

CITY OF PLYMOUTH

Subject: Treasury Management Strategy Statement and Annual Investment Strategy 2012/13 Update

Committee: Audit Committee
Cabinet
Full Council

Date: 16 March 2012
27 March 2012
16 April 2012

Cabinet Member: Councillor Bowyer

CMT Member: Director for Corporate Services

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Ref: Acct/AL

Key Decision: No

Part: I

Executive Summary:

This reports sets out proposed amendments to the strategy for 2012-13 approved by Council on 27th February 2012. In view of potential credit rating updates and following the advice of our independent treasury management advisors, Arlingclose, it is proposed to remove the requirement of a minimum short-term rating whilst maintaining the long-term rating requirement for new investments at A- (or equivalent). This will give the Director for Corporate Services the flexibility to react to changing credit conditions.

Corporate Plan 2012-2015:

Effective financial management is fundamental to the delivery of the Corporate Plan and our priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating delivery against a number of corporate priorities.

**Implications for Medium Term Financial Plan and Resource Implications:
Including finance, human, IT and land**

Treasury Management affects the Council's budget in terms of borrowing costs and investment returns.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.

The volatility and uncertainty within the global financial markets continues to have a substantial effect on Treasury Management activities. The Council's investment strategy is constantly monitored and acted upon through the Treasury Management Board which meets weekly.

Recommendations & Reasons for recommended action

To recommend Full Council approve:

1. The removal of the short-term rating requirement from the criteria required for the inclusion of organisations on the Council's list of proposed Counterparties for new investments in 2012-13.
 2. The organisations and Counterparty limits as set out in Appendix A.
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Alternative options considered and reasons for recommended action:

If we do nothing we risk the prospect of losing a number of Counterparties from our investment option including the Royal Bank of Scotland and the Lloyds Banking Group where the UK taxpayer owns a large share of these banks. We could lose the flexibility of spreading our investments between a number of UK banks and the Nationwide Building Society, systemically important to the UK economy, concentrating our credit risk in a smaller number of organisations.

Background papers:

Approved Treasury Management strategy 2012-13

Sign off:

Fin	DN/CorpF1112003 /07.03.2011	Leg	TH0041	HR	Corp Prop		IT		Strat Proc	
Originating SMT Member : Malcolm Coe										

Updated Investment Strategy 2012-13

I. Approved Investment Strategy 2012-13

I.1 The Council's Treasury Management Strategy including the Investment Strategy for 2012-13 was approved by Council on 27th February 2012. This included the use of minimum credit ratings as one criteria for the consideration of the use of counterparties for investments as per an extract from the approved strategy set out below. Sections 8.6 and 8.8 of the approved strategy set out the required minimum credit ratings required for Counterparties to be included on the Council's list for possible investments.

I.2 Section 8.6 of the approved Treasury Management strategy stated:

The financial institution credit rating limits in place and proposed for 2012-13 is a minimum long-term rating of A- or equivalent and a minimum short-term rating of F1 or equivalent with a minimum long-term sovereign rating for non UK countries of AA+ or equivalent. The financial institution limit proposed is lower than the A+ minimum originally adopted in 2011/12 and is a response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system. The minimum credit rating required to be met from all three credit rating agencies are:

Fitch Long-Term (LT) A- Short-Term (ST) F1

Moody's Long-Term (LT) A3 Short-Term (ST) P-1

Standard & Poor's Long-Term (LT) A- Short-Term (ST) A-1

I.3 Section 8.8 of the approved strategy stated:

Within the criteria set out above new specified and non-specified investments will be made/considered within the following limits:

Specified Investments				
Investment		Minimum Security / Credit Rating	Maximum Amount	Maximum Period
Term Deposit UK Government	DMADF (DMO)	Government Backed	No limit	12 Months
Term Deposits/Bills	UK Local Authorities: Unitary Councils County Councils Metropolitan Councils London Borough Councils	High Security	£5m	12 Months
Term Deposits / CD's / Call Accounts (including callable deposits)	UK Banks / Building Societies	Minimum credit rating: Fitch LT A- St F1 Moody's LT A3 ST P-1 S&P LT A- ST A-1	£30m	12 Months
Term Deposits / CD's / Call Accounts (including callable deposits)	Non-UK Banks	Minimum credit rating: Fitch LT A- St F1 Moody's LT A3 ST P-1 S&P LT A- ST A-1 In select countries with a minimum Sovereign Rating of AA+	£5m	12 Months
Gilts	UK Government	Government Backed	20% of total investments	12 Months
T-Bills	UK Government	Government Backed	No limit	12 Months
Bonds issued by multilateral development banks	Non-UK	AAA or Government Guaranteed	20% of total investments	12 Months
Corporate Bonds	UK Companies	Minimum credit rating: Fitch LT A- St F1 Moody's LT A3 ST P-1 S&P LT A- ST A-1	10% of total Investment	12 Months
Commercial Paper	UK Companies	Minimum credit rating: Fitch LT A- St F1 Moody's LT A3 ST P-1 S&P LT A- ST A-1	10% of total Investments	9 Months
Money Market Funds	CNAV MMF's VNAV MMF's (where there is greater than 12 month history of a consistent £1 Net Asset Value)	AAA	20% of total investments Max £5m per fund limited to 0.5% of total fund value	Call
Other MMF's and Collective Investment Schemes	Various	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£10m	No set maturity date

