

**Subject: Treasury Management Strategy 2011-12 – Revision January 2012**

**Cabinet Member: Councillor John Brady - Finance, Performance and Risk**

**Key Decision: No**

---

### **Executive Summary**

This report presents the revised Treasury Management Strategy for 2011-12 to reflect the need to borrow for HRA self-financing due to the statutory change under the Localism Bill and includes:

- a) the revised Prudential and Treasury Indicators (PrIs and TrIs) for the next three years; and
- b) the revised Annual Investment Strategy for 2011-12.

### **Proposals**

The Cabinet is requested to recommend that the Council:

- a) adopt the revised Prudential and Treasury Indicators (Appendix A);
- b) adopt the revised Annual Investment Strategy (Appendix B);
- c) delegate to the Chief Finance Officer the authority to vary the amount of borrowing and other long term liabilities within both the Treasury Indicators for the Authorised Limit and the Operational Boundary;
- d) authorise the Chief Finance Officer to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long term portfolio;
- e) agree that short term cash surpluses and deficits continue to be managed through temporary loans and deposits; and
- f) agree that any long term surplus cash balances not required to cover borrowing are placed in authorised money-market funds, particularly where this is more cost effective than short term deposits and delegate to the Chief Finance Officer the authority to select such funds.

### **Reasons For Proposals**

To enable the Council to agree a revised Treasury Management Strategy for 2011-12 and set revised Prudential Indicators to address the issues arising from the Housing Reform initiative, whilst retaining the required compliance with statutory guidance and reflecting best practice.

**Michael Hudson**  
**Chief Finance Officer**

**Subject:** Treasury Management Strategy 2011-12 – Revision January 2012

**Cabinet Member:** Councillor John Brady - Finance, Performance and Risk

**Key Decision:** No

---

### **Purpose of Report**

1. The Council approved the Treasury Management Strategy for 2011-12 at its meeting on 22 February 2011. Under normal circumstances the Strategy would need to be reviewed in February 2012 and a new Strategy approved. However, the existing Strategy does not make any allowances for the additional borrowing that will be required on the implementation of the Government's reforms to the council housing finance system – 'self-financing', which is included within the Localism Bill.
2. Under housing reform, the existing Housing Revenue Account (HRA) subsidy scheme will be abolished and replaced with self-financing and the Council will be in a position to support, maintain and develop its housing stock from rental income. Self-financing will require a payment by the Council to the Department for Communities and Local Government (DCLG) of £119.356 million in March 2012. This will increase the Council's level of indebtedness by just over 50%.
3. This report covers the changes required for the impact of the HRA reform.

### **Background**

4. The Council is required by legislation to approve a Treasury Management Strategy, which incorporates the setting of Prudential and Treasury Indicators and an Annual Investment Strategy.

### **Main Considerations for the Cabinet**

#### Revised Prudential Indicators (PrIs) and Treasury Indicators (TrIs)

##### *Basis of the Indicators*

5. A summary of the revised PrIs and TrIs is shown in Appendix A. The key indicators are the Treasury Indicators relating to the Authorised Limit (TrI 1) and the Operational Boundary (TrI 2), which control the Council's exposure to debt.
6. The PrIs and TrIs were set on the basis of all known commitments and the effect of all known revenue and capital proposals relating to the council and have been revised to reflect the changes relating to the HRA subsidy reforms.

## *Monitoring and Reporting of the Prudential Indicators*

7. The elements within the Authorised Limit and the Operational Boundary, for borrowing and other long term liabilities require the approval of the Council. In order to give operational flexibility, Members are asked to delegate to the Chief Finance Officer the ability to effect movements between the two elements where this is considered necessary. Any such changes will be reported to Members. The operational boundary is a key management tool for in-year monitoring. It will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate. Any breach of the operational boundary will be reported to members immediately. The authorised limit will in addition need to provide headroom over and above the operational boundary, sufficient for example for unusual cash movements and should not be breached.

## **Environmental and Climate Change Considerations**

8. a) to d) None have been identified as arising directly from this report.

