

AUDIT AND GOVERNANCE COMMITTEE

28 June 2013

TREASURY MANAGEMENT – FIRST QUARTERLY REVIEW 2013/2014

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To report on the Treasury Management (TM) performance for the first quarter of 2013/2014.

2. Description of Decision

- 2.1 The Committee is requested to note the Treasury Management performance during Quarter 1 of 2013/2014.
- 2.2 To note amendments to the Lending List Criteria at Appendix A and the Approved Lending List at Appendix B.

3. Introduction

- 3.1 This report sets out the Treasury Management performance to date for the first quarter of the financial year 2013/2014, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Review of Treasury Management Performance for 2013/14 – Quarter 1

- 4.1 The Council's Treasury Management function continues to look at ways of maximising financial savings and increase investment return to the revenue budget. One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2013/14 as rates have not been considered sufficiently favourable. It should be noted the Council's interest rate on borrowing is very low, currently 3.49%, and as such the Council continues to benefit from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises.
- 4.2 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators. The statutory limit under section 3(1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £398.602m for 2013/2014 and the Council is well within this limit.

- 4.3 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.
- 4.4 As at 31st May 2013, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 1.07% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. Performance is very positive and is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.
- 4.5 The rate of return on investments has fallen markedly in recent months as UK-based financial institutions access funding from alternative sources such as the Government's Funding for Lending Scheme to increase their capital/cash reserves in line with recent regulatory requirements. The result is that investment rates have reduced since April 2013 and are following a downward trend at the moment. Even special tranche investment rates (which offer better than market average returns) have reflected this downward trend. The implication is that returns on investments will reduce from those achieved in recent years.
- 4.6 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings. The Approved Lending List as shown in Appendix B has been updated to reflect this.

5. Recommendation

- 5.1 Members are requested to note the Treasury Management (TM) performance for the first quarter of 2013/2014.
- 5.2 Members are requested to note amendments to the Lending List Criteria at Appendix A and the Approved Lending List at Appendix B.

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	110	2 Years
AA+	F1+	A1+	Aa1	P-1	90	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 days
A+	F1	A-1	A1	P-1	10	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					90	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £80m with a maximum of £40m in any one fund.					80	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of **AA+** will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

Where any banks / building societies are part of the UK Government's Credit Guarantee scheme (marked with * in the Approved Lending List), these counterparties will have an AA rating applied to them thus giving them a credit limit of £40 million for a maximum period of 364 days

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows:

Country Limit

It is proposed that only countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £40 million which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	350
Non UK	40

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	350
Local Government	350
UK Banks	350
UK Building Societies	150
Money Market Funds	80
Foreign Banks	40

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the government's guarantee scheme is still in place;
- the UK continues to have a sovereign credit rating of **AA+**; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix B.

Approved Lending List

Appendix B

	Fitch				Moody's			Standard & Poor's			Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	
UK	AA+				Aa1			AAA		350	2 years
Lloyds Banking Group (see Note 1)										Group Limit 90	
Lloyds Banking Group plc	A	F1	bbb	1	A3	-	-	A-	A-2	90	2 years
Lloyds TSB Bank Plc	A	F1	bbb	1	A2	P-1	C-	A	A-1	90	2 years
Bank of Scotland Plc	A	F1	-	1	A2	P-1	D+	A	A-1	90	2 years
Royal Bank of Scotland Group (See Note 1)										Group Limit 90	
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa1	P-2	-	A-	A-2	90	2 years
The Royal Bank of Scotland Plc	A	F1	bbb	1	A3	P-2	D+	A	A-1	90	2 years
National Westminster Bank Plc	A	F1	-	1	A3	P-2	D+	A	A-1	90	2 years
Ulster Bank Ltd	A-	F1	ccc	1	Baa2	P-2	D-	BBB+	A-2	90	2 years
Santander Group *										Group Limit 40	
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1	40	364 days
Cater Allen	-	-	-	-	-	-	-	-	-	40	364 days
Barclays Bank plc *	A	F1	a	1	A2	P-1	C-	A+	A-1	40	364 days
HSBC Bank plc *	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+	40	364 days

Appendix B

	Fitch				Moody's			Standard & Poor's			Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	
Canada	AAA				Aaa			AAA		40	364 Days
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1	10	364 Days
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Money Market Funds										80	Liquid
Prime Rate Stirling Liquidity	AAA							AAA		40	Liquid
Insight Liquidity Fund	AAA				AAA			AAA		40	Liquid
Ignis Sterling Liquidity	AAA							AAA		40	Liquid

Notes

Note 1

Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's AA+ rating applied to them thus giving them a credit limit of £90m.

* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme

The counterparties in this section will have an AA rating applied to them thus giving them a credit limit of £40 million

** The Clydesdale Bank (under the UK section) is owned by National Australia Bank

*** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the FSA is classed as a UK bank for the purposes of the Approved Lending List.

