

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY  
2010/11 TO 2012/13

**1. Credit Ratings**

- 1.1 The Council's treasury advisers, Arlingclose Limited, are recommending a change to the minimum credit criteria which is applied to banks and building societies for inclusion on the Council's lending list.
- 1.2 The CIPFA Treasury Management Code (which was revised late November 2009), advises local authorities to have regard to the ratings issued by all three main agencies (Fitch, Moody's and Standard & Poor), and to make their investment decisions on the basis of the *lowest* rating. This means the Council should now also consider the ratings assigned by Standard & Poor.
- 1.3 A minimum credit rating requirement of AA- has been applied to banks and building societies throughout the credit crunch period, and this has provided the Council with security of the capital sum. However, the ratings assigned by Standard & Poor are, at A+, lower than the other agencies for many of the institutions which the Council has used in 2009. It is important to note that the Standard & Poor long-term ratings of A+ are not the result of recent downgrades. Without the amendment to the criteria, adhering to the lowest common denominator approach required by the CIPFA Code would mean the Council could no longer invest with many of these institutions. This would lead to an over reliance on the Debt Management Office and money market funds which offer much lower investment returns.
- 1.4 Adoption of a minimum long-term rating of A+ (or equivalent) combined with a minimum short-term rating of F1 (or equivalent) is considered a modest and appropriate change to the minimum acceptable credit rating thresholds, and would ensure continued access to acceptable investment counterparties. Using the A+ Standard & Poor rating as the lowest common denominator will mean there is no actual change to the investment position the Council has followed throughout 2009. It will, however, enable the Council to clearly demonstrate compliance with the requirements of the CIPFA Code.
- 1.5 It is recommended that the Strategy Statement is amended as follows, and the criteria for investments with banks and building societies are applied with immediate effect.
  - a) For Specified Investments, the minimum credit rating requirement is amended to:  
  
Long-term minimum: A1 (Moody's) or A+ (S&P) or A+ (Fitch)  
Short-term minimum: P-1 (Moody's) or A-1 (S&P) or F1 (Fitch)
  - b) For Non-Specified Investments, the minimum credit rating requirement is maintained at the higher level, given the longer periods these are invested for and the greater potential risk.  
  
Long-term minimum: Aa3 (Moody's) or AA- (S&P) or AA- (Fitch)  
Short-term minimum: P-1 (Moody's) or A-1+ (S&P) or F1+ (Fitch)

**2. Staff Training**

- 2.1 The Department for Communities and Local Government's draft revisions to its Guidance on local government investments recommends that the Investment Strategy should state what process is adopted for reviewing and addressing the needs of the authority's treasury management staff for training in investment management.

- 2.2 The training needs of staff are considered on a regular basis as part of the Council's Appraisal process. The responsible officer will ensure that treasury management staff receive appropriate training and have the necessary skills to be able to undertake their duties effectively.
- 2.3 Staff who have responsibility for the treasury function are required to have sufficient knowledge and expertise in treasury management to be able to understand and critically consider the advice provided by the Council's treasury consultants.

### **3. Investment Consultants**

- 3.1 The draft revisions to the Guidance also recommends that the Investment Strategy should state;
- a) Whether, and if so, how the authority uses external contractors offering information, advice or assistance relating to investments and
  - b) How the quality of any such service is controlled.
- 3.2 The Council engages treasury consultants to provide independent, impartial and expert treasury advice in support of the in-house treasury team. The current contractor is Arlingclose Limited and the Council has the option to continue this contract until 31 March 2011.
- 3.3 The treasury management service is regularly subjected to competitive tender to secure the highest quality of service provision available.
- 3.4 The Council ensures, through regular meetings and discussions with Arlingclose, that the service is tailored to the Council's needs and strategic aims, and that they appreciate the Council's position on the balance between risk and reward in its treasury activities. The service is monitored by the responsible officer to ensure that the services defined in the contract are being delivered.
- 3.5 The Council has regard to all the advice and information provided by the contractor, but responsibility for treasury decisions remains with the Council.
- 3.6 Work will be undertaken to establish effective ways to evaluate the performance of the treasury management function. The quality of advice given by the treasury consultants will be reflected in the overall performance of the function, and is a measure of how consistent and successful this advice is in meeting the Council's treasury aims.

### **4. Policy on Borrowing in Advance of Need**

- 4.1 The draft revisions to the Guidance also recommend that the strategy should state the authority's policies on investing money borrowed in advance of spending needs. This statement should identify any measures to minimise such investments, including any limits on;
- a) amounts borrowed and
  - b) periods between borrowing and expenditure
- 4.2 The Council's policy is not to borrow in advance of need other than for cash flow purposes.