of covered bonds and floating rate notes would require an amendment to the Treasury Management Strategy.

4.5 Model 2 has an average duration of 190 days and yields a return of 0.59% (£438k). £22m is available within a day's notice, £16.8m within 3 months and £19m is invested longer than 1 year. The remaining £17m is invested between 3 and 12 months. This portfolio would suit the Council's cashflow profiling. An amendment to the Treasury Management Strategy would be required for the use of covered bonds and the duration of some of the proposed investments.

4.6 Model 3 has an average duration of 391 days and yields a return of 0.74% (£550k). £16.8m is available within a day's notice, £2m within 1 month and £29m is invested longer than 1 year. The remaining £27m is invested between 3 and 12 months. This portfolio would also suit the Council's cashflow profiling. The use of corporate bonds (in addition to covered bonds) will require an amendment to the Treasury Management Strategy.

4.7 All of the updated scenarios presented in this report have increased risk compared to the existing investment strategy due to investing for longer periods and for larger amounts. The credit quality of counterparties has been maintained in accordance with the Treasury Management Strategy, the lowest being rated A. The emphasis on generating higher returns is to invest large balances for a long period of time. The risks with each scenario are still respectively lower than for other benchmarked UK local authorities.

4.8 Further advice has been sought from Arlingclose on the updated Models and their view is that the Authority should look to progress to maximising its yields but that moving immediately to Model 1 may be a step too far at this stage. Arlingclose support an approach that would move us to Model 2 or 3 initially with the longer-term aim being a move to Model 1, subject to a review at a later date.

5. EQUALITIES IMPLICATIONS

5.1 There are no equalities implications arising from this report.

6. FINANCIAL IMPLICATIONS

6.1 As identified throughout the report.

7. PERSONNEL IMPLICATIONS

7.1 There are no direct personnel implications arising from this report.

8. CONSULTATIONS

8.1 There are no consultation responses that have not been reflected in this report.

9. RECOMMENDATIONS

9.1 Members of the Scrutiny Committee are asked to consider and comment upon the additional information in this report and make an appropriate recommendation to Cabinet/Council.

10. REASONS FOR THE RECOMMENDATIONS

10.1 To ensure that the views of the Scrutiny Committee are considered prior to proposals being presented to Cabinet/Council.

11. STATUTORY POWER

11.1 Local Government Acts 1972 and 2000.

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Appendices:

Appendix 1 Report to Special P&R Scrutiny Committee (24th September 2014)