

Report to Council
25 July 2012
Report of Chief Finance Officer
Subject Amendment to Treasury Management Strategy

Item

5

Purpose

To propose amendments to the Treasury Management Strategy agreed at Council on 20 March 2012 with respect to the counterparties criteria for investments as advised by Sector, the council's treasury management advisors.

Recommendation

To approve amendments to the Treasury Management Strategy counterparty criteria for investments enabling improved returns to be earned on the council's investments.

Corporate and service priorities

The report helps to meet the corporate priority of value for money

Financial implications

The amended counterparty criteria for investments will allow a different pattern in investment resulting in an increased the return, whilst maintaining security of invested funds.

Cabinet member: Councillor Waters

Contact officers

Caroline Ryba 01223 699292

Philippa Dransfield 01603 212562

Background documents

Nil

Report

1. For many years the Council has had a maximum individual counterparty limit of £5m, which was consistent with its traditional amounts to invest of between £20m and £25m. – being a prudent 20% maximum of funds with an individual counterparty.
2. Over the past three years the amounts available for investment have increased to between £85m and £90m. The increased amounts to invest are due to increased dwelling and property sales and under spend on capital budgets in the last two years due to contractor issues.
3. During the last few years banks and building societies have amalgamated which has reduced the available pool of counterparties.
4. This has resulted in the council reaching the limit allowed by the current Treasury Management Strategy (TMS) with individual counterparties and then has to invest excess funds in the Debt Management Office (DMO) and other local authorities, where the risk is low and so is the yield.
5. The Council's treasury management advisors have been consulted on the issue and attached at appendix A is a copy of their advice.

Proposed criteria

6. The proposed criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) are:

- Banks 1 - good credit quality – the Council will only use banks which:
 - i. are UK banks; or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA

and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

- i. Short term – F1, P1, A1 (previously only Fitch F1)
 - ii. Long term – A, A2, A (previously a+/A)
 - iii. Viability / financial strength – bbb+ (Fitch) (previously B), C- (Moody's) (as before)
 - iv. Support – 3 (Fitch only)
- Banks 2 – Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above(new category)

- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time
- Bank subsidiary and treasury operations - the Council will use these only where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies. The Council will use societies which:
 - i. meet the ratings for banks outlined above; and/or
 - ii. have assets in excess of £2bn (previously £250m)
- Money Market Funds – AAA
- UK Government (including gilts, treasury bills and the DMADF)
- Local authorities, parish councils, etc.
- Supranational institutions

Country and sector considerations

7. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:
 - no more than 30% will be placed with any non-UK country at any time;
 - limits in place above will apply to a group of companies;
 - sector limits will be monitored regularly for appropriateness.

Use of additional information other than credit ratings.

8. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments.

9. The time and monetary limits for institutions on the Council's counterparty list are:

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 category high quality	AA	£15m	1yr
Banks 1 category lower quality	A	£10m	364 days
Banks 2 category – part nationalised	N/A	£15m	364 days
Limit 3 category – Council's banker (not meeting Banks 1)	A-	£5m	3 months
DMADF	AAA	unlimited	6 months
Local authorities	N/A	£10m per LA	5 years
Money market Funds	AAA	£5m per fund £25m overall limit	liquid

Integrated impact assessment



NORWICH
City Council

The IIA should assess **the impact of the recommendation** being made by the report

Detailed guidance to help with completing the assessment can be found [here](#). Delete this row after completion

Report author to complete

Committee:	Cabinet
Committee date:	25 July 2012
Head of service:	Caroline Ryba
Report subject:	Treasury management counterparty criteria amendment
Date assessed:	
Description:	

	Impact			
Economic (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Finance (value for money)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Increased return on investments whilst maintaining security of funds invested
Other departments and services e.g. office facilities, customer contact	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Increased returns on investments increases monies for service provision
ICT services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Economic development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Financial inclusion	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Social (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Safeguarding children and adults	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<u>S17 crime and disorder act 1998</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Human Rights Act 1998	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Health and well being	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Eliminating discrimination & harassment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Natural and built environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Pollution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable procurement	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Energy and climate change	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Amended counterparty criteria reduces risk on funds invested

Recommendations from impact assessment	
Positive	
Negative	
Neutral	
Issues	

Norwich City Council

Note of Investment Management Strategy

The Council had £86m of investments as at 31st May 2012; which is significantly higher than previous years. For many years the Council has had a maximum individual counterparty limit of £5m. This is consistent with an investment portfolio of £20m, but not one of over £80m. As a consequence the Council finds placement of funds problematic. This has meant the Council has reached its investment limits with appropriate banks and building societies, meaning the excess funds are invested with the DMO and other local authorities which are low yielding but at the same time low risk.

