

Paper M138A

REPORT FROM THE HEAD OF CORPORATE RESOURCES TO STRATEGY COMMITTEE 14 FEBRUARY 2013

AMENDMENTS TO THE DRAFT TREASURY MANAGEMENT STRATEGY 2013/14

1. Purpose of Report

- 1.1 To present amendments to the proposed treasury management strategy for 2013/14 as set out in Paper M138 following consideration by the Overview and Scrutiny (Stewardship) Committee.

2. Background

- 2.1 Key information relating to the Council's treasury management operations in terms of the annual investment and borrowing strategy proposed for 2013/14 are set out in Paper M138. The proposed amendments are set out below.

3. Investment of Surplus Funds

- 3.1 Paper M138 Paragraph 8.15: Amend wording in table (third bullet point) to "No foreign banks are included where the country does not have a AAA sovereign credit rating".

4. Borrowing

- 4.1 Paper M138 Paragraph 8.21: Amend wording to "Babergh has qualified to receive the "certainty rate" discount of 0.2% on new PWLB loans taken out".

5. Appendices

- 5.1 Amend wording in Appendix C as follows:

- Paragraph 7: "As indicated in Table 1 above, the Council has a gross borrowing requirement (as reflected by the CFR) of around £6.2m, which is estimated to increase to £8.2m by 2015/16".
- Paragraph 21: "Local authorities are advised to have regard to the ratings issued by the three main agencies, Fitch, Moody's, and Standard & Poor's and to make decisions based on all ratings for each institution".
- Paragraph 30: "The limit per institution is £2m, as in 2012/13, other than the DMADF which is unlimited and Money Market Funds, which have a limit per fund of 10% of our total investments (except the Public Sector Deposit Fund which has a limit of £1m)".
- Paragraph 41: "Local authorities should be mindful of the requirements of the Bribery Act 2011 in their dealings with external advisors. The Council could be liable where someone who performs services for it pays a bribe specifically to get business, keep business, or gain a business advantage for the Council."

5.2 Amend wording in Appendix D as follows:

- Paragraph 7.1, Table 6 – The estimated effect on average weekly housing rent shows the impact of borrowing costs only and excludes the revenue contribution to capital.

6. 5.3 Amend wording in **Appendix E** as follows:

- A revised Appendix E (which excludes sovereign credit ratings and includes ratings for individual institutions) is attached.

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APPENDIX E

Institutions meeting the high credit ratings criteria (minimum credit quality) as at end of December 2012

This is based on UK Banks and Building Societies A-, Money Market Funds AAA, Foreign Banks AA-. Foreign banks must be in a country with a sovereign rating of AAA.

The individual counterparty limit is £2m. For banks within the same group ownership, the group limit is £3m. The country limit is £2m.

Instrument	Long Term Rating Fitch	Country Rating Fitch	Counterparty
UK BANKS			
Term Deposits & Certificates of Deposit	AA-	*	HSBC Bank Plc
Term Deposits & Certificates of Deposit	AA-	*	Standard Chartered Bank
Term Deposits & Certificates of Deposit	A	*	Barclays Bank
Term Deposits & Certificates of Deposit	A	**	Bank of Scotland (Lloyds Banking Group)
Term Deposits & Certificates of Deposit	A	**	Lloyds TSB (Lloyds Banking Group)
Term Deposits & Certificates of Deposit	A	**	National Westminster Bank (RBS Group)
Term Deposits & Certificates of Deposit	A	**	Royal Bank of Scotland (RBS Group)
Call Account	A	****	Santander UK Plc (Member decision on whether to continue <u>not</u> to have on counterparty list)
BUILDING SOCIETIES			
Term Deposits & Certificates of Deposit	A+	*	Nationwide
FOREIGN BANKS			
Australia			
Term Deposits & Certificates of Deposit	AA-	*	Australia & NZ Banking Group (Australia & NZ Banking Group)
Term Deposits & Certificates of Deposit	AA-	*	Commonwealth Bank of Australia
Term Deposits & Certificates of Deposit	AA-	*	National Australia Bank
Term Deposits & Certificates of Deposit	AA-	*	Westpac Banking Group

Instrument	Long Term Rating Fitch	Country Rating Fitch	Counterparty
Canada			
Term Deposits & Certificates of Deposit	AA	*	Royal Bank of Canada
Term Deposits & Certificates of Deposit	AA-	*	Toronto-Dominion Bank
Finland			
Term Deposits & Certificates of Deposit	AA-	*	Nordea Bank
Netherlands			
Term Deposits & Certificates of Deposit	AAA	*	Bank Nederlandse Gemeenten NV (BNG)
Term Deposits & Certificates of Deposit	AA	*	Rabobank
Sweden			
Term Deposits & Certificates of Deposit	AA-	*	Svenska Handelsbanken
NON-SPECIFIED			
Call Accounts	BBB+	****	Co-operative Bank (UK) (PSR)
AAA Rated MONEY MARKET FUNDS (MMF)			
Call Account	AAA	***	Ignis Sterling Liquidity Fund
Call Account	AAA	***	Goldman Sterling Liquid Reserves Fund
Call Account	AAA	***	Insight Sterling Liquidity Fund
Call Account	AAA	***	Prime Rate Sterling Liquidity Fund
Call Account	AAA	***	BlackRock Institutional Sterling Liquidity Fund

* Maximum limit to maturity of 12 months

** Maximum limit to maturity of 6 months

*** Maximum exposure limit of 10% of total investments per fund

**** Overnight limit

MMFs – Prime Rate is domiciled in the UK for tax and administration purposes, Ignis Goldman Sachs, BlackRock and Insight are domiciled in Ireland for tax and administration purposes.

Long Term Investment Grades

Rating Agency	Rating	Definition
HIGHEST RATING		
Fitch	AAA	Highest credit quality – ‘AAA’ ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
Moody’s	Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Standard & Poor’s	AAA	An obligator rated ‘AAA’ has extremely strong capacity to meet its financial commitments. ‘AAA’ is the highest issuer credit rating assigned by Standard & Poor’s.
NEXT HIGHEST RATING		
Fitch	AA+ AA AA-	Very high credit quality ‘AA’ ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
Moody’s	Aa1 Aa2 Aa3	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
Standard & Poor’s	AA+ AA AA-	An obligator rated ‘AA’ has very strong capacity to meet its financial commitments. It differs from the highest rated obligators only to a small degree.
THIRD HIGHEST RATING		
Fitch	A+ A A-	High credit quality – ‘A’ ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
Moody’s	A1 A2 A3	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
Standard & Poor’s	A+ A A-	An obligator rated ‘A’ has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.