

Agenda Item 13 - Treasury Management Strategy (Paper H231)

1. Following the production of the report to Strategy Committee, CIPFA's Treasury Management Panel have issued a bulletin outlining interim advice on Treasury Management issues following the Audit Commission's report on the collapse of the Icelandic Banks. In due course, it is expected that this advice will form part of formal guidance that will be published in due course under legislation.
2. Authorities are advised to have regard to the ratings issued by all three main agencies, Fitch, Moody's and Standard and Poor. Decisions should be made on the basis of the lowest rating.
3. This being the case, it is proposed that the table in Appendix 2, section 10 is amended as follows:-

Form of investment	Minimum 'High' Credit Rating Criteria		
	Fitch	Standard & Poor's	Moody's
Deposits - UK Banks (max. sum per lender £2m)	Short term F1 Long term A Individual B Support 2 (was 4)	Short term A1 Long term A	Short term P1 Long term A2 BFSR = C (Bank Financial Strength Rating)
Deposits - Building Societies (max. sum per lender £2m)	Short term F1 Long term A- (was A) Individual B/C (was B) Support 3 (was 4)	Short term A1 Long term A-	Short term P1 Long term A3 BFSR = C-
Deposits - Foreign Banks (max. sum per lender £2m)	Short term F1+ Long term AA- Individual B (was B/C) Support 2	Short term A1+ Long term AA-	Short term P1 Long term Aa3 BFSR = C

4. It is further recommended that authorities, in addition to applying investment limits to individual institutions also apply clear country and sector limits. The proposed treasury management strategy for 2009/10 already provides sector limits for UK building societies, money market funds and country limits. However, in the light of the interim advice, Sector limits for UK banks and for foreign banks should also be set. The following table sets out the various limits that should apply:

Sector Limits	Maximum limit of total investments
UK Banks	50%
UK Building Societies	70%
Deposits - Foreign Banks inc. Abbey	40%
Money Market Funds	£2m
Countries with a sovereign rating of 'AAA' (Blanket guarantees)	£2m

5. Clearly, any further amendments to the strategy that may be required will have to be considered once the final guidance is received.

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