

MEETING	PENSIONS COMMITTEE
DATE	25 NOVEMBER 2011
TITLE	TREASURY MANAGEMENT STRATEGY STATEMENT 2011/12
PURPOSE	CONSIDER AN AMENDMENT TO THE TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2011/12
AUTHOR	DAFYDD L EDWARDS, HEAD OF FINANCE

1. BACKGROUND

The Treasury Management Strategy Statement for 2011/12 was approved by Full Council on 3 March 2011. The Pensions Committee approved the Pension Fund Treasury Management Strategy Statement for 2011/12 on 22 March 2011. The Statement sets the framework for investing surplus cash in order to earn interest income during the year.

Following the downgrading of a number of banks on the List of Authorised Counterparties an urgent report was taken to Full Council on 20 October 2011 to amend the Treasury Management Strategy Statement in respect of the Council's and the Pension Fund's day-to-day banking arrangements.

The Council and the Pension Fund use Barclays Bank Plc for their banking arrangements and Barclays' present "A+" rating is sufficient for use as a counterparty for investments. However, the bank has been placed on 'Rating Watch Negative' and therefore **could** be downgraded in the future.

The Council amended the Council's Treasury Management Strategy Statement for 2011/12 to include the following words:

As Barclays Bank Plc is the Council's banker, it will still be used for short term liquidity requirements (overnight and weekend deposits) and business continuity arrangements if its long term credit rating falls below "A+" (or equivalent) in the future.

2. PROPOSED AMENDMENT

2.1 Banks and Building Societies

During 2011/12 the global financial situation has deteriorated and a number of banks on the Council's List of Authorised Counterparties have been downgraded.

The Treasury Management Strategy Statement for 2011/12 requires that any financial institution used for investment purposes must have a credit rating of at least “A” and the maximum limit set for the length of investment is 2 years.

The Council’s treasury management advisors, Arlingclose, **recommend that this limit should be changed to a credit rating of at least “A-” and a maximum length of investment of one year.**

We would not want to add every bank with an “A” credit rating to our list, but this would **allow investments to be made with the systemically important UK banks and building societies** as follows:

- Barclays Bank Plc
- HSBC Bank Plc
- Santander UK Plc
- Standard Chartered Bank
- Lloyds TSB
- Bank of Scotland
- Nat West
- Royal Bank of Scotland
- Nationwide Building Society

The recent rating downgrades to some of the above institutions were due to a reduction in their long term rating (over 13 months) due to changes in the banking system expected in 5 years time. Current restrictions on our investments are between 3 and 6 months and the rating for these shorter periods is not affected. Therefore the risk is within the parameters set in the strategy for 2011/12.

2.2 Local Authorities

The Treasury Management Strategy Statement for 2011/12 includes Term Deposits with other Local Authorities as a high security investment. This has been a good source of income during 2011/12. The current limit for investments with other local authorities is £10million. The Council’s treasury management advisors Arlingclose **recommend that this limit be increased to £25million.**

3. RECOMMENDATION

The Pensions Committee is asked to approve the addition to the Pension Fund Treasury Management Strategy Statement 2011/12 regarding Barclays Bank as explained in paragraph 1 of this report.

It is recommended that the changes proposed in paragraphs 2.1 and 2.2 should be made. It will be necessary for full Council to approve the changes. Hence, the Pensions Committee is asked to approve the recommendations subject to adoption by the full Council (15 December).