## **Equalities Impact of the Proposal**

9. None have been identified as arising directly from this report.

## **Risk Assessment and Financial Implications**

10. The primary treasury management risks to which the Council is exposed are adverse movements in interest rates and the credit risk of its investment counterparties (the organisations with which the Council deposits cash surpluses).
11. The strategies in Appendices A and B take account of the forecast movement in interest rates and allow sufficient flexibility to vary strategy if actual movements in interest rates are not in line with the forecast.
12. The risk that counterparties are unable to repay investments could jeopardise the Council's ability to meet its payments. Investment counterparty risk is controlled by using suitable criteria for assessing and monitoring credit risk, including the use of an up to date lending list. The lending list is based on counterparty categories relating to country, type, sector, maximum investment, and maximum duration of investment (see Appendix B). The Council uses the credit worthiness service provided by its treasury advisers, which is a sophisticated modelling approach incorporating the credit ratings of all three major credit rating agencies, together with 'overlays' of Credit Default Swap (CDS) spreads (default risk), credit watches, credit outlooks and sovereign ratings from the agencies (a more detailed explanation is included within the Annual Investment Strategy in Appendix B).
13. The Council's revised treasury portfolio will have an increased proportion of debt to investments.

14. Interest earnings are an important source of revenue for the Council and it is, therefore, important that the portfolio is managed in a way that maximises the investment income stream, whilst managing exposure to risk and maintaining sufficient liquidity.

### **Legal Implications**

15. None have been identified as arising directly from this report.

### **Options Considered**

16. The options in relation to the revenue and capital budgets in these proposals are fully consistent with the figures included within the budget considerations.

### **Conclusion**

17. The Cabinet is requested to recommend that the Council:
- a) adopt the revised Prudential and Treasury Indicators (Appendix A);
  - b) adopt the revised Annual Investment Strategy (Appendix B);
  - c) delegate to the Chief Finance Officer the authority to vary the amount of borrowing and other long term liabilities within both the Treasury Indicators for the Authorised Limit and the Operational Boundary;
  - d) authorise the Chief Finance Officer to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long term portfolio;
  - e) agree that short term cash surpluses and deficits continue to be managed through temporary loans and deposits; and
  - f) agree that any long term surplus cash balances not required to cover borrowing are placed in authorised money-market funds, particularly where this is more cost effective than short term deposits and delegate to the Chief Finance Officer the authority to select such funds.

**Michael Hudson**  
**Chief Finance Officer**

---

Report Author:

Keith Stephens, Business Analyst (Cash and Treasury), Tel: 01225 713603, email: [keith.stephens@wiltshire.gov.uk](mailto:keith.stephens@wiltshire.gov.uk)

## **Background Papers**

The following unpublished documents have been relied on in the preparation of this Report: NONE

## **Appendices**

Appendix A Prudential and Treasury Indicators for 2011-12, 2012-13 & 2013-14

Appendix B Annual Investment Strategy for 2011-12

## Prudential and Treasury Indicators for 2011-12, 2012-13 & 2013-14

- The Prudential and Treasury Management Codes and Treasury Guidelines require the Council to set a number of Prudential and Treasury Indicators for the financial year ahead. This appendix sets out the indicators required by the latest codes (2011-12) analysed between Prudential Indicators and Treasury Indicators, revised, **where appropriate**, to reflect the current estimate of the self-financing settlement under Housing Reform.

### Prudential Indicators

#### Prl 1 – Capital Expenditure

- This Prl shows the actual and anticipated level of capital expenditure for the five years 2009-10 to 2013-14. The years 2012-13 to 2013-14 are not ratified and will be taken to members in the Capital Programme Proposals 2012-13 onwards. This will be submitted to Cabinet and Council in February 2012.

