

# Report to the Council

**Committee:** Cabinet                      **Date:** 13 December 2011

**Portfolio Holder:** Councillor Gagan Mohindra

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## TREASURY MANAGEMENT STRATEGY – COUNCIL'S BANK

### Recommending:

That the change in the Treasury Management Strategy to reduce the minimum long-term rating from A+ (or equivalent) down to A- (or equivalent) specifically only for the use of the Council's bank, NatWest, and only while it remains in the ownership of the UK Government, be approved.

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### The Council's overall treasury position

1. The Finance and Performance Management Cabinet Committee have considered a mid-year progress report on Treasury Management and Prudential Indicators for 2011/12 which is a requirement of the CIPFA Code of Practice on Treasury Management and covers the treasury activity for the first half of 2011/12.
2. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc, or through borrowing. The Council does not plan to borrow in order to carry out its capital investment during 2011/12.
3. During the first half of 2011/12 the treasury function managed the debt position to remain debt-free, in accordance with Council policy. The average investment position for the first half of the year was £54.6m. The table below shows the treasury position as at 30 September 2011.

Treasury position	31/03/2011 £m	30/09/2011 £m
<b>Total external borrowing</b>	<b>0.0</b>	<b>0.0</b>
Short term investment		
▪ Fixed investment	43.803	44.545
▪ Variable investment	7.733	5.356
Long term investment	0.439	0.439
Debt from other Authorities	0.481	0.481
<b>Total investments</b>	<b>52.456</b>	<b>50.821</b>
<b>(Net Borrowing) / Net Investment Position</b>	<b>52.456</b>	<b>50.821</b>

4. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings.

This will become more difficult as the Council uses up capital receipts and reduces investment balances.

5. The Director of Finance & ICT confirms that there have been no breaches of:
  - a) The Upper Limit for Fixed Rate Exposure (100%) and Upper Limit for Variable Rate Exposure (50%) during the period, with the average rates of 79.68% and 20.32% being achieved;
  - b) The limit set for investment over 364 days (£30m). We made one investment of £5m for 438 days. The average investment for the period is 160 days.
  - c) The limit set for investment in non UK Country (30%).
  
6. The prudential indicators assist the Council to reduce the risk of:
  - a) Counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money.
  - b) The Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring adequate level of money are available immediately through instant access accounts.
  - c) Potentially losing out on investment income when interest rates start to increase by ensuring that deposits are kept within one year.

### The Council's Bank

7. On 7 October, the Council received notification from its financial advisors that following the conclusion of the Moody's review of UK Financial Institutions, Nationwide Building Society, Nat West Bank and Royal Bank of Scotland Bank Plc no longer met our minimum criteria and therefore we currently can not undertake any new investments with them.

8. As Nat West is the Council's banker, although it does not meet the minimum credit criteria of A+ (or equivalent) long term, it stills meet the minimum short term credit criteria of F1 (or equivalent). The table below shows our minimum criteria for short and long term as agreed in the Council Treasury Management Strategy and the latest credit rating score for National Westminster Bank PLC.

	Treasury Strategy Criteria	Nat West Bank
<b><u>Long Term Rating</u></b>		
Fitch	A+	A
Moody's	A1	A2
Standard & Poor's	A+	A+
<b><u>Short Term Rating</u></b>		
Fitch	F1	F1
Moody's	P-1	P-1
Standard & Poor's	A-1	A-1

9. We are recommending that the Council gives approval to the Treasury Strategy being changed to reduce the minimum criteria for Long Term Rating of A+ (or equivalent) to A- (or equivalent) in line with advice given by our Treasury Advisors on 11 November. This will apply only to NatWest and only while NatWest remains the Council's bank and only while NatWest remains in state ownership. This will allow the Council to continue to have adequate cash available to cover our outgoings each day.

10. It is not proposed to change the short term rating criteria within the Treasury Strategy. All three credit agencies have maintained the short term rating at levels that do not breach our strategy for the above named counterparties and no long term transactions will be entered into. The position is being monitored closely by accountancy staff and our treasury advisors, any changes to the current situation will be reviewed and the position reassessed to identify the best course.

11. We recommend as set out at the commencement of this report.