

**POLICY AND RESOURCES SCRUTINY COMMITTEE –  
19TH JANUARY 2010**

**SUBJECT: TREASURY MANAGEMENT ADVICE**

**REPORT BY: DIRECTOR OF CORPORATE SERVICES**

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**1. PURPOSE OF REPORT**

- 1.1 To advise Members of the position with regard to the release of information from the Authority's Treasury Management Advisors, Sector, in respect of matters relating to Icelandic Banks.

**2. LINKS TO STRATEGY**

- 2.1 To ensure that the Council's strategies are delivered in a proper and transparent way.

**3. THE REPORT**

- 3.1 The Authority have received in 2009, 2 Freedom of Information requests from Councillors requesting all information provided by Sector, the Authority's Treasury Management Advisors in respect of Icelandic Banks during a specified period. This information is to include minutes and agenda items in respect of meetings with Sector.
- 3.2 The Authority's contract with Sector requires Sector to agree in writing to the release of any information provided by them to the Authority. Until very recently Sector had refused to allow their information to be released to the public. I am now able to advise that an email has now been received from a Director at Sector agreeing to the release of the information requested under the Freedom of Information.
- 3.3 The Authority welcomes this change in the original decision by Sector. Previously the Authority had advised the 2 Councillors that had requested the information under the Freedom of Information Act that they could view the information as Members but could not make it available to the public, as the Authority did not have the written permission to allow this to happen. It is now possible to make available details of correspondence between Sector and Caerphilly CBC relating to matters concerning the Icelandic Banks to the public.
- 3.4 It must be emphasised that Wales Audit Office (WAO) had previously had access to all this information when they had undertaken an audit of the Authority's investments on the 9th October 2008. The audit by WAO had included a review of all information provided by Sector to ensure that officers had invested the Authority's funds in financial institutions in accordance with the Treasury Management Strategy, as agreed by Council, and the credit ratings provided by Sector. WAO confirmed on 13th October 2008 that all investments made had complied with Sector's credit worthiness service and the Authority's Treasury Management Strategy. Since that time PWC the Authority's current External Auditors have undertaken the same exercise and have concluded full compliance by officers in respect of these investments. This will be referred to in the Annual Audit letter.

- 3.5 Appendix 1 lists on table relevant information provided by Sector to the Authority in respect of Icelandic Banks. Members are requested to note that the majority of financial institutions included on the Sector Monthly Credit Lists are rarely, if ever, in the money market place looking for local authority funds. Further information prior to the 13th May and after the 8th October 2008 is available to all Members; please advise Leigh Brook (tel 01443 863031, email brookl@caerphilly.gov.uk) who will forward the files via e-mail.
- 3.6 Appendix 2 gives the descriptions used by Sector in respect of the May Update. The May Update was the last update on Icelandic Banks received by the Authority prior to the 01/10/09. The definitions used by Sector in respect of the ratings of the Icelandic Banks Landsbanki and Heritable are shown below:-

#### **A Affirmed – Negative Outlook**

- A High credit quality 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Rating Outlook: An outlook indicates the direction a rating is likely to move over a one to two year period. Outlooks may be positive, stable or negative. A positive or negative Rating Outlook does not imply a rating change is inevitable. Similarly ratings for which outlooks are 'stable' could be upgraded or downgraded before an outlook moves to positive or negative if circumstances warrant such an action. Occasionally, Fitch ratings may be unable to identify the fundamental trend. In these cases, the Rating Outlook may be described as evolving.

#### **F1 affirmed**

- F1 Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

#### **Individual Ratings B/C affirmed**

- B A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.
- C An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

#### **Support Ratings – 1 affirmed**

- 1 A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.

#### **Support Ratings – 2 affirmed**

- 2 A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity of to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.

## **Sector Colour – Green**

Indicated investments can be made with an institution for up to 3 months.

**Note:** No credit default swap information and no sovereign ratings were included on this May Update as this information was not provided by Sector until April 2009.

- 3.7 Appendix 3 gives some examples of where a negative outlook has been assigned to an institution.
- 3.8 We recognise that this matter is complex and we would encourage Members to contact Nicole Scammell, Steve Grant, Nicola Roberts or Alan Morgan if they have any queries in respect of any of the information provided by Sector.

## **4. CONCLUSION**

- 4.1 The Authority's investments in Icelandic Banks were made in accordance with the Council's Treasury Management Strategy and the Sector Credit Worthiness Service. This has been confirmed by an external audit by WAO in October 2008 and a further audit by PWC in 2009.
- 4.2 Members are reminded that the uncertainty in the financial markets has led to a review of the Treasury Management Strategy with a view to reducing risk further. This includes a pro-active approach in respect of reducing available cash balances, which need investing, this has involved internally borrowing rather than lending from the Public Works Loan Board (PWLB) and the use of lower risk institutions i.e. the Debt Management Office and other Local Authorities.

## **5. FINANCIAL IMPLICATIONS**

- 5.1 The financial implications associated with the impairment of the Authority's investments in Icelandic Banks were accounted for in the 2008/09 Statement of Accounts and Council report 30th June 2009. This has been reflected in the audit of the Authority's accounts by PWC and reported to Audit Committee 23rd September 2009.

## **6. PERSONNEL IMPLICATIONS**

- 6.1 There are no personnel implications.

## **7. CONSULTATIONS**

- 7.1 All consultees comments have been reflected in the report.

## **8. RECOMMENDATIONS**

- 8.1 That the contents of the report be noted.

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N. Barnett, Director of Corporate Services  
D. Perkins, Head of Legal Services  
Cllr. J. Taylor, Chairman Policy & Resources  
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Cllr. Mann, Deputy Leader/Cabinet Member Policy & Resources  
Mr. S. Grant, Finance Manager, Corporate Services  
Mr. A. Morgan, Group Accountant (Revenue Advice & Support)  
Mrs. N. Roberts, Senior Group Accountant (Revenue Advice & Support)

Appendices:

- Appendix 1 Documents relating to Icelandic Banks and FOI Requests
- Appendix 2 Sector and Credit Ratings Agencies official definitions for 13th May 2008 Update  
(Document No. 1)
- Appendix 3 Examples of institutions on negative outlook