

CITY OF PLYMOUTH

Subject: Treasury Management Strategy Update
Committee: Cabinet
Date: 29 November 2011
Cabinet Member: Councillor Bowyer
CMT Member: Director for Corporate Support
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Ref: fin/djn1111/A
Key Decision: No
Part: 1

Executive Summary:

This report sets out proposed amendments to our current treasury management strategy, and incorporates an update on current economic influences on world banking institutions, and the most recent advice from our independent treasury management advisors, Arlingclose.

Under our current policy, we only have four UK banks where we can place deposits. These banks are:

- Barclays
- HSBC
- Standard Chartered
- Santander UK PLC

This means consolidating the council available cash in very few banks with only two of these, Barclays and Santander UK PLC, readily in the market with call account and fixed term deposit options. Several other UK banks have recently dropped off of our approved list due to downgrading of credit rating linked to the wider European economic situation.

Following advice from our independent treasury management advisors, Arlingclose, in order to give greater flexibility, whilst maintaining the agreed investment strategy of first considering security, second liquidity and finally the yield of investments, it is proposed that the minimum long-term rating for new investments be reduced to A-, (or equivalent), for deposits. This will give the Director for Corporate Support the flexibility to react to changing credit conditions.

Our current strategy enables us to deposit money up to a maximum of two years with approved organisations within defined limits. Due to recent instability in the European markets, the maximum duration for deposits is regularly updated and reviewed upon the advice of Arlingclose. Whereas our formal duration limits within our strategy remain, operationally we will often apply a shorter duration limit for new deposits complying with the professional advice relevant at the point in time.

The Co-operative Bank Plc is the Council's bankers for all operational banking activity and transactional business. Due to recent changes in credit ratings, transactions with the Co-operative would no longer be allowable within our current Treasury Management Strategy. We therefore need to approve a relevant amendment to continue to use this bank on a day to day basis. Arlingclose support this action. Our contract with the Co-operative bank runs to 31st March 2013 and Council officers are currently in the process of reviewing bank services with the option to go out to tender.

A fully revised treasury management strategy, incorporating the changes recommended within this report, will be submitted for approval by the Audit Committee, meeting in January 2012.

Other Implications: e.g. Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:

N/A

Recommendations & Reasons for recommended action:

That Cabinet approve:-

1. The Reduction in the minimum long term rating to be used for investments from A+ or equivalent to A- or equivalent.
2. The continued use of Co-op bank as the Council's Bankers for short term liquidity and business continuity arrangements.

Alternative options considered and reasons for recommended action:

If we do nothing we would be using Co-operative Bank even though this does not meet our investment strategy. We would not be complying with the Cipfa code of practice and would receive a negative report from Audit.

For deposits we would have complete inflexibility and be consolidating our credit risk into just two available UK banks. Any further downgrades would mean we could lose the Santander and Barclays options leaving us with other Local Authorities and the Government's DMO as our only options with only a minimal sum that could be invested in MMF's. The return on deposits would be cut having implication on the Council's revenue budget.

Background papers:

- Treasury Management Strategy 2011/12
- Performance and Finance Report (including Capital Programme update) November 2011

Sign off:

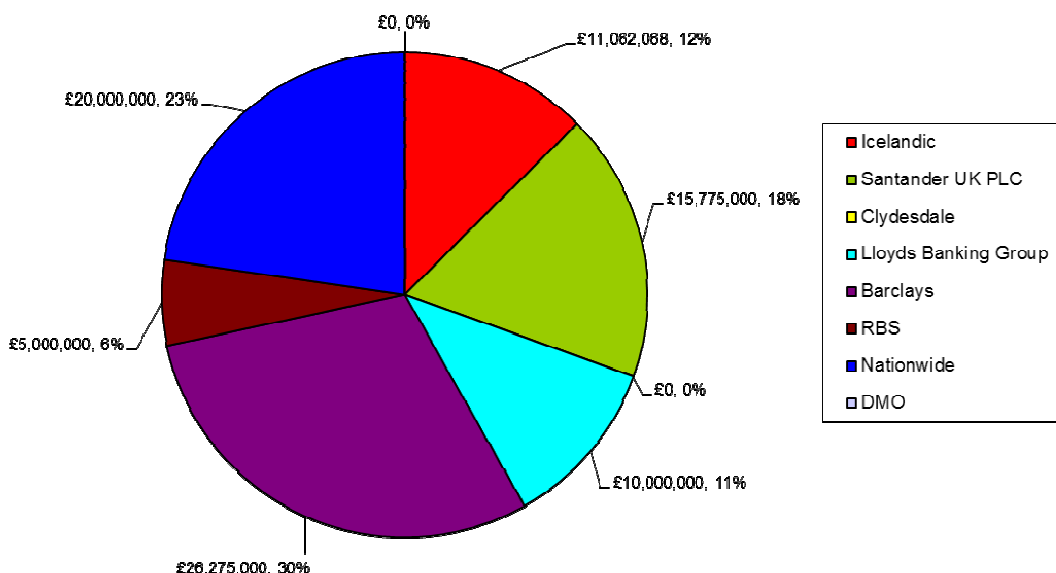
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Originating SMT Member M Coe											

Plymouth City Council Supplement to:- Treasury Management Strategy Update

I. Background

- I.1 When setting the strategy for 2011-12, based on the advice of our treasury management advisors (Arlingclose), a minimum long-term credit rating of A+ or equivalent was approved as the minimum criteria for depositing funds with Banks and Building Societies.
- I.2 Since setting the strategy, credit conditions have deteriorated with problems with sovereign debt in the Eurozone and credit rating downgrades for a number of banks. As a result of this the decision was made to reduce credit risk by using available cash flow to repay short-term borrowing on maturity. At 30 September 2011 the Council's borrowing stood at £213.598 (compared to £261.408 at 30 June 2011). All borrowing activity during the year has remained within the approved borrowing limits.
- I.3 Investment at 30 September 2011 stood at £95.913m down from £162,109m at 30 June 2011. At 18 November this has further fallen to £88.112m. Our current breakdown of investments can be analysed as:

DEPOSITS BY BANK/GROUP AT 18th NOVEMBER 2011
- Total Deposits £88,112,068.46



- I.4 Following advice from Arlinclose, in order to give greater flexibility, whilst maintaining the agreed investment strategy of first considering security, second liquidity and finally the yield of investments, it is proposed that the minimum long-term rating for new investments be reduced to A- or equivalent for deposits. This will give the Director for Corporate Support the flexibility to react to changing credit conditions.

