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| To: | Finance and Information Technology Resources Committee |
| Date: | 22 November 2011 |
| Prepared by: | Executive Director (Finance and Corporate Resources) |

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| Subject: | Debt Management Office Account – Deposit Limit |
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Obtain permission for the Investment Strategy to be amended to remove the deposit limit on the Debt Management Office (DMO) Account.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) That the Investment Strategy be amended to remove the deposit limit of £80m from the Council's DMO Account facility

3. Background

- 3.1. The UK Debt Management Office (DMO) is an Executive Agency of Her Majesty's Treasury responsible for debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.
- 3.2. The DMO offers a deposit facility (DMO Account) that allows local authorities to deposit surplus cash on flexible terms and receive a market related rate of interest. As the money is held by the Treasury, the scheme implicitly carries the Governments own sovereign credit rating thus offering the highest available security.
- 3.3. The Council has been utilising the DMO account since November 2008 to provide a secure, HM Treasury backed counterparty with which temporary surplus funds could be deposited.
- 3.2. A deposit limit of £80m has been assigned to this account.

4. Current Position

- 4.1. The Council's deposit balances will vary throughout the year, depending on the profile of spend experienced in the Councils revenue and capital programmes. The Council also requires to borrow £116m to fund the Capital programme in 2011/12 and the repayment of debt. The timing of this borrowing is determined by monitoring long term interest rates to ensure the best possible rate is achieved.
- 4.2. The Council has adopted a cautious approach to the selection of counterparties where funds will be deposited. This includes using only banking institutions receiving

a high credit rating by all 3 rating agencies, and also through the use of other tools such as monitoring share and credit default swap prices.

- 4.3 The Council also places deposits in other local authorities who require to borrow funds to manage their cash flow positions. This form of counterparty is demand led, and the level of Local Authority lending that will be required cannot be guaranteed.
- 4.4 In order to ensure that at all times the Council has a government backed facility to deposit surplus funds, it is recommended that the current limit of £80m for deposits with the DMO is removed.
- 4.5 This will provide unlimited access to a secure counterparty should banking institutions credit ratings change, or that local authority lending requirements change.

5. Employee Implications

- 5.1. None

6. Financial Implications

- 6.1. None

7. Other Implications

- 7.1. South Lanarkshire Council recognises that any investment activity will carry an element of risk. It is important that risk is identified and controls put in place to limit those risks.
- 7.2. Section 4 of this report shows how using the DMO contributes to the mitigation of counterparty risk.
- 7.3 There are no implications for sustainability in terms of the information contained in this report.

8 Equality Impact Assessment and Consultation Arrangements

- 8.1. This report does not introduce a new policy, function or strategy or recommend a change to existing policy, function or strategy and therefore no impact assessment is required
- 8.2 There is no requirement to undertake consultation in relation to this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

26 October 2011

Link(s) to Council Objectives/Improvement Themes/Values

- ◆ Accountable, Effective and Efficient

Previous References

- ◆ Annual investment Strategy 2011/12 – Finance and IT Resources Committee February 2011

List of Background Papers

- ◆ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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