

POLICY AND RESOURCES CABINET BOARD

URGENT REPORT OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

29th June 2016

Matter for Information

Wards Affected - All

TREASURY MANAGEMENT UPDATE – DOWNGRADING OF UK SOVEREIGN RATING

1. Purpose of Report

- 1.1 To update Members regarding movements to the United Kingdom's Sovereign rating following the vote to leave the European Union with reference to the Council's Treasury Management Policy.

2. UK Sovereign Rating

- 2.1 Following the referendum decision to leave the European Union the three main credit rating agencies have taken the decision to downgrade the credit rating of the UK. The Council utilises credit rating information provided by the Fitch credit rating agency who, on 28th June 2016, have downgraded the UK sovereign rating from AA+ to AA.
- 2.2 The reason for the downgrading is that Fitch believes the uncertainty following the referendum outcome will induce a slowdown in the UK economy in the short term as businesses defer investment and consider changes to the legal and regulatory environment.
- 2.3 The medium term forecast, according to Fitch, will depend on the nature of any future trade agreement(s) negotiated with the EU.
- 2.4 Mark Carney, the Governor of the Bank of England, stated on Friday 24th June 2016, immediately following the announcement

of the result of the referendum that "...the capital requirements of our largest banks are now ten times higher than before the crisis (2007 banking crisis). The Bank of England has stress tested them against scenarios more than the country currently faces. As a result of these actions, UK banks have raised over £130bn of capital, and now have more than £600bn of high quality liquid assets.

3. **Treasury Management Strategy Implications**

3.1 The Council's Treasury Management Strategy includes the following statement:

'should the UK sovereignty rating reduce the Council will immediately review its investments but will continue to invest in UK institutions in line with the agreed strategy and a report will be forwarded to Members for consideration'

3.2 In line with this strategy Officer's will continue to invest in UK institutions as long as they meet the credit criteria shown for the relevant investment organisation as set out in Appendix 1 of this report. A list of Sovereign ratings is also included in Appendix 2.

Financial Impact

4. The report is for information only. All relevant financial information is provided in the body of the report.

5. **Equality Impact Assessment**

An equality impact assessment was not required for this report.

Workforce Impacts

6. There are no workforce impacts arising from this report.

Legal Impacts

7. There are no legal impacts arising from this report.

Risk Management

8. Officers will continue to monitor the UK credit rating and report to Members as necessary.

Consultation

9. There is no requirement under the Constitution for external consultation on this item.

Appendices

10. Appendix 1 – Investment Criteria
11. Appendix 2 – Financial Institution and Sovereign Credit Ratings
12. Appendix 3 – Investment totals by institution as at 28th June 2016

Officer Contact

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Appendix 1 – Investment Criteria

	Minimum 'High' Credit Criteria	Funds Managed	Max Amount	Max Duration
Term deposits				
Term deposits - Debt Management Office	N/A	In-house	Unlimited	1 year
Term deposits – local, police and fire authorities	N/A	In-house	£10m	1 year
Term deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1	In-house	£15m	6 months
Callable deposits				
Callable deposits – Debt Management Agency deposit facility	N/A	In-house	Unlimited	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F2	In-house	£10m	
Callable deposits - UK banks/Building Societies	Fitch short-term rating F1+ or F1	In-house	£15m *	
Term deposits – non UK banks	Fitch short-term rating F1+	In-house	£5m	6 months

* Where necessary this limit may be temporarily exceeded with the Authority's bankers only.

Appendix 2 – Financial Institution and Sovereign Credit Ratings

Institution	Short Term Credit Rating
Bank of Scotland Plc	F1
Barclays Bank	F1
Goldman Sachs International Bank	F1
HSBC Bank Plc	F1+
Lloyds Bank Plc	F1
Santander UK plc	F1
Nationwide Building Society	F1

Approved Countries for Investment (AA+ plus UK)

Country	Sovereign Rating
Australia	AAA
Canada	AAA
Denmark	AAA
Germany	AAA
Netherlands	AAA
Singapore	AAA
Sweden	AAA
Switzerland	AAA
USA	AAA
Finland	AA+
UK	AA

Appendix 3 - Investment totals by institution as at 28th June 2016

Institution	Total Invested
	£'000
Lloyds Banking Group	15,000
Nationwide Building Society	11,000
Goldman Sachs	9,000
Santander	11,880
<u>Local Authorities</u>	
Eastbourne Borough Council	4,000
Glasgow City Council	6,000
Leeds City Council	5,000
Merseyside Police	3,000
Middlesbrough Borough Council	2,000
Nottingham City Council	3,000
Merthyr Tydfil County Borough Council	4,000
Peterborough City Council	6,000
Grand Total	79,880