Department	2009-10 Actual £million	2010-11 Expected £million	2011-12 Estimate £million	2012-13 Estimate £million	2013-14 Estimate £million
<b>General Fund</b>	102.8	111.3	112.2	113.9	80.4
<b>Housing Revenue Account</b>	4.4	3.3	4.2	9.4	10.2
<b>Total</b>	<b>107.2</b>	<b>114.6</b>	<b>116.4</b>	<b>123.3</b>	<b>90.6</b>

- The capital expenditure figures shown in Prl 1 assume a certain level of financing from borrowing each year. New and existing borrowing needs to be affordable and sustainable. There is a detailed discussion on the policy on borrowing for capital purposes in the Capital Programme Proposals 2011-12 to 2013-14 report.

#### Prl 2 – Ratio of Financing Costs to Net Revenue Stream

- Prl 2 identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (funding receivable from the Government and council tax payers and rents receivable in the case of the HRA).

	2009-10 Actual £million	2010-11 Expected £million	2011-12 Estimate £million	2012-13 Estimate £million	2013-14 Estimate £million
<b>General Fund</b>	<b>4.6%</b>	<b>5.5%</b>	<b>6.6%</b>	<b>7.7%</b>	<b>8.9%</b>
<b>Housing Revenue Account</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.6%</b>	<b>19.9%</b>	<b>18.7%</b>

- The cost of financing will rise, partly due to the reduction in Government grant, as a consequence of the comprehensive spending review and proportionately over the reporting period because of the effect on financing costs where 'new debt' is expected to rise faster than 'old debt' is repaid. In terms of the rise in HRA financing costs in 2012-13 and 2013-14, this is due to the change in HRA system. Previously the rise in financing costs was not an affordability issue as the new borrowing taken out was supported by Revenue Support Grant. Only by the use of continued Unsupported Borrowing was there any pressure on the Council Tax.

## Prudential and Treasury Indicators for 2011-12, 2012-13 &amp; 2013-14

6. However, the changes to the Revenue Support Grant mechanism that were introduced for 2006-07 and later years (specifically the grant “floor”) mean that the Council may not be able to afford the financing costs of all the supported capital expenditure indicated by the Government, because we do not receive the full grant. This has the effect of “levelling the playing field” so that support for capital borrowing has to be considered alongside all other revenue priorities in the budget process. Support for capital can no longer be “passported” automatically.

Prl 3 – Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax and Housing Rents

7. Prl 3 represents the potential increase in Council Tax/Housing Rents required to fund the planned increase in the capital budgets for the forthcoming year and future years as a proportion of the tax base at Band D/average weekly housing rents. Due to the change to the subsidy system there is no planned effect on average housing rents due to the additional borrowing required.

	2011-12 £	2012-13 £	2013-14 £
Effect on Band D Council Tax	3.15	7.09	12.20
Effect on Average Housing Rent per week	0.00	0.00	0.00

Prl 4 – Net Borrowing and the Capital Financing Requirement

8. Prl 4 measures the so-called “Golden Rule” and focuses on prudence. Its purpose, as described in the Prudential Code, is: *“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two years”.*
9. The Capital Financing Requirement (CFR) increases whenever capital expenditure is incurred. If resourced immediately (from capital receipts, direct revenue contributions or capital grant/contributions) the CFR will reduce at the same time that the capital expenditure is incurred, resulting in no net increase in CFR.
10. Where capital expenditure is not resourced immediately, there is a net increase in CFR, represented by an underlying need to borrow for capital purposes, whether or not external borrowing actually occurs. The CFR may then reduce over time through future applications of capital receipts, capital grants/contributions or further charges to revenue.
11. This Prl is necessary, because under an integrated treasury management strategy (in accordance with best practice under the CIPFA Code of Practice on Treasury Management in the Public Services), borrowing is not associated with particular items or types of expenditure, whether revenue or capital.



