COUNCIL- 3 APRIL 2012

Changes to the Annual Treasury Management Strategy & Annual Investment Strategy for 2011/12 and 2012/13

Report by Assistant Chief Executive & Chief Finance Officer

1. Under authority given by Council in February 2011 and 2012 and as set out in the Annual Treasury Management Strategy & Annual Investment Strategy for 2011/12 and 2012/13, any changes required to the Annual Treasury Management Strategy & Annual Investment Strategy are delegated to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Member for Finance.

2. The Annual Treasury Management Strategy & Annual Investment Strategy for 2011/12 and 2012/13 use the Fitch Ratings Individual credit ratings in the matrices to determine the maximum lending duration and deposit amount for counterparties based on a combination of their ratings.

3. In July 2011 Fitch launched a new Viability rating designed to be internationally comparable and represent Fitch's view as to the intrinsic creditworthiness of an issuer. This new rating ran alongside the existing ratings until the end of January 2012 when Fitch withdrew all Individual ratings. The advice issued upon the launch of the new rating did not make it clear that the Viability rating was intended to replace the Individual rating. Confirmation of this, and some guidance, was subsequently received from our advisors, Arlingclose, in February 2012.

4. Fitch has emphasised that this is not a fundamental change in its approach to bank ratings or a change in opinion on the creditworthiness of the entities covered, but provides amongst other factors a greater consistency with traditional market-familiar credit rating scales.

5. The replacement of the Individual rating with the Viability rating required an amendment to the matrices and therefore to the Annual Treasury Management Strategy & Annual Investment Strategy for both 2011/12 and 2012/13.

6. The Treasury Management Strategy Team considers that the Viability rating is a good measure of the creditworthiness of institutions and can be applied appropriately in the matrices. The substitution of the Viability rating for the Individual rating in the matrices results in a £5m increase in the maximum deposit amount for a small number of institutions and has no impact on the maximum lending period. The matrices set the maximum deposit limits and in practise lower limits can be applied operationally if it is deemed appropriate to do so by the Treasury Management Strategy Team.

7. For both the 2011/12 and 2012/13 strategies, the Individual rating has been replaced with the Viability rating in the matrices. The existing and revised matrices are attached at Annex 1.

8. The Chief Finance Officer has consulted with the Leader of the Council and the Cabinet Member for Finance and they have agreed to the changes in the Annual Treasury Management Strategy & Annual Investment Strategy for 2011/12 and 2012/13 and in exercise of the power given by Council in February 2011 and 2012, Cabinet agreed to note those changes.

RECOMMENDATION:

9. **Council is RECOMMENDED to note the changes made to the credit rating matrix limits set out in the Annual Treasury Management Strategy & Annual Investment Strategy for 2011/12 and 2012/13.**

SUE SCANE
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