

REPORT OF: FINANCIAL SERVICES MANAGER

TO: COUNCIL

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TREASURY MANAGEMENT – AMENDMENT TO INVESTMENT CRITERIA

PURPOSE OF REPORT

1. The purpose of this report is to seek approval for a change in the Council's investment criteria following the outcome of the EU Referendum and the recent downgrading in the UK's sovereign rating by the main credit rating agencies.

RECOMMENDATIONS

2. Council is recommended to agree the change proposed in the Council's minimum lending criteria and exclude the UK sovereign rating from the minimum sovereign rating criterion.

REASONS FOR RECOMMENDATION

3. To enable the Council to continue making investments with approved UK financial institutions following the recent downgrade in the UK's sovereign rating by the main credit rating agencies.

ISSUE

4. The Council approves an Annual Investment Strategy in advance of each financial year. It forms part of the annual Treasury Management Strategy Statement and together these define the policy and operational framework within which the management of the Council's debts and investments takes place.
5. Council approved the strategy for 2016/17 at its meeting in March 2016 and the full document can be viewed on-line at: <http://www.pendle.gov.uk/meetings/meeting/2128/council> (item 15 refers).
6. Part 4 of the Strategy sets out the arrangements for investments and includes the following statement in relation to sovereign ratings:

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ (from Fitch or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.4. This list will be added to, or deducted from by the Financial Services Manager should ratings change in accordance with this policy. This list will be maintained under regular review as with credit ratings generally.

7. In the wake of the recent EU Referendum and the vote to leave the EU the 3 main rating agencies issued revised ratings in respect of the UK sovereign rating. The downgrades reflect the agencies' views of the impact that the vote to 'leave' will have on the UK economy, GDP growth and political stability.
8. A summary of each is set out below:
- Standard and Poor's - rating downgraded to 'AA' from 'AAA' with outlook maintained as 'negative'
 - Moody's Investor Services – rating affirmed at 'Aa1' with outlook changed from 'stable' to 'negative'
 - Fitch – rating downgraded to 'AA' from 'AA+' with outlook changed from 'stable' to negative'
9. In relation to our treasury management activity the effect of the recent downgrades is to reduce the UK sovereign rating to a level below the Council's minimum threshold. This poses an operational constraint on our current lending arrangements which, with one exception, are wholly UK based. The exception being a Swedish bank, Svenska Handelsbanken.
10. In addition to the sovereign rating criteria referred to above, the Council also applies minimum lending criteria to individual financial institutions. These remain unchanged from those set out in Strategy approved in March and are as follows (based on Fitch ratings):
- Short-term rating F1
 - Long-term rating A-
 - Viability rating BB+ (where this continues)
 - Support Rating 5
11. The Council currently operates a limited counter-party lending list restricting investments to the following:
- Designated UK banks (HSBC, Barclays, Santander UK, Lloyds Group);
 - Non UK banks (Svenska Handelsbanken only);
 - Building Societies (Nationwide and Coventry only);
 - Principal Local Authorities;
 - Money Market Funds (currently only the Public Sector Deposit Fund);
 - UK Government (via the Debt Management Office)

Duration and value limits are also applied to each institution / form of investment. Whilst approval has been obtained previously from Council for investment in treasury bills and certificates of deposits, to-date these have not been used.

12. To facilitate the effective operation of the treasury management function, Council is requested to exclude the UK from the sovereign rating criteria set out in the Treasury Strategy. If this is agreed it will enable investments to be made in approved UK financial institutions *provided* that they continue to meet the minimum lending criteria as set out in paragraph 10 above.

IMPLICATIONS

Policy

13. The Annual Treasury Management Strategy was approved by Council in March 2016. The change being proposed requires an amendment to the approved policy and this meeting provides the first opportunity after the recent downgrades to seek the approval of Council.

Financial

14. There are no new financial implications resulting directly from the recommendation set out in this report.

Legal

15. In accordance with the Local Government Act 2003, Councillors are required to approve the Annual Treasury Management Strategy incorporating the Annual Investment Strategy and in year changes to these.

Risk Management

16. There are no additional risk management implications arising from the contents of this report. Treasury activities are undertaken within the Council's Treasury Management Policy and risk is managed through the application of the requirements of Treasury Management Practice notes. The Strategy includes details of some of the risks associated with the Council's treasury management operations and how these will be managed.

Health and Safety

17. There are no health and safety implications arising from the contents of this report.

Climate Change

18. There are no sustainability issues arising from the contents of this report.

Community Safety

19. There are no community safety issues arising from the contents of this report.

Equality and Diversity

20. There are no equality and diversity issues arising from the contents of this report.

APPENDICES

None.

LIST OF BACKGROUND PAPERS

Report to Council in March 2016 – Treasury Management Strategy Statement