2. Updated Investment Strategy 2012-13

- 2.1 One of the credit rating agencies (Moody's) are undertaking a review of global banks and are considering reducing the credit ratings. The original short-term ratings were set at very high levels whilst long-term ratings were reduced as set out in the extract 8.6 above. On the advice of our Treasury Management advisors (Arlingclose) it is proposed to remove the short-term rating criteria as part of the requirement for using counterparties. The revision to the Investment Strategy for 12-13 as a result of these proposed changes is set out below with the changes from the approved strategy highlighted.
- 2.2 The proposed revision to the strategy in Section 8.6 is:
The financial institution credit rating limits in place and proposed for 2012-13 is a minimum long-term rating of A- or equivalent with a minimum long-term sovereign rating for non UK countries of AA+ or equivalent. The financial institution limit proposed is lower than the A+ minimum originally adopted in 2011/12 and is a response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system. The minimum credit rating required to be met from all three credit rating agencies are:

Fitch Long-Term (LT) A-

Moody's Long-Term (LT) A3

Standard & Poor's Long-Term (LT) A-

- 2.3 The proposed revision to the strategy in Section 8.8 of the report is:
Within the criteria set out above new specified and non-specified investments will be made/considered within the following limits:

Specified Investments

Investment		Minimum Security / Credit Rating	Maximum Amount	Maximum Period
Term Deposit UK Government	DMADF (DMO)	Government Backed	No limit	12 Months
Term Deposits/Bills	UK Local Authorities: Unitary Councils County Councils Metropolitan Councils London Borough Councils	High Security	£5m	12 Months
Term Deposits / CD's / Call Accounts (including callable deposits)	UK Banks / Building Societies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	£30m	12 Months
Term Deposits / CD's / Call Accounts (including callable deposits)	Non-UK Banks	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A- In select countries with a minimum Sovereign Rating of AA+	£5m	12 Months
Gilts	UK Government	Government Backed	20% of total investments	12 Months
T-Bills	UK Government	Government Backed	No limit	12 Months
Bonds issued by multilateral development banks	Non-UK	AAA or Government Guaranteed	20% of total investments	12 Months
Corporate Bonds	UK Companies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	10% of total Investment	12 Months
Commercial Paper	UK Companies	Minimum credit rating: Fitch LT A- Moody's LT A3 S&P LT A-	10% of total Investments	9 Months
Money Market Funds	CNAV MMF's VNAV MMF's (where there is greater than 12 month history of a consistent £1 Net Asset Value)	AAA	20% of total investments Max £5m per fund limited to 0.5% of total fund value	Call
Other MMF's and Collective Investment Schemes	Various	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£10m	No set maturity date

- 2.4 This revision in the strategy does not mean that short-term credit ratings will not be used in the consideration when adding or removing Counterparties to be used for Investments and setting maturity limits. However the decision will be based on a number of criteria as set out in section 8.12 of the approved Treasury Management Strategy 2012-13, used to assess the creditworthiness of each organisation, and not just the credit rating. This is in accordance with the updated Cipfa Code of Practice on Treasury Management.

Together with our Treasury Management advisors (Arlingclose) Council officers will ensure that this change does not expose the Council to any additional risks, and investments will be limited to organisations of systemic importance to the country's economy and only in countries within the limits set which have at least a AA+ (or equivalent) long-term rating.

