

**Committee:** Cabinet

**Agenda Item**

**Date:** 28 October 2014

**9**

**Title:** 2014/15 Treasury Management Strategy  
Amendment

**Portfolio  
Holder:** Councillor Robert Chambers

**Key decision:** No

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## Summary

### 1. Counterparty Credit Rating

- a) The Council currently has a credit rating threshold of A- for all counterparty investment.
- b) As we get closer to credit rating agencies removing government support from banks ratings, we see a risk that some or all of Barclays, Lloyds, Nationwide and Santander could become BBB+ rated before the end of this financial year. It would be possible to operate without using these banks, for example by investing all cash with Debt Management Office.
- c) As per advice from our Treasury Management consultant, Arlingclose, the Council may continue to invest in the major UK banks if they become BBB+ credit rated with a maximum cash limit of £1m for up to 100 days.

### 2. Investment Cash limit

- a) The Council currently has a £1m cap on investment deals with banks, which meets the Council's A- threshold. This is a change from the 15% of total investment limit permitted per counterparty in 2013/14 Treasury Management Strategy.
- b) The Council is currently finding it difficult to lend £1m or less to relevant counterparties and is unable to maximise returns on investments.
- c) Arlingclose is currently advising that no more than 10% of the total investment is made with any relevant counterparty. On average this equates to a maximum of £2m per relevant counterparty for the Council. The new cash limit proposed is more risk cautious than 2013/14 Treasury Management Strategy and more practical with day to day treasury management activities.

## Recommendation

- 3 The Cabinet is recommended to approve the amended 2014/15 Treasury Management Strategy counterparty list as set outlined in this report.

## Financial Implications

4 None.

## Impact

|                                 |      |
|---------------------------------|------|
| Communication/Consultation      | None |
| Community Safety                | None |
| Equalities                      | None |
| Health and Safety               | None |
| Human Rights/Legal Implications | None |
| Sustainability                  | None |
| Ward-specific impacts           | None |
| Workforce/Workplace             | None |

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## Background

### Credit Rating

5. The UK is implementing the final bail-in provisions of the EU Bank Recovery and Resolution Directive to commence in January 2015, a year ahead of most other countries. Credit rating agencies have stated they plan to review EU banks' ratings in line with each country's implementation of the directive.
6. Many UK banks have standalone ratings in the "BBB" category, with uplifts for potential government support taking them into the "A" category. There is therefore a realistic risk that some major UK banks' credit ratings will fall below A- this financial year if this uplift is removed.
7. The Council has two broad options to respond to this risk:
  - a) amend the Treasury Management Strategy to allow investment in lower rated banks, or
  - b) prepare to invest without using any of the major UK banks.
8. The Council's Treasury Management consultants Arlingclose, recommend that Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is BBB+ cash limit of investment is set around 5% of total investment. The Council's average outstanding investment is £20m therefore a cash limit of £1m on institutions which have credit rating of BBB+ is reasonable with a time limit of 100 days.

## Cash Limit

9. Last year the Council reduced its investment cash limit from 15% of total investment to a cash limit of £1m for all counterparties apart from the Debt Management Office. The Council is currently finding it difficult to lend to counterparties due to this cap. Furthermore investment returns are not maximised and the current counterparty list does not effectively assist with day to day Treasury Management activities.
10. Arlingclose is advising that the Council cap its investment cash limit to 10% of total investment for any relevant counterparties. The Council's average outstanding investment is approximately £20m during the year. Therefore a cash limit of £2m is prudent, risk cautious compared to last year's strategy and practical with the Council's day to day Treasury Management activities.