## Prudential and Treasury Indicators for 2011-12, 2012-13 &amp; 2013-14

	2009-10 Actual £million	2010-11 Expected £million	2011-12 Estimate £million	2012-13 Estimate £million	2013-14 Estimate £million
CFR – General Fund	299.5	320.5	373.0	413.0	416.4
CFR – HRA	2.9	3.8	123.2	123.2	123.2
Net Borrowing – Gen Fund	142.6	175.2	215.2	255.2	275.2
Net Borrowing – HRA	0.0	0.0	119.4	119.4	119.4
<b>CFR not funded by net borrowing – Gen Fund</b>	<b>156.9</b>	<b>145.3</b>	<b>157.8</b>	<b>157.8</b>	<b>141.2</b>
<b>CFR not funded by net borrowing - HRA</b>	<b>2.9</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>

12. The increase in the General Fund net borrowing figure between 2009-10 and 2010-11 results from a fall in the level of investments held due to increased spending. In the following financial years, 2011-12 to 2013-14, net borrowing is expected to increase as planned additional long term borrowing is taken out.
13. No problems are foreseen in meeting the “Golden Rule” over the period under review. The table above shows a significant margin not funded by net borrowing.

Pr1 5 – Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services (“The Code”)

14. The Revised CIPFA Code of Practice for Treasury Management in the Public Services 2009 was adopted by Wiltshire Council at its meeting on 23 February 2010.
15. All recommendations within this report are consistent with the Revised CIPFA Code.

**Treasury Management Indicators within the Prudential Code**

Tr1 1 – Authorised Limit for External Debt

16. The Authorised Limit is the Operational Boundary (see Tr1 2 below), including an allowance for unplanned and irregular cash movements. This allowance is difficult to predict, 15% is proposed for General Fund borrowing for 2011-12 to 2013-14 and this will be kept under review. This allows for the possibility of additional borrowing during the year as a result of Government support for further schemes and provides headroom where the projection proves too optimistic (payments made earlier or receipt of income delayed against that forecast). There is no allowance in respect of HRA borrowing as it is capped and, therefore, cannot be exceeded.

Authorised Limit	2011-12 £million	2012-13 £million	2013-14 £million
Borrowing – General Fund	453.0	499.7	504.6
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
<b>TOTAL</b>	<b>576.4</b>	<b>623.1</b>	<b>628.0</b>

**Prudential and Treasury Indicators for 2011-12, 2012-13 & 2013-14**

17. The Authorised Limit set by the Authority is the statutory borrowing limit under Section 3(1) of the Local Government Act 2003, a breach would be serious and therefore there is the need to build in sufficient headroom.

Trl 2 – Operational Boundary for External Debt

18. The Operational Boundary and the Authorised Limit are central to the Prudential Code and reflect the limits that authorities place on the amount of their external borrowing.

19. The Operational Boundary is based on a prudent estimate of the most likely maximum level of external borrowing for both capital expenditure and cash flow purposes, which is consistent with other budget proposals. The basis of the calculation for General Fund borrowing 2011-12 (£393.8 million) is:

- Expected Capital Financing Requirement at 31 March 2011 of £320.5 million
- Plus the expected long-term borrowing to finance capital expenditure (supported borrowing £22.4 million and unsupported £42.1 million)
- Less the expected set-aside for debt repayment (£11.2 million)
- Plus the expected maximum level of short-term cash flow borrowing that is anticipated (£20.0 million).

20. The basis of the calculation for HRA borrowing 2011-12 (£123.2 million) is:

- Expected Capital Financing Requirement (CFR) at 31 March 2011 of £3.8 million
- Plus the anticipated £119.4 million additional borrowing in respect of HRA subsidy reform.

<b>Operational Boundary</b>	<b>2011-12 £million</b>	<b>2012-13 £million</b>	<b>2013-14 £million</b>
Borrowing	393.8	434.5	438.8
Borrowing – HRA	123.2	123.2	123.2
Other Long Term Liabilities	0.2	0.2	0.2
<b>TOTAL</b>	<b>517.2</b>	<b>557.9</b>	<b>562.2</b>

21. The Operational Boundary for each year also includes a small provision for other long term liabilities.

22. The Operational Boundary is a key management tool for monitoring the Authority's expected level of borrowing. It is essential to ensure that borrowing remains within the limits set and to take appropriate action where any likely breach is anticipated. Monitoring will take place through the year and will be reported to Cabinet.

