East Northamptonshire Council

Council – 9 January 2012

Treasury Management Strategy 2011/12

Purpose of report

The purpose of this report is to gain Members' approval in revising Council's Treasury Management Strategy 2011/12.

Attachment(s)

Revised Appendix D to Treasury Management Strategy

1.0 Background

1.1 The Treasury Management Strategy for 2011/12 was agreed by Council earlier in the year.

1.2 In the last few months the turmoil within the global economy, in particular across the Euro Zone, has a seen deterioration in market confidence. This has resulted in some countries sovereign ratings, as well as a number of banking and financial institutions seeing their credit ratings being downgraded by rating agencies (e.g. Fitch, Standard & Poors and Moody's). These downgrades have had an impact on the counterparties the Council invests its surplus monies with.

1.3 The Council has proactively responded in this dynamic environment by withdrawing funds at the earliest opportunity where the credit ratings of institutions no longer meet the requirements of the Council's Treasury Management Investment Strategy. A copy of the Investment Strategy is set out in Appendix 1 to this report (please note the Investment Strategy is Appendix D of the Council's Treasury Management Strategy).

1.4 However, on Friday 16 December 2011 Barclay's Bank, the Council's banker, was downgraded and no longer meets the credit criteria for investments the Council has set. On this date the treasury management team withdrew the majority of the cash investments from Barclay's and reinvested this with an institution that meets the Council's criteria for investments.

1.5 As Barclays is the Council's banker it is prudent to maintain a minimum balance of cash to ensure the payment obligations of the Council are met as they fall due, for example payments to suppliers and staff. To facilitate this a change is required to the Investment Strategy.

2.0 Proposed amendments

2.1 To enable the Council to operate within the boundaries of an authorised Treasury Management Strategy the following paragraph has been inserted within a revised Appendix D as follows:

Authority's Banker *– The Authority banks with Barclays Bank. If their credit rating does not meet the minimum credit criteria specified in this Investment Strategy, Barclays Bank will continue to be used for the short term liquidity requirements (overnight and weekend investments) only to ensure business continuity arrangements are maintained.*

2.2 A Treasury Management Strategy for 2012/13 will be issued for approval by Council in February 2012 which will replace the current Treasury Strategy in place for 2011/12.

3.0 Equality and Diversity Implications

3.1 There are no equality and diversity implications in relation to the proposal.

4.0 Legal Implications

4.1 There are no legal implications in relation to the proposal.

5.0 Risk Management

5.1 Failure to compile with the Authority's Treasury Management Strategy would expose the Council to adverse criticism by external auditors. Failure to develop and follow a robust strategy could also expose the Council to financial loss if investments were placed in inappropriate institutions. Treasury Management is about the management of risk and ensuring that the strategy provides a flexible approach to facilitate the decisions the Authority takes in relation to treasury.

6.0 Financial Implications

6.1 There are no financial implications arising from the proposal.

7.0 Corporate Outcomes

7.1 The report demonstrates support of the following corporate outcomes:

- Good Value for Money
- Effective Management

8.0 Recommendations

8.1 Council is recommended to:

Agree the proposed amendments to the Treasury Management Strategy 2011/12 as shown in the revised Appendix D

<table>
<tr><td rowspan="2">Legal</td><td>Power:</td><td colspan="4">Local Government Acts 1989 & 2003</td></tr>
<tr><td>Other considerations:</td><td colspan="4">Council Constitution – parts 4.3 and 4.5
CIPFA Code of Practice for Treasury management
Prudential Code for Capital Finance</td></tr>
<tr><td colspan="6">Background Papers: Treasury Management Strategy 2011/12</td></tr>
<tr><td colspan="6">Person Originating Report: Glenn Hammons – Chief Finance Officer & Section 151 Officer</td></tr>
<tr><td colspan="6">Date: 21 December 2011</td></tr>
<tr><td>CFO</td><td></td><td>MO</td><td></td><td>CX</td><td></td></tr>
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(Committee Report Normal Rev. 22)

APPENDIX 1

Extract from Treasury Management Strategy 2011/12

Appendix D

CRITERIA TO BE USED FOR CREATING/ MANAGING APPROVED COUNTERPARTY LISTS/LIMITS

1. The Chief Financial Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.
2. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties.
3. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with and will take advice as appropriate from the Council's external Treasury Advisors.
4. Credit ratings will be used as supplied from one or more of the following credit rating agencies: -

   Fitch

   Standard & Poor's

   Moody's Investors Services
5. Selection criteria for approved investment counterparties.

   Tier 1 Institutions

   All Local Authorities and Public Bodies
   UK Banks and UK Building Societies which have received a long term credit rating score of AA-/Aa3 or greater and a short term credit rating score of A-1+/F1+/P-1 or greater and have access to the Bank of England Credit Guarantee Scheme. Foreign Banks in specific countries which have received a long term credit rating score of AA-/Aa3 or greater and a short term credit rating score of A-1+/F1+/P-1 or greater.

   Tier 2 Institutions

   UK and Designated Foreign Banks and UK Building Societies which have received a long term credit rating score of "A+" or greater and a short term credit rating score of A-1/F1/P-1 or greater.

   Money Market Funds (MMF)

   Funds valued on a Constant Net Asset Value (CNAV) basis with an AAAmmf, Aaa/MR1 or AAAm rating from Fitch, Moody's or Standard and Poor.

Authority's Banker

The Authority banks with Barclays Bank. If their credit rating does not meet the minimum credit criteria specified in this Investment Strategy, Barclays Bank will continue to be used for the short term liquidity requirements (overnight and weekend investments) only to ensure business continuity arrangements are maintained.

6. Investment limits for each tier of counterparty

	Max % of portfolio for each counterparty	Max % of portfolio for tier group
Tier 1 & 2	20	100
MMF	20	40

The limits for each counterparty include any group or subsidiary companies as well. The maximum of portfolio relates to the total of all institutions within any particular tier.

In addition to the above the following criteria should be applied for investments exceeding 1 year.

For Investments up to 5 years:

Tier 1 institutions (as defined above) which also have an Individual rating of B or better and a support/legal rating of 1 or2, a maximum exposure of £5 million in total per institution.

For Investments up to 2 years:

As above, plus other institutions which have an AA- long term rating or better AND F1+ short term rating AND Individual rating of B AND support rating of 2 or better. I would suggest a maximum exposure (if not covered by above) of £4 million. Although this is not a great deal different to above, it does allow some 2nd tier institutions to be considered.

7) The maximum period for investments will be 5 years.

8) The maximum value for any one investment transaction will be £5 million.

9) The maximum level of investment with any one group of counterparties will be 25% of the total portfolio.

10) That a Country limit of 30% for Non-UK Banks of the portfolio be applied.