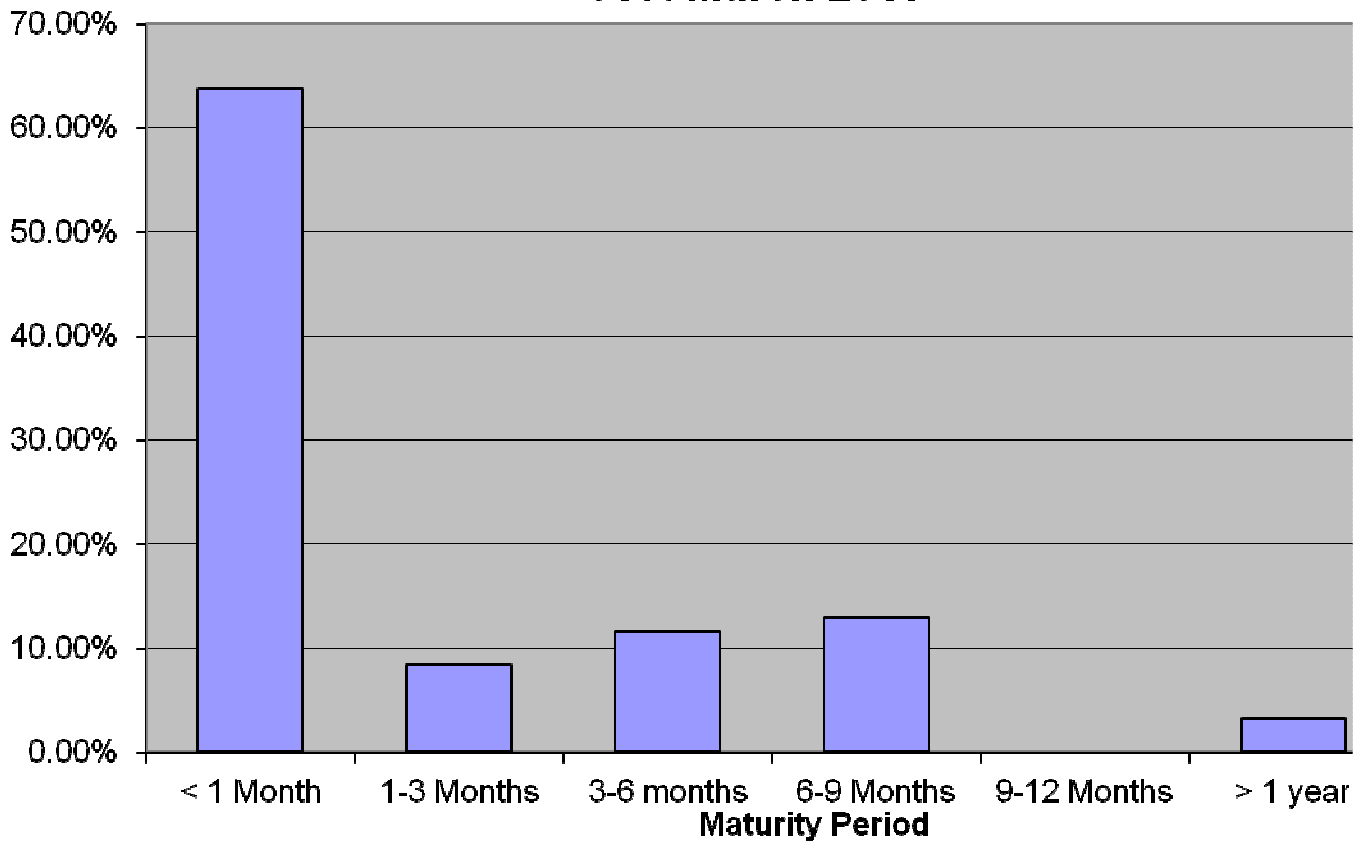
- 2.5 Appendix A to this report sets out the Organisation and Counterparty limits proposed, unchanged from the approved Treasury Management Strategy for 2012-13 but without the original required criteria of a minimum short-term credit rating.
- 2.6 Over the past 12 months as the Eurozone debt crisis as impacted on the global economy and credit conditions, the Council's loans and investments have been reduced along with the maturity profile of investment as Council officers have managed down the Counterparty and credit risk of the Council's investments.

Council loans stood at £286.373m at 31st March 2011. This has been reduced to £201.398m as at 1st March 2012 and is forecast to remain at this level to year end.

Council Investments were £165.802m at 31st March 2011 and have reduced to £76.957m (net of £14.51m held on behalf of the Local Enterprise Partnership). Net investments are forecast to fall further to year end with a forecast balance of approximately £50m at 31st March 2012.

- 2.7 Along with the reduction in risk by reducing loan and investment balances the Council's maturity profile of investments shows a reduction in the length of investment maturities as Council officers have limited investment to the use of call accounts to counteract the uncertainty in the Eurozone and its impact on banks. The charts below show the maturity profile of investments at 31st March 2011 and 1st March 2012.

Plymouth City Council Investment Maturity Profile 31st March 2011



Plymouth City Council Investment Maturity Profile 1st March 2012