The Council has also undertaken some longer term investments with HSBC as a consequence of the low counterparty limits. These provide good credit quality, but do not necessarily represent good value. This is illustrated by the poor performance compared to other Councils who form the East Anglia Benchmarking Group which the Council recently joined.

The most noticeable aspect is the fact that the council has only 12% of the portfolio invested with the part nationalised UK banks. This is by far the lowest proportion invested compared to the rest of the group. At present our advice to clients is to invest for no longer than three months with any institutions with the exception of the part nationalised banking groups (up to 1yr) and other Local Authorities (up to 5yrs).

Taking the above into account we would suggest the following changes to the Councils Investment Strategy.

- Increase the monetary limit to £15m for banks with a Fitch long term rating of AA (or equivalent).
- Increase the monetary limit to £10m for banks with a Fitch long term rating of A (or equivalent).
- Introduce a group limit of £15m for the part nationalised banking groups. These are Lloyds/Bank of Scotland and RBS/Nat West. This criteria should remain in place so long as they meet the minimum bank rating criteria or they remain part nationalised.
- The Council's own banker (Co-op) for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time. The Council will not place investments for longer than 3 months with a monetary limit of £5m.
- Consideration should be given to longer term investment with other Local Authorities and as such we are comfortable with periods of up to 5 years. We would suggest a monetary limit of £10m per authority and maximum time limit of 5 years.
- The Council could also look at using Money Market Funds (MMFs). These are large funds aimed at diversifying risk whilst providing liquidity. If used we

Whilst Sector makes every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Sector should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the advice or information as a substitute for the exercise by the Client of its own judgement.

Sector is a trading name of Sector Treasury Services Limited, which is authorised and regulated by the Financial Services Authority (FSA) for the provision of the investment advisory services it provides as part of its Treasury Management Service and is also a member of the Finance and Leasing Association (FLA). Registered in England No. 2652033. We operate as part of The Capita Group Plc.

SECTOR

would suggest a monetary limit of £5m per fund with an overall limit of £25m invested in these funds as a whole.

- Where limits are under pressure Sector has access to a free custodial facility with King & Shaxson. This would enable the Authority to buy treasury bills, gilts, CD'S etc which are held in a depository by King and Shaxson. If at a certain time the Council would like to sell the instruments for liquidity purposes, King and Shaxson will carry this out and trade the paper on its behalf. For example, if the Authority has capacity in its lending list with HSBC or Standard Chartered and they are not in the market for fixed term monies; the Authority could buy CD's which will have the same counterparty risk. This facility would also provide the Council with other options if it wished to become even more risk averse. This facility would also allow the purchase of Treasury Bills.
- Debt Management Office – No monetary limit and a maximum time limit of 6 month

Whilst Sector makes every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Sector should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the advice or information as a substitute for the exercise by the Client of its own judgement.

Sector is a trading name of Sector Treasury Services Limited, which is authorised and regulated by the Financial Services Authority (FSA) for the provision of the investment advisory services it provides as part of its Treasury Management Service and is also a member of the Finance and Leasing Association (FLA). Registered in England No. 2652033. We operate as part of The Capita Group Plc.

SECTOR

Whilst Sector makes every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Sector should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the advice or information as a substitute for the exercise by the Client of its own judgement.

Sector is a trading name of Sector Treasury Services Limited, which is authorised and regulated by the Financial Services Authority (FSA) for the provision of the investment advisory services it provides as part of its Treasury Management Service and is also a member of the Finance and Leasing Association (FLA). Registered in England No. 2652033. We operate as part of The Capita Group Plc.