
CREDIT METHODOLOGY CHANGES

To: **Governance & Audit Committee – 17 March 2015**

Main Portfolio Area: **Finance**

By: **Section 151 Officer**

Classification: **Unrestricted**

Summary: This report concerns credit methodology changes and consequent changes to the Council's investment criteria

For Decision

1.0 Introduction and Background

- 1.1 In the Council's Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy (TMSS), minimum credit ratings criteria are set for investment counterparties.
- 1.2 On 6 February 2015 Capita Asset Services (Capita), the Council's external treasury management advisor, updated the Council on the possible future impact on financial institutions' credit ratings from the main ratings agencies (Fitch, Moody's and Standard & Pools) due to the implied removal of sovereign support.
- 1.3 Capita advised that some financial institutions may see their credit ratings fall as a result of implied sovereign support removal; as this removal may not be fully offset straight away by factors including (i) any underlying improvement in the health of the financial institution in question, and (ii) a more specific focus on increased capital levels aimed at absorbing losses in stressed financial situations.
- 1.4 Capita highlighted that any such fall in financial institutions' credit ratings due to the implied removal of sovereign support is not indicative of deteriorating credit quality in the institution concerned. Instead it is reflective of underlying methodology changes by the credit ratings agencies in light of regulatory changes.

2.0 The Current Situation

- 2.1 The Council's TMSS uses a Lowest Common Denominator (LCD) assessment in its minimum credit ratings criteria.
- 2.2 Capita has suggested that the LCD assessment be removed from the TMSS so that the Council continues to have a practical, workable counterparty list despite the implied removal of sovereign support.

3.0 Options

- 3.1 That the Governance & Audit Committee recommends that (i) the LCD assessment no longer be included in the Council's TMSS, and accordingly that (ii) the Council's

TMSS for 2015/16 be amended as per the relevant extracts (sections 4.2 and 5.2) shown in Annex 1.

3.2 That Council resolves that the TMSS for 2015/16 remains unchanged.

4.0 Corporate Implications

4.1 Financial and VAT

4.1.1 If option 3.2 is chosen the Council's counterparty list may reduce in due course.

4.2 Legal

4.2.1 This report evidences that the requirements of the CIPFA Code of Practice on Treasury Management continue to be met.

4.3 Corporate

4.3.1 This report evidences that the Council continues to carefully manage its treasury function.

4.4 Equity and Equalities

4.4.1 There are no equality or equity issues arising directly from this report.

5.0 Recommendation

5.1 That the Governance & Audit Committee approves option 3.1.

6.0 Decision Making Process

6.1 Following approval by the Governance & Audit Committee, this report is to be considered by Cabinet and Council for approval.

7.0 Disclaimer

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Annex List

Annex 1	Sections 4.2 and 5.2 of the Council's TMSS for 2015/16
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Corporate Consultation Undertaken

Finance	N/A
Legal	N/A