

MEETING	FULL COUNCIL
DATE	4 DECEMBER 2014
TITLE	TREASURY MANAGEMENT: AMENDMENT TO THE 2014/15 INVESTMENT STRATEGY
PURPOSE	ADOPT THE PROPOSED AMENDMENTS
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Introduction and Background

1. CIPFA’s Code of Practice for Treasury Management in Public Services requires the Council to prepare a policy statement and practice papers, together with detailed schedules setting out the Council’s approach to all treasury operations. The primary requirement of the code is the approval by the full Council of the Policy Statement, the practice papers and the schedules. These were approved by the Council (in respect of 2014/15) at its meeting of 6 March 2014.

Regulation of UK Banks

2. The Strategy approved in March includes a schedule of approved investment counterparties (primarily banks where the Council may deposit cash). Regulatory changes for banks mean this schedule now requires reviewing and updating.
3. The United Kingdom is implementing the final bail-in provisions of the EU Bank Recovery and Resolution Directive in January 2015, a year ahead of most other countries. Credit rating agencies have stated that they plan to review European banks ratings in line with each country’s implementation of this directive.
4. Many UK banks have standalone ratings in the “BBB” category, but potential government support lifts them into the “A” category. Once the directive is implemented, the government support will no longer exist. Therefore, there is a real risk that some major UK banks’ credit ratings will fall to a level below category “A-” before the end of the 2014/15 financial year.

The Way Forward - Options

5. There are two options in response to this risk:
 - (a) amend the Treasury Management Strategy Statement to allow investment (cash deposits) in banks with lower credit ratings, or
 - (b) prepare to invest without using any of the major UK banks.

Option (b) would require a drastic review of investment counterparties, and the Council’s Treasury Management advisers recommend option (a) above.

6. In order to continue using UK banks, an additional category of banks and other organisations whose credit rating is “BBB+” has to be added to the approved investment counterparties.
7. Further, as we don’t recommend lowering the definition of “high credit quality” below “A-”, we need to amend the “non-specified investment” limits to allow for investments with “BBB+” counterparties.

Recommended Amendments to Schedules

8. The revised paragraphs of the Treasury Management Strategy Statement 2014/15 are shown in Appendix A with the amendments highlighted in yellow:
 - (a) Table 2: Approved Investment Counterparties, where the “BBB+” category has been inserted with a limit of £4 million per counterparty.
 - (b) Table 3: Non-Specified Investment Limits, where the total investments without credit ratings, or rated below “A-”, has been increased from £7m to £20million, to allow for continued use of UK banks as counterparties. The total of non-specified investments has also been increased from £50m to £60m.

The Pension Fund’s Cash Flow

9. As administering authority of the Gwynedd Pension Fund, the Council undertakes treasury management investment functions on its behalf by combining the surplus cash held by the Council and the Pension Fund for daily investment purposes. The Pension Fund approved the relevant elements of the Council’s Strategy Statement and requested the continuation of the pooling arrangements for 2014/15 at its meeting on 17 March 2014. These amendments will be presented to the Pensions Committee on 6 January 2015 for approval.

Scrutiny of the Amendments

10. Due to the committee timetable, it has not been possible for the Audit Committee to consider these amendments before presentation of this report to full Council. These measures are required to cover the three months to 31 March 2015. Full consideration of the Treasury Management Strategy Statement for 2015/16 will take place during January and February 2015 prior to consideration by the Council on 5 March 2015. This will include the opportunity to question officers and specialist advisers regarding appropriate counterparty requirements and limits.

Recommendation

11. **The Council is asked to adopt the amendments to the Treasury Management Strategy Statement and the Investment Strategy for 2014/15 (Appendix A) for the three months from 1 January 2015 to 31 March 2015.**

Appendix A

The amendments to the Treasury Management Strategy Statement for 2014/15 are highlighted yellow in the tables below.

5.3 The Council may invest its surplus funds with counterparties in any of the categories in table 2 below, subject to the cash and time limits shown.

Table 2: Approved Investment Counterparties

Counterparty	Cash limit	Time limit
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	5 years*
	AA+	5 years*
	AA	4 years*
	AA-	3 years*
	A+	2 years
	A	1 year
	A-	1 year
	BBB+	£4m each
The Authority's current account bank (Barclays Bank plc) if it fails to meet the above criteria	£1m	next day
UK Central Government (irrespective of credit rating)	unlimited	10 years**
UK Local Authorities (irrespective of credit rating)	£11m each	2 years
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher	£5m each	2 years
UK Building Societies without credit ratings	£1m each	1 year
Money market funds and other pooled funds	£6m each	n/a
Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser	£5m each	3 months
	£1m each	1 year
	£100k each	5 years
Business loans to local companies***	£3m each	10 years

* but no longer than 2 years in fixed-term deposits and other illiquid instruments

** but no longer than 5 years in fixed-term deposits and other illiquid instruments

*** Advancement of these loans will be approved by the procedure detailed in paragraph 5.9 below. Evaluation of the business loans is not part of the advice or services from the Council's treasury advisor.

5.12 **Non-specified Investments:** Any investment not meeting the definition of a “specified investment” is classed as “non-specified”. The Council does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure by legislation, such as shares in money market funds and other pooled funds; and investments with bodies and schemes not meeting the definition on “high credit quality”. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£30m
Total shares in money market funds	£35m
Total investments without credit ratings or rated below [A-]	£20m
Total investments in foreign countries rated below [AA+]	£7m
Total non-specified investments	£60m