

RECORD OF DECISION MADE UNDER DELEGATED POWERS

Appendix 1

Department:

Directorate of Commercial and Corporate Services - Financial Resources

Officer making Decision:

Executive Director of Commercial and Corporate Services

Date of decision:

12/03/2013

Nature of decision made:

Variation to the Council's Lending List Criteria

- To increase the maximum deposit that can be placed with individual institutions
- Institutions that are AAA rated from £90m to £110m
- Institutions that are AA+ rated from £50m to £90m

To apply the UK Government's sovereign credit rating of AA+ when determining the limit on investments that can be placed with counterparties that have been nationalised or part nationalised and to group limits where counterparty institutions are part of a group of companies.

Reason for decision:

On 22nd February 2013 Moody's Investors Service downgraded the Sovereign Rating of the United Kingdom by one notch from Aaa to Aa1 due to

- The continuing weakness in the UK's medium-term growth outlook
- The challenges this weakness poses to the government's fiscal consolidation programme, and
- As a consequence of the UK's high and rising debt burden, a deterioration in the capacity of the government's balance sheet to withstand financial shocks

Moody's also placed the UK Government on stable outlook which means that no further movement in the rating is anticipated over the next 12-18 months and reflects the expectation that political will and medium-term fundamental economic strengths will, in time, allow the Government to implement its fiscal consolidation plan.

The stable Aa1 rating is still very good, reflecting that whilst the UK's debt-servicing capacity remains very strong and very capable of withstanding further adverse economic and financial shocks, it does not at present possess the extraordinary resilience common to other AAA rated sovereign bodies. Following the financial downturn over the last few years only a small number of economies still hold a AAA rating with all ratings agencies.

Fitch and Standard and Poors ratings for the UK however remain at AAA currently.

The investment limits that Sunderland City Council hold with UK financial institutions has been reliant on the UK sovereign rating remaining at AAA. Whilst this rating has reduced to a AA+ level it is felt that investments made with UK financial institutions are low risk and should be maintained at current levels.

This can be highlighted by the minimal reaction shown by the financial markets to the downgrade. Usually a rate cut would add upside pressure to money market yields with investors demanding a higher return for investing in a lower rated country's currency. However with the cut broadly expected there has been little impact on money market yields. Critically, Moody's themselves stated that it did not consider that the one notch downgrade would have an effect on UK entities that it rates, so we do

not expect to see UK financial institutions subject to individual downgrades as a result.

Members/Officers consulted (attach their views as appropriate)	Cllr Speding
File/background papers used:	Treasury Management Strategy Statement and Lending List Criteria
Is this a confidential matter as referred to in paragraph 7 of the Guidance?	No
Paragraph of Delegation Scheme relied upon:	Council approved on 7 th March 2012 that "delegated authority continues for the Executive Deirector of Commercial and Corporate Services, in consultation with the Cabinet Portfolio holder for resources (Cabinet Secretary), to vary the Lending List Criteria and the Lending List should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively".

Signature:..... *MD Speding* **Date:** 12th March 2013

Counter Signature:..... *Stonewall* **Date:** 12th March 2013