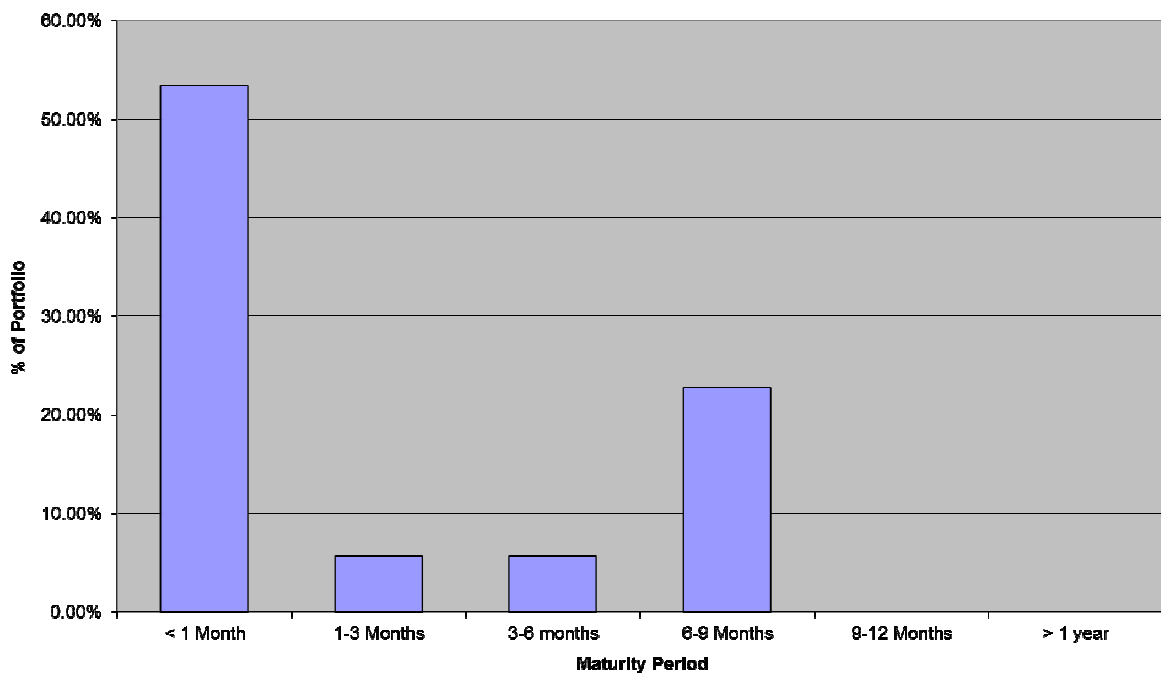
1.5 Adopting the revised credit ratings will enable the council to formally re-instate the following banks to its list of institutions for placing new deposits

- Clydesdale Bank
- Lloyds Banking Group including Lloyds TSB and Bank of Scotland
- Nationwide Building Societies
- Royal Bank of Scotland Group including RBS and NatWest

1.6 The Director for Corporate Support will manage investments within these proposed limits reacting to any changes in credit conditions. The Treasury Management Board continues to meet regularly to discuss the actions in respect of borrowing and investments in accordance with the approved strategy.

1.7 Maturity limits on Investments have also reduced with the majority of deposits made in liquid call accounts in order to minimise risk. Although our existing strategy enables us to deposit money up to a maximum of two years, operationally, based on professional advice at a given time, we work to much shorter duration limits. The current maturity profile of our investments is as follows:

Plymouth City Council Investment Maturity Profile 18th November 2011



1.8 A full revision of the Council's Treasury Management Strategy will be presented to the audit committee in January 2012.

2. OPERATIONAL BANK

2.1 The Co-operative Bank Plc is the Council's bankers for all operational banking activity and transactional business. Our contract with the Co-operative bank runs to 31st March 2013 and Council officers are in the process of reviewing bank services with the option to go out to tender.

- 2.2 The recent credit rating in UK banks also included the downgrading of the Co-operative Bank Plc by Moody's credit rating agency to - A3 long-term; P-2 short-term. This is equivalent to its Fitch rating of A- long-term F2 short-term.
- 2.3 As the Co-operative bank Plc is the Council's operational banker, although it does not meet the current minimum credit rating of A+ (or equivalent) long term or the proposed new limit of A- long term and F1 short term, it will still need to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements. This use needs to be classified as a non-specified investment as it does not meet the credit rating criteria considered "high credit quality" in the proposed update to the Treasury Management Strategy Statement.

3. COUNTERPARTY RISK MANAGEMENT

- 3.1 The Director for Corporate Support is responsible for setting a prudent criteria and the Council's treasury advisors will provide guidance and assistance in setting this criteria for assessing and monitoring the credit risk of investment counterparties.
- 3.2 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 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.
- 3.3 Credit ratings will be used as supplied from one or more of the following agencies: -
 - Fitch Ratings
 - Moody's Investors Services
 - Stander & Poors