Trl 3 – External Debt – Actuals at 31 March 2010 and Expected 2011

23. This Trl shows the amount of gross external debt outstanding in periods prior to the budget years under consideration. Other long term liabilities relate to finance leases on certain properties, plant, vehicles and equipment. It should be noted

**Prudential and Treasury Indicators for 2011-12, 2012-13 & 2013-14**

that as these figures are taken at a point in time, they are not comparable with the Authorised Limit and Operational Boundary, which are control limits.

	<b>31/3/10 Actual £million</b>	<b>31/3/11 Expected £million</b>
Borrowing – General Fund	205.2	205.2
Borrowing – HRA	0.0	123.2
Other Long Term Liabilities	0.2	0.2
<b>TOTAL</b>	<b>205.4</b>	<b>328.6</b>

**Treasury Management Indicators within the Treasury Management Code****Trl 4a and 4b – Upper Limit on Fixed Interest Rate Exposures and Variable Interest Rate Exposures, respectively**

24. Future interest rates are difficult to predict. Anticipated rates are shown in the main report, under Risk Assessment. Indications are that best value will be achieved by taking long-term loans at fixed rates in 2011-12. However, consideration of short term variable rate loans may prove to be advantageous, in 2011-12 and in future financial years.
25. Interest rates will be monitored closely, in conjunction with the treasury adviser, to take advantage of any favourable changes in circumstances. The strategy should still be flexible, the upper limit for fixed interest rate and variable interest rate exposures are set out below.

**The Council's upper limit for fixed interest rate exposure for the three year period 2011-12 to 2013-14 is 100% of net outstanding principal sums.**

**The Council's upper limit for variable interest rate exposure is 20% for 2011-12, 30% for 2012-13 and 35% for 2013-14 of net outstanding principal sums.**

**Trl 5 – Upper & Lower Limits on the Maturity Structure of Borrowing**

26. The Council's policy needs to ensure that it is not forced to refinance too much of its long term debt in any year when interest rates are high. The present long-term debt of £205.2 million (as at 4 January 2011) falls due for repayment over the next 60 years. LOBO (Lender Option Borrower Option) market loans are included at rates based upon their appropriate 'contractual lives', as recommended by CIPFA. Most of the Councils debt is, therefore, reported as maturing within the period "10 years and above".
27. In addition to the main maturity indicators it is considered prudent that no more than 15% of long term loans should fall due for repayment within any one financial year.

**Prudential and Treasury Indicators for 2011-12, 2012-13 & 2013-14**

28. In order to protect the Council from this risk and to safeguard the continuity in treasury management financing costs, the following limits have been adopted.

<b>Limits on the Maturity Structure of Borrowing</b>	<b>Upper Limit</b>	<b>Lower Limit</b>
Maturing Period:		
- under 12 months	15%	0%
- 12 months and within 24 months	15%	0%
- 2 years and within 5 years	45%	0%
- 5 years and within 10 years	75%	0%
- 10 years and above	100%	0%

Trl 6 – Principal Sums invested for periods of longer than 364 days

29. This Trl is covered by the Annual Investment Strategy, which is detailed in the following appendix.

**WILTSHIRE COUNCIL- ANNUAL INVESTMENT STRATEGY FOR 2011-12**

**The Main Strategy**

1. The Council will have regard to the Department for Communities and Local Government's (DCLG's) Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The general investment policy of the Council is the prudent investment of any surplus cash balances, the priorities of which are:
  - a) the security of capital and
  - b) the liquidity of investments.
2. The Council will also aim to achieve the optimum return on investments commensurate with high levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.
3. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.
4. All Council investments will be in sterling. This will avoid foreign exchange rate risk.
5. Investment of the Council's normal cash flow requirements will be in specified investments, as prescribed in "The Guidance". The categories of organisations with whom investments will be placed and the minimum high credit ratings required for each category are those set out in the minimum requirements for high credit rating below.
6. Investments in money market funds may be made if the fund has a high credit rating (AAA), as prescribed in the minimum requirements for high credit rating below.
7. In addition, using the professional judgement of the Council's treasury advisers, non specified investments may be made in UK Government Bonds (Gilts) and in multilateral development banks (as defined in Statutory Instrument 2004 No. 534) with a high credit rating, as prescribed in the minimum requirements for high credit rating below.
8. Such investments are the only non-specified investments authorised for use and will only be:
  - a) in sterling
  - b) in the case of UK Gilts, for a maximum of 50 years; and
  - c) for investments maturing in excess of 12 months, limited to £30 million.
9. For specified investments made under the recommendations of the Council's treasury adviser, the approved policy must be followed and is bound by the minimum requirements for high credit rating below.

