Chorley Council

Report of	Meeting	Date
Chief Executive	Governance Committee	14 March 2013

TREASURY MANAGEMENT – COUNTERPARTY LIMITS

PURPOSE OF REPORT

1. Since September 2011 the Council has restricted the period of many investments to a maximum of three months. It is now proposed that this limit be removed. The report also makes comment on the downgrade to the UK sovereign rating

RECOMMENDATION(S)

2. That the restriction of three months that currently applies to investments with all counterparties other than the part nationalised banks, be removed.

EXECUTIVE SUMMARY OF REPORT

3. The maximum period of any treasury investment is based on the credit rating of the counterparty. However, since September 2011, a blanket time limit of three months has been applied to all institutions except those which are part nationalised.

4. Fears in the financial markets have now subsided to the point that the Council's treasury advisor recommends that the temporary restriction can be lifted. They stress that this reflects markedly improved market stability, not the removal of the many ills and weakness affecting the financial markets.

5. Removing the limit will currently have no practical effect. The Council only makes term deposits to four financial institutions. Two of these are the part nationalised banks, RBS group and the Lloyds group; with whom we already make deposits for up to twelve months. The other two institutions, Barclays and Nationwide, will continue to be restricted to three months since that is the duration warranted by their individual credit ratings.

6. The downgrade in the UK's Sovereign rating was not unexpected and of itself it is not expected to have an impact on borrowing costs.

Confidential report Please bold as appropriate	~~Yes~~	**No**

CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	

DETAIL

8. In September 2011 the Council's treasury advisor, Sector, recommended that a temporary limit of three months should be placed on all investments with financial institutions other than the part nationalised banks. This advice was given in response to rising concern about financial markets particularly in the Eurozone.

9. Sector now recommend this limit be lifted. Their reason is that the excess market fears have subsided and liquidity improved. They identify three factors that have contributed to this:
   - The ECB announcement of unlimited support to sovereigns
   - UK initiatives that have given banks access to cheaper funding
   - The avoidance in the USA of the "fiscal cliff"

10. They stress that whilst these factors have improved market stability they do not mean that the ills of the financial crisis are gone. The UK has just been downgrade, the "fiscal cliff" has only been temporarily resolved, and elections in Italy and events elsewhere in Europe could disturb markets. Furthermore the financial weaknesses of many institutions remain, evidenced by the fact that in the last eighteen months 40% of the institutions monitored by Sector have had their credit rating reduced to the extent that it would affect the recommended duration for deposits. All of these factors mean that market volatility will remain but within more reasoned levels than those applying when the temporary limit was imposed.

11. The removal of the limit is unlikely to have immediate effect. Very few UK banks have a credit rating that would justify an investment for more than three months, and those that do usually only deal in larger sums, or in different markets, than the Council.

DOWNGRADE TO UK SOVEREIGN RATING

12. On Friday 22 February Moody downgraded the UK's sovereign rating by one notch to AA1. The reasons cited were the weak prospects for growth, the expectations of higher public debt levels, and the consequential reduction in the ability of the economy to absorb unexpected economic shocks.

13. These concerns ultimately have the potential to result in higher public borrowing costs, but the downgrade itself is not expected to have any immediate effect since it had been expected and thus was already factored into market reasoning.

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IMPLICATIONS OF REPORT

14. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	X	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

15. These are incorporated in the report.

COMMENTS OF THE MONITORING OFFICER

16. None

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Sector Credit Issues Newsflash	11 Jan 2013	***	Town Hall

Report Author	Ext	Date	Doc ID
G Whitehead	5485	18 Feb 2013	***