

TELFORD & WREKIN COUNCIL

COUNCIL – 13 SEPTEMBER 2012

TREASURY MANAGEMENT – AMENDMENT TO TREASURY POLICY

**REPORT OF THE ASSISTANT DIRECTOR: FINANCE, AUDIT AND IG
(CHIEF FINANCE OFFICER)**

1. **PURPOSE**

To amend the current Investment Counterparty Criteria.

2. **RECOMMENDATIONS**

- 2.1 That Council approve the amendment to the Treasury Strategy to use the Council's appointed Treasury Advisor's Recommended Counterparty List as one of its criteria when selecting investment counterparties.

3. **SUMMARY IMPACT ASSESSMENT**

COMMUNITY IMPACT

Will the proposals impact on specific groups of people?

No

**TARGET
COMPLETION /
DELIVERY DATE**

Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.

**FINANCIAL/VALUE
FOR MONEY IMPACT**

Yes *Where appropriate these are detailed in the body of the report.*

LEGAL ISSUES

Yes The Assistant Director: Finance, Audit and Information Governance is the Chief Finance Officer for the Council and is responsible for the proper administration of the Council's financial affairs in accordance with section 151 of the Local Government Act 1972 (confirmed in the Council's Constitution at Part 2, Article 12, paragraph 12.04). Accordingly, if the Council approve the change to the Treasury Policy as proposed, it will be for the Chief Finance Officer to ensure continuing legal compliance when selecting investment counterparties. Further, in undertaking its financial management, the Council must comply with the requirements of CIPFA's Prudential Code for Capital Finance in Local Authorities (Council Constitution – Part 4, Section 6, paragraph 6.2.).

Whilst the Treasury Policy is a matter for full Council to consider, the Audit Committee have a role in reviewing and monitoring the Council's Treasury Management arrangements which will include the changes to the policy as proposed in this report (Part 4, section 10, functions, powers and duties of Audit Committee paragraph 13).

**OTHER IMPACTS,
RISKS AND
OPPORTUNITIES**

Yes

The Treasury Management Strategy and Policy approved by Council sets out the key treasury management risks and will be regularly monitored throughout the year with reports to Audit Committee at least twice a year. Currently a key risk is the inability to find appropriate counter-parties for cash investments due to our current very restrictive lending list and the fast changing views of credit worthiness of different financial institutions.

**IMPACT ON
SPECIFIC WARDS**

No

PART B – ADDITIONAL INFORMATION

4. **SUMMARY**

The report proposes an amended investment counterparty policy contained within the Treasury Strategy.

5. **PREVIOUS MINUTES**

Council 1 March 2012
Audit Committee 26 June 2012

6. **INFORMATION**

The Council's Treasury Strategy, which was approved by Full Council on 1 March 2012, includes using published credit ratings as one of the considerations taken into account when selecting investment counterparties :

Extract from the 2012/13 Treasury Strategy:

The Authority and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- *Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns) – this is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.*

| <i>Minimum Long Term Rating</i> | <i>Minimum Short Term Rating</i> | <i>Minimum Individual Rating</i> | <i>Minimum Sovereign Rating</i> |
|---------------------------------|----------------------------------|----------------------------------|---------------------------------|
| <i>A-</i> | <i>F1</i> | <i>C</i> | <i>AA+</i> |

- *Credit Default Swaps (where quoted)*
- *Economic fundamentals (for example Net Debt as a percentage of GDP)*
- *Sovereign support mechanisms*
- *Share Prices*
- *Corporate developments, news, articles, markets sentiment and momentum*
- *Subjective overlay – or, put more simply, common sense.*

Due to continual changes to credit ratings of banks by the rating agencies the policy we adopted in March 2012 has become too restrictive, with a reduction in counterparties that meet our current policy. This is causing issues in finding suitable counterparties and acceptable rates of interest. Whilst security of capital is the paramount concern and will remain so, it is necessary to identify further appropriate counterparties and to be able to have a counterparty list that is capable of being updated very promptly as changes to views of the financial standing of counterparties can change extremely quickly.

We work closely with our Treasury Advisors (Arlingclose) when selecting investment counterparties. Arlingclose produce a list of recommended counterparties and durations. It is proposed that we use this list as a basis for our counterparty criteria in future. This list is updated in real time to reflect any changes in the market and notices issued by Credit Rating Agencies. The list still follows the Audit Commission's and the Council's key criteria of Security, Liquidity and Yield. It is also able to respond very quickly to changes in market conditions as it is updated as soon as circumstances change and is e-mailed directly to relevant Council officers.

Generally, any changes to the treasury strategy are taken to Audit Committee in advance of full council. However, the Audit Committee does not meet again until 25th September and as there is a need to amend the strategy, the report was circulated to Members of the Committee for their consideration and there were no objections to the proposal.

8. **BACKGROUND PAPERS**

CIPFA Code of Practice for Treasury Management in Local Authorities
Arlingclose Recommended Counterparty List
2012/13 Treasury Strategy

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