
CREDIT METHODOLOGY CHANGES

To: **Cabinet – 2 April 2015**

Main Portfolio Area: **Financial Services**

By: **Councillor Everitt, Cabinet Member for Financial Services and Estates**

Classification: **Unrestricted**

Ward: **Thanet Wide**

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 & Poors) 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 Following approval by the Governance & Audit Committee on 17 March 2015, that Cabinet 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 Cabinet approves and recommends Option 3.1 to Council.

6.0 Decision Making Process

- 6.1 Following approval by Cabinet, this report is to be considered by Council for approval.

7.0 Disclaimer

- 7.1 This report is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

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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