



Agenda Item 23

Cabinet

31 October 2012

TMS12-13\2

Treasury Management Strategy Amendment

Exempt Information

Para 3 Schedule 12A Information relating to the financial or business affairs of any particular person (including the authority holding that information)

Summary

This report lays out amendments to the Council's Treasury Management Strategy. This is as a consequence of the external fund management tender process in that we are proposing to move to a pooled fund arrangement.

This does not alter the type of investment instruments the Council will use; it will mean however that we will be part of overall managed fund of which we will have invested in units of that fund. This is instead of our current arrangement where we have a segregated fund.

Recommendation

That the Council agrees to amend the Treasury Management Strategy to allow the use of pooled investment vehicles of the highest credit quality, AAA V1/S1.

That the Council approves the appointment of Royal London Asset Management and Payden & Rygel as External Fund Managers, depositing around £15 Million with each.

a) Reasons for Recommendation

Members agreed to retender our external investment fund management and after an extensive tendering process including the use of specialist advisors, it is considered that the best course of action is outlined in this report.

b) Alternative Options

To not amend the Treasury Management Strategy, resulting in reconsidering the tender award.

c) Risk Considerations

In selecting the investment managers and appropriate investment vehicle the councils overall strategy of Security, Liquidity & Yield (SLY) has been the basis of our analysis and decision.

d) Policy and Budgetary Considerations

The investment fees and interest are currently budgeted for. These new arrangements will fall in line with the sums allowed.

e) Date for Review of Decision

The Treasury Management & Investment Policy Strategies are agreed before the start of each financial year and will be reviewed again at February 2013 Cabinet.

The External Fund Management contracts are for three years and would be reviewed again at that time.

1 Introduction

- 1.1 The Chartered Institute of Public Finance (CIPFA) Code of Practice for Treasury Management in the Public Services and guidance from Communities & Local Government (CLG) on Local Government Investments in England require the Council to approve the Treasury Management Strategy before the start of the year and any changes to it during the year.
- 1.2 For reference please find attached, as Appendix A, the current approved Treasury Strategy which includes the Investment Policy & Strategy, it is this Section that will be amended as a consequence of this report.

2 Investment Policy & Strategy

- 2.1 As a result of the fund management tendering process carried out in conjunction with our Independent Treasury Advisors - Sector (whose appointment was approved by Cabinet), we wish to amend our investment policy & strategy to allow the use of Collective Investment Schemes (Pooled Funds).

Although our existing strategy allows our external managers the use of a variety of investment instruments, pooled funds are not specifically identified therefore for clarity and transparency; we wish to specifically include these funds within our Strategy.

2.2 Collective Investment Schemes

These are funds in which several investors collectively buy and hold units, which the fund managers use to buy assets. The investors then have a claim on the fund's assets in line with the number of units owned. Types of these funds include Money Market Funds and Bond Funds:

- Money Market funds invest in short term money market instruments, from overnight cash deposits to short term certificates of deposit, issued by banks & building societies.
- Bond Funds are similar to money market funds but also invest in bonds, including government bonds, corporate bonds, and covered bonds.

The advantages of pooled funds are:-

- Diversification: pooled funds can achieve greater diversification through greater buying power than could be achieved ourselves

- Liquidity: units can be sold at any time without regard to the maturity of individual bonds
- Experienced management of the portfolio

These funds are rated by the credit ratings agency Fitch and Standards & Poor's, with the ratings for Bond Funds being in two parts; a credit rating and a volatility rating.

The credit rating measures the vulnerability of the fund to credit defaults and is expressed in the same scale as long term credit ratings with AAA being the highest rating and D being the lowest.

The volatility rating measures the potential sensitivity of the fund's net asset value to market risk factors such as interest rate changes and credit spreads. This is expressed as V1-6/S1-6 with V1/S1 being the highest rating which denotes the lowest volatility (market risk factor).

Bearing in mind the Council's overriding policy objective of 'minimising risk while maximising returns' we propose only to invest in fund that maintain a bond fund rating of AAA V1/S1.

3 Appointment of Fund Managers

After following the process outlined below:

Eight companies, known to be in the local authority market, were invited to complete a tender questionnaire giving details on fees, past performance, estimates of future performance and an outline on how they proposed managing our fund.

A short list of five was drawn up and invited to present to a panel of Council officers, the Portfolio Holder for Finance and representatives of Sector. This included a question & answer session.

After two days of presentations, the short list were scored based on fees, performance and an agreed matrix of questions with particular reference to the Councils SLY Strategy.

This process has led to the recommendation to appoint the following two managers to each manage half our £30.8 Million external investment fund:

Royal London Asset Management utilising their Cash Plus Fund

Payden & Rygel utilising their Sterling Reserve

Both of these funds are independently rated by one of the ratings agencies and have the highest Bond Fund rating of AAA V1 & AAA S1, which is higher than we can achieve with our existing traditional segregated fund. Also it is worth noting that neither of the funds makes use of derivatives in their portfolios which did feature in other Funds that were presented.

Legal Implications

The Strategy should be formulated in line with the relevant statutory framework and statutory guidance. It is understood that the accountancy team has checked the revised strategy is compliant.

Financial Implications

These are contained within the report.

Consultation on Reports to the Executive

Appendices

- Current 12/13 Treasury Management Strategy – Appendix A

Simon Davey, Head of Finance & S151 Officer (x2690)
Claire Read, Accountant (x2691)

Cabinet
31 October 2012