**WILTSHIRE COUNCIL- ANNUAL INVESTMENT STRATEGY FOR 2011-12**

10. The Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1 January 2010, and will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with this local authority will comply with the requirements of SI 2009 No 393.
  
11. The Council uses the creditworthiness service provided by its treasury adviser. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach, with credit ratings from all three rating agencies – Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as ‘overlays’:
  - a) credit watches (typically resolved over a relatively short period) and credit outlooks (indicates the direction a rating is likely to move over a one to two-year period) from credit rating agencies;
  - b) CDS spreads to give early warning of likely changes in credit ratings; and
  - c) sovereign ratings to select counterparties from only the most creditworthy countries
  
12. This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.
  
13. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within the weekly credit list of worldwide potential counterparties provided by the Council’s treasury advisers. The Council, where it is considered appropriate and in line with its whole investment strategy, will therefore use counterparties within the following durational bands:
  - a) Yellow – 5 years (a new category introduced by the treasury advisers late in 2010 to cover AAA rated Government debt or its equivalent, including a new investment instrument – collateralised deposits, where the investment is secured only against local authority debt, namely LOBOs, making them effectively government exposure);
  - b) Purple – 2 years;
  - c) Blue – 1 year (only applies to nationalised or semi nationalised UK Banks and their subsidiaries);
  - d) Orange – 1 year;
  - e) Red – 6 months;

**WILTSHIRE COUNCIL- ANNUAL INVESTMENT STRATEGY FOR 2011-12**

- f) Green – 3 months; and
  - g) No Colour – not to be used.
14. This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys tend to be more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue prevalence to just one agency's ratings.
15. All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the treasury advisers creditworthiness service. Following receipt of this information:
- a) any financial institutions meeting the criteria are updated on the list of authorised lenders and investments may then be placed with “qualifying” institutions immediately;
  - b) if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately;
  - c) if funds are held by an institution that subsequently falls outside the current credit rating criteria and CDS overlay, all funds will be withdrawn from that institution at the earliest opportunity. This will normally be on the maturity of that deposit. If the fall is significant and there are more than three months before the maturity date and in any other extreme circumstances, negotiations for premature repayment will be pursued;
  - d) whenever there is a change in the list of authorised lenders, a revised list will be provided to those authorised to deal in investments on behalf of the Council, including its authorised brokers.
  - e) in addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
16. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and information, information on government support for banks and the credit ratings of that government support.
17. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings.

## WILTSHIRE COUNCIL- ANNUAL INVESTMENT STRATEGY FOR 2011-12

**The Minimum requirements for “high credit rating”**

18. In accordance with the DCLG Guidance on Local Government Investments in respect of selection of counterparties with whom investments are placed, Wiltshire Council will comply with the minimum requirements below.
19. Credit ratings will be those issued by Fitch Ratings Ltd in respect of individual financial institutions (as shown below, where F1+ is the highest short term rating and AAA the highest long term rating). An exception is made in respect of money market funds, as shown below, where a different overall AAA rating is the highest.
20. The minimum requirements for high credit rating, by type of institution, are as follows:
  - **Banks incorporated inside the United Kingdom with a short term credit rating of at least F1 or Government backed and their subsidiaries;**
  - **Banks incorporated outside the United Kingdom with a short term credit rating of at least F1+ and a long term rating of A+;**
  - **United Kingdom building societies with a short term credit rating of at least F1 or Government backed;**
  - **All local authorities and public bodies (as defined in S23 of the Local Authorities Act 2003) (ratings are not issued for these bodies);**
  - **Multilateral development banks (as defined in Statutory Instrument 2004 No. 534) with a short term credit rating of at least F1 and long term credit rating of AAA;**
  - **All banks & building societies must have an individual rating of at least C (Please note that Fitch Ratings recently (November 2011) introduced a ‘Viability Rating’, which is designed to be internationally comparable and represent Fitch’s view as to the intrinsic creditworthiness of the user. Sector are no longer using the individual ratings, which have been replaced by the viability ratings – this change is reflected in the Treasury Management Strategy 2012-13 elsewhere on the agenda);**
  - **In addition, all banks and building societies to which the Authority may lend funds must have a support rating of no more than 3 (1 being the highest support rating);**
  - **Money market funds, which have been awarded the highest possible rating (AAA) from at least one of the following credit rating agencies, Standard and Poor’s, Moody’s Investor Services Ltd or Fitch Ratings Ltd.; and**



