

CITY OF PLYMOUTH

Subject: Supplement to Treasury Management Strategy
Update reported to Cabinet 29-11-2011

Committee: Audit Committee

Date: 16 December 2011

Cabinet Member: Councillor Bowyer

CMT Member: Director for Corporate Support

Author: David Northey, Head of Finance

Contact: Tel: 01752 304942
e-mail: david.northey@plymouth.gov.uk

Ref: fin/djn071211/A

Part: 1

This update to the Council's investment policy/strategy as approved by Cabinet on 29th November 2011 is incorporated in an amendment to the Council's Treasury Management Practices, Principles and Schedules for 2011-12 as highlighted in the following extract from this document.

1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the detrimental effect on the Council's capital and revenue resources.

Principle:

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques, and listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Schedule:

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

1. The Director for Corporate Support is responsible for setting prudent criteria; and the Council's Treasury advisors will provide guidance and assistance in setting criteria for assessing and monitoring the credit risk of investment counterparties.
2. The Council's Treasury Management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 agencies and other alternative assessment of credit strength including statements of potential government support, Credit Default Swap information for Countries and individual banks. The Council will also take account of information on corporate developments of and market sentiment towards investment counterparties.
3. Credit ratings will be used as supplied from one or more of the following credit rating agencies: -
 - Fitch Ratings
 - Moody's Investors Services
 - Stander &Poors
4. The approved investment counterparty list is determined by the following criteria: -

ORGANISATION	INVESTMENT CRITERIA	MAX AMOUNT	MAX PERIOD
Government Debt Office	Central Government Office	No Limit	12 Months
UK Banks	Minimum credit rating: Fitch – Long-Term A- Short-Term FI Moody's – Long-Term A3 Short-Term P-1 S&P – Long-Term A- Short-Term A-1	£30m	12 Months
UK Building Societies	Minimum credit rating: Fitch – Long-Term A- Short-Term FI Moody's – Long-Term A3 Short-Term P-1 S&P – Long-Term A- Short-Term A-1	£30m	12 Months

Foreign Banks	Minimum credit rating: Fitch – Long-Term A- Short-Term F1 Moody's – Long-Term A3 Short-Term P-1 S&P – Long-Term A- Short-Term A-1	£10m	12 Months
Local Authorities	Unitary Councils County Councils Metropolitan Councils London Borough Councils	£5m	12 Months
Money Market Funds	AAA with Constant Net Asset value investing predominantly in Government securities. AAA with a Constant Net Asset investing in instruments issued primarily by financial institutions.	2.5% of overall investment portfolio	Call
Bonds Issued by Multilateral Development banks	AAA or Government Guaranteed Eurosterling Bonds	Total investment £20m or 10% of investment portfolio	10 years

5. The maximum period of lending is 12 Months for deposits other than in EIB/Government bonds where the limit will be 10 years.
6. The maximum value for any one investment transaction will be unlimited with the DMO or £30m for any other investment.
7. The maximum limit for bank/group to include money market deposits will be £30m.
8. The maximum limit for lending to local authorities will be £30m.
9. The maximum limit for lending to a non UK bank will be £10m.
10. The limit on investments with non-UK banks will be 10% per country of total investments.
11. The maximum limit for investments in Money Market Funds will be £20m or 10% of investment portfolio with a limit in each fund of 2.5% of total investments.
12. The maximum investment in Eurosterling Bonds will be £20m or 10% of investment portfolio.

Authority' Bankers – The Authority banks with the Co-operative Bank Plc. Where the rating falls below the minimum credit criteria set by the Council for investment purposes the Co-operative Bank will continued to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.