Notes of the Treasury Management Task & Finish Group held on Thursday 6 February 2014 at 09.30am in Committee Room 1

Members Present: Mr T Dignum, Mrs P Hardwick, Mr R Marshall, Mr G McAra and Mrs T Tull

Officers: Mrs H Belenger, Mr J Ward and Mrs B Jones

1. Agreed that Mr Dignum take the Chair.

2. The Chairman suggested that the group agree the principles at this meeting (time periods, risks and forms of investment) and that a revised strategy then be brought to the next meeting for consideration.

Terms:

- Categorise short term - up to 364 days, then medium term - one to four years, longer term – four years plus.
- Treasury Management is highly regulated by Statue and the regulations issued by the Secretary of State. The CIPFA Code's status is backed up by the regulations issued by the Secretary of State. Both members and officers need to be mindful of their different responsibilities under the regulations and the CIPFA Code.
- Same rules apply to investments up to 364 days, dealing with short time deposits of three/six months as well.
- Liquid short term deposit limit of 65% may not be correct. Shouldn't have a maximum in short term investment, but need a minimum. Officers to reconsider and advise on this. **Action HB**

Risks:

- The TMP 1 sets out all the risks and how we are going to manage them. These are taken into account with regard to security and liquidity, time periods and amounts. This relates to Table 4 in the Strategy.
- Suggested that TMP1 is all about how we manage risks, but the question should be 'how do we balance consideration of risks?' Set up a hierarchy of risks - security then liquidity etc.
- There would be a political risk with regard to spend on New Homes Bonus if there is a Government change.
- Government was targeting those councils with large reserves and this would be a risk for us.
- One to four year term - the political risk is a change of government and the market risk is inflation may rise after election. May need to consider a shorter term investment initially.
- Advisors review the market constantly and update the counterparty list, advising CDC of current market conditions.
- We have better protection with Building Societies. However in the event of difficulties, Government could very quickly change legislation so a bail-in would apply.

- We shouldn't place too much significance on ratings as the credit crunch showed it was flawed. The use of the Credit Default Swaps (CDS) market is a more immediate and reactive measure that reflects the risk lenders considers exists with the counterparty.

Forms of investment:

Local Authorities:
- If reorganised, new Local Authority inherits the deal. No liquidity.

Pension fund:
- Off balance liability £100m. Not supported.

Registered Providers of social housing:
- Confirmation needed as to whether it is legal for Local Authorities to invest with Registered Providers. Huge amount of political risk. Discounted.

Money market funds:
- Potential EU market changes - instead of £1 in/£1 out it would revert to a variable rate. The regulations may change in 2015/16, therefore security may be compromised. Based on information from the Council's advisors, the officers have selected two reasonable funds to use as an alternative to the DMO. We can use £0.5m restricted to one year. Do we need the £4m cap? (There are minimum investment levels for the 2 funds; one is £1m the other is £0.5m.

Gilts:
- A way of lending to Government. Current rates are 0.44% for one year and 1.35% for three years. Can be comfortable lending for longer terms. Because it is liquid we can reassess after one year. We can sell them anytime – but if we sell them early is there a risk?

High Rated Corporate Bonds:
- There used to be issue with corporate bonds as the repaid money would be treated as capital receipts, and so would then only be available for capital investment and not any revenue funding. We could use both local and international institutions, as long as it is in Sterling. A custodian account would be necessary to undertake these types of investments and the estimated costs are in the region of £50,000, however we could use a custodian. Using a custodian would add another risk - operational.

Covered bonds:
- Debt secured by a floating charge. It is legal for us. There are different maturity terms on this type of investment. They are exempt from any bail-in and highly regulated. Minimum term – if 1- 4 year category then consider it? 2.25% covered bonds whereas 1.8% BS. Leeds BS has a separate rate for covered bonds AAA and a lower general rating. We should consider the general rating when assessing the risk. In the long term the money is safe. What should the cash limit be? Adviser to provide more information for the next meeting. **Action: Arlingclose**

Pooled funds:
- Invest minimum 3 years – linked to asset values. Better off investing in own property. No support for this.

Local Authority Property Fund or expanding CDC property development fund:

- WSCC Propco – develops land and achieves market rent.
- Do we go for a property fund with no link to the area or develop our own sites to achieve long term market rentals e.g. sites in Terminus Road could be developed and let out on a long lease.
- Third party Property Fund with regulations. On the edge of our jurisdiction. Need to define to Council a potential fund which could be available. Our role is to point out that a long term loan is not risk free.
- This is more of a capital strategy. It is part of the Resources Statement which comes to CGAC. The NHB is not currently included in this but this could be reviewed. Put funds into Chichester specific development to benefit the local economy, providing jobs. Resources have been identified in house to investigate potential property development opportunities.
- CIL - plugs the infrastructure gap. It is paid up front, but invested in the short term.
- Still a need for student accommodation in the district – perfect use for NHB money.
- The Enterprise Gateway project is £4m (which will achieve a 5-7% return and provide 250 new jobs every 2 years).

The Chairman pointed out that there are three sources of funds – NHB monies, the £8.8m uncommitted reserves (as at December 2013), and the £5m general reserve. We could potentially use the £5m reserve fund cash for gilts. We need to look at using some reserves plus NHB to reduce the amount of free reserves.

3. Next steps

It was agreed that a matrix be developed in the strategy categorising the time periods first, then detailing under each term the appropriate forms of investment and then setting out the inherent risks involved for each.

Categorise the time periods as follows:

1. Short term (up to 364 days)
2. Medium term (one to four years)
3. Long term (over four years)

Forms of investment:

- Building societies
- UK Local Authorities
- Money market funds
- Covered bonds (mortgage based securities etc.) – review information at next meeting
- Gilts
- High rated corporate bonds
- Developing CDC's own property portfolio

Forms of investment considered but discounted:

- Pooled funds
- Local Authorities Property Fund
- Public Works Loans Board
- UK registered providers of social housing

Risks:

- Security, liquidity, return, inflation, market, political

4. Next meeting

The next meeting will be held Monday 24 February 2014 at 12.30pm in Committee Room 1 with lunch. A marked up strategy will be presented and circulated to Arlingclose for comment beforehand. Arlingclose will attend.

(Post meeting note: this date was subsequently not suitable and a new date of 16 April 2014 at 10.00am in Committee Room 1 confirmed with all).

There being no other business, the meeting ended at 11.10am.