## WILTSHIRE COUNCIL- ANNUAL INVESTMENT STRATEGY FOR 2011-12

- **Deposits must only be placed in money market funds subject to individual signed management agreements.**
21. In addition to the above criteria, the following limits will be applied to the total cumulative investments placed with an individual institution (or group of institutions where there is common ownership):
- a) **Up to £15 million:**
- **UK incorporated banks with a long term credit rating of at least AA;**
  - **Overseas banks that have a long term credit rating of at least AA;**
  - **Multilateral development banks;**
  - **Local authorities and other public bodies; and**
  - **Money market funds.**
- b) **Up to £8 million:**
- **Other UK incorporated banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);**
  - **Other overseas banks (that have a long term credit rating of less than AA but which also satisfy the credit rating conditions within this Strategy);**
  - **UK Building societies with long term credit rating of at least A; and**
  - **Government backed UK and overseas banks and UK building societies and their subsidiaries.**
22. The following investment duration matrix shows the maximum duration for which an investment can be placed, depending on the combination of the individual institution's long term, short term, individual and support ratings (e.g. up to five years where an institution is classified as F1+ (short term rating), AAA (long term rating), A (individual rating) and 1 (support rating) or up to one year where an institution is classified as F1, A+, A, 2).

## WILTSHIRE COUNCIL- ANNUAL INVESTMENT STRATEGY FOR 2011-12

Investment Duration Matrix

		Ratings			
Short Term	Long Term	Individual	Support		
			1	2	3
F1+	AAA	A	1-5yrs	1-5yrs	1 yr
		A/B	1-5yrs	1-5yrs	3 mths
		B	1-5yrs	1-5yrs	3 mths
		B/C	1-5yrs	1-5yrs	3 mths
		C	1 yr	1 yr	3 mths
	AA+	A	1-5yrs	1-5yrs	1 yr
		A/B	1-5yrs	1-5yrs	3 mths
		B	1-5yrs	1-5yrs	3 mths
		B/C	1-5yrs	1-5yrs	3 mths
		C	1 yr	1 yr	3 mths
	AA	A	1-5yrs	1-5yrs	1 yr
		A/B	1-5yrs	1-5yrs	3 mths
		B	1-5yrs	1-5yrs	3 mths
		B/C	1-5yrs	1-5yrs	3 mths
		C	1 yr	1 yr	3 mths
	AA-	A	1-2yrs	1-2yrs	1 yr
A/B		1-2yrs	1-2yrs	3 mths	
B		1-2yrs	1-2yrs	3 mths	
B/C		1-2yrs	1-2yrs	3 mths	
C		1 yr	1 yr	3 mths	
F1	A+	A	1 yr	1 yr	3 mths
		A/B	1 yr	1 yr	3 mths
		B	1 yr	1 yr	3 mths
		B/C	3 mths	3 mths	n/a
		C	3 mths	3 mths	n/a
	A	A	1 yr	1 yr	3 mths
		A/B	1 yr	1 yr	3 mths
		B	1 yr	1 yr	3 mths
		B/C	3 mths	3 mths	n/a
		C	3 mths	3 mths	n/a