## Risk Analysis

| Risk  | Likelihood  | Impact                                     | Mitigating actions  |
|---|---|--|---|
| Loss of council funds through failure of banking counterparty | 1 (minimal risk due to nature of institutions used) | 4 (significant sums are placed on deposit) | Treasury Management Strategy and regular monitoring<br>Arlingclose advice |

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

| General Counterparty list  |      | Cash limit | Time limit |
|--|------|------------|------------|
| Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is: | A-   | £2m        | 365 days   |
| Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is: | BBB+ | £2m        | 100 days   |
| Council's current bank account if it fails to meet the above criteria, excluding deposit accounts                          |      | £1.5m      | next day   |
| UK Central Government (irrespective of credit rating)  |      | unlimited  | no limit   |
| UK Local Authorities (irrespective of credit rating), per authority  |      | unlimited  | no limit   |
| UK Building Societies without credit ratings, per BS*  |      | £1m        | 182 days   |
| Saffron Building Society   |      | £0.5m      | 182 days   |
| Money Market Funds, UK Domiciled per MMF   | AAA  | £1m        | next day   |

\* There are 14 Building Societies suggested by Arlingclose, see Counterparty list

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| <b>Specified Investments Counterparty List tailored for UDC and approved by Arlingclose</b> |                 |   |                   |                       |
|---|-----------------|---|-------------------|-----------------------|
| <b>Instrument</b>   | <b>Domicile</b> | <b>Current security Rating (Fitch Rating)</b> | <b>Cash limit</b> | <b>Maximum Period</b> |
| Government DMO  | UK              | AA+   | unlimited         | No limit              |
| Local Authority (per authority)   | UK              | AA+   | unlimited         | No limit              |
| Treasury Bills (T-Bills)  | UK              | AA+   | £2m               | 365 days              |
| UK Government Gilts   | UK              | AA+   | £2m               | 365 days              |
| Lloyds / Bank of Scotland   | UK              | A   | £2m               | 182 days              |
| Barclays Bank plc   | UK              | A   | £2m               | 100 days              |
| HSBC Bank plc   | UK              | AA-   | £2m               | 182 days              |
| Nationwide Building Society   | UK              | A   | £2m               | 182 days              |
| Santander UK Plc  | UK              | A   | £2m               | 182 days              |
| Standard Chartered Bank   | UK              | AA-   | £2m               | 182 days              |
| UK Building Societies without credit ratings*   | UK              | n/a   | £1m               | 100 days              |
| Saffron **  | UK              | n/a   | £0.5m             | 100 days              |
| Leeds Building Society  | UK              | A-  | £1m               | 100 days              |
| CCLA - PSDF - Money Market Fund   | UK              | AAA   | £1m               | On Call               |
| FEDERATED INVESTORS - Money Market Fund   | UK              | AAA   | £1m               | On Call               |

\* see Building Society list below

\*\* Saffron BS is excluded from Arlingclose list because it narrowly misses two of the four criteria threshold. However in one of the ratio calculations it performs exceptionally well and very highly in the other, see table below.

| Building Societies                 | Liquid Assets to Funding Ratio, Position out of 38 BS | Wholesale Funding Ratio, Position out of 38 BS | Capital to Lending Ratio, Position out of 38 BS | Non-performing Loans, Position out of 38 BS |
|------------------------------------|---|--|---|---|
| Scottish                           | 4   | 4  | 9   | 10  |
| Harpenden                          | 8   | 27   | 7   | 16  |
| Marsden                            | 9   | 17   | 1   | 4   |
| Loughborough                       | 10  | 10   | 13  | 26  |
| Furness                            | 12  | 23   | 10  | 19  |
| Hinckley & Rugby                   | 13  | 28   | 17  | 9   |
| Mansfield                          | 15  | 9  | 19  | 1   |
| Vernon                             | 16  | 22   | 18  | 12  |
| Tipton & Coseley                   | 17  | 8  | 6   | 30  |
| Melton Mowbray                     | 18  | 21   | 5   | 28  |
| Market Harborough                  | 20  | 16   | 20  | 2   |
| Leek United                        | 21  | 3  | 21  | 5   |
| Darlington                         | 23  | 11   | 8   | 20  |
| Newbury                            | 24  | 18   | 25  | 3   |
| <b>Leeds (Threshold)</b>           | <b>34</b>   | <b>30</b>                                      | <b>27</b>                                       | <b>32</b>                                   |
| Saffron (information purpose only) | 1   | 31   | 33  | 13  |