

## REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT

### TREASURY MANAGEMENT POLICY 2015-16

#### 1. Purpose

To seek approval to adjust the Council's lending criteria in light of recent policy changes made by central Government regarding bank 'bail out'.

#### Information and Advice

#### 2. Background

- 2.1 Recent guidance published by the Bank of England suggests that in the near future local authority fixed-term investments placed with a bank will be at risk of 'bail in' if that bank experiences cash flow difficulties. In other words, the Council's investments would not be protected by any central government 'bail out'.
- 2.2 It was noted within the TM Policy for 2015/16, approved by Council in February 2015, that it was likely that Fitch support ratings for financial institutions would be downgraded at some point. In light of the uncertainty surrounding the detail and timing of the changes, no amendment to the policy was made at the time but it was flagged that a further report to Council would be necessary. Fitch Support Ratings are an assessment of a potential supporter's propensity and ability to support a bank and indicate whether a bank would receive support, on a timely basis, should this become necessary.
- 2.3 In May 2015 Fitch did revise their support ratings, with the result that a number of banks no longer meet the minimum requirements of the existing policy. It should be noted that there has been no deterioration in credit quality as a result of these downgrades, only in the assessment of whether support would be forthcoming in the event of difficulty.
- 2.4 Treasury Management Group has examined the Council's currently outstanding deposits with these banks, and does not consider them to be at risk.

#### 3. Proposed Changes to Lending Criteria

- 3.1 It is proposed that the Council's lending list criteria be adjusted in light of these changes to ensure that the institutions on the list remain of high credit quality and that security of deposits made by the Council remains paramount.

- 3.2 The approved list will include institutions that meet the following criteria from at least 2 rating agencies:

	Long Term	Short Term	MMFs
Fitch	A-	F1	AAAmmf
Moodys	A3	P-1	Aaamf
Standard & Poors	A-	A-1	AAAm

Sovereign Rating	AA
------------------	----

- 3.3 However, within the approved list the following minimum criteria will apply, dependent on the terms of the deposit, from at least 2 ratings agencies:

	Fitch		Moody's Long-term	S & P Long-term
	Long-term	Support		
Instant Access	A-		A3	A-
Up to 3 months	A-		A3	A-
Up to 364 days	AA-		AA3	AA-
365 days and over	A	1 or 2	A2	A

For the avoidance of doubt:

- 'Up to' means "up to and including"
- Any new investments of 365 days and over can only be placed with institutions that meet the minimum Fitch support rating

- 3.4 The Council has a number of long-term deals outstanding as part of the Local Authority Mortgage Scheme (LAMS) either directly with Lloyds Bank or via other local councils. It is proposed to allow these to continue but to closely monitor the ratings and financial viability of Lloyds Bank, particularly as the Government continues to reduce its ownership of the bank.
- 3.5 The lending list will be approved by the *Treasury Management Group* and monitored by the Senior Accountant (Pensions & Treasury Management) in the light of rating changes and market conditions.