

Review of Treasury Management Arrangements

Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

1 Purpose of Report

This report sets out the current arrangements for review by the Committee, as requested by the Fire Authority in April 2009.

2 Recommendations

The Committee is asked to endorse the following arrangements, set out in the report, and to:

- a) Recommend that the Fire Authority formally adopts the clauses in Section 5 of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code; and
- b) Recommend that the Fire Authority amends its Treasury Policy to refer specifically to investments.

3 Background

Following the Icelandic Banking crisis, various reports were produced by the Audit Commission, CIPFA and the Government. Acting on these initial reports, the Fire Authority decided that the Audit and Performance Management Committee should scrutinise its Treasury Management arrangements.

This has been delayed until now, as our provider of Treasury Management Services (PTMS) Shropshire Council has reviewed its arrangements following the release in November of CIPFA's updated Code of Practice for Treasury Management in Public Services.

4 CIPFA Code of Practice

The code identifies in **section 4**, the key principles of Treasury Management:

Key Principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2

Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy and should ensure that priority is given to security and liquidity when investing funds.

Key Principle 3

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measurers, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

It recommends in **section 5** that the Fire Authority formally adopts the following clauses:

1. *This Authority will create and maintain, as the cornerstones for effective treasury management:*
 - *a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities*
 - *suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities*

The content of the policy statement and TMPs will follow the recommendations contained in sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Authority. Such amendments will not result in the Authority materially deviating from the Code's key principles.

2. *The Authority will receive reports on its treasury management policies, practice and activities, including, as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.*

3. *The Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Strategy and Resources Committee, and for the execution and administration of treasury management decisions to the Treasurer, who will act in accordance with the Authority's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.*
4. *This organisation nominates the Audit and Performance Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.*

It recommends in **section 6** that the Authority adopts the following Treasury Management policy statement:

1. *This organisation defines its treasury management activities as: The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*
2. *This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.*
3. *This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.*

It recommends in **section 7** that twelve Treasury Management Practices (TMPs) be established, setting out main principles, and leaving open the details for local decision, and envisaging possible delegation to the Treasurer (as responsible officer).

5 The Fire Authority's Current Position

The Fire Authority has recognised the key principles as evidenced in its Annual Strategy (latest in report 7 to the Fire Authority in February 2010).

The Fire Authority has not yet formally adopted the clauses set out in Section 5 of the Code, and it is recommended that this should be done.

The Fire Authority adopted its policy statement in 2002 based on the previous code. The updated code in section 6 is exactly the same, except for the inclusion of the word 'investments' in paragraph 1.

It is recommended that the revision is drawn to the Authority's attention, emphasising as it does the crucial importance of this aspect of Treasury Management.

With reference to section 7 of the Code the Fire Authority has previously delegated maintenance of TMPs to the Treasurer and I have updated them to align with those of the provider of Treasury Management Services. These can be made available, but a summary of the main principles is attached as Appendix 1.

6 Key Issues covered in TMPs

The key issue is covered in TMP1 – Risk Management, and particularly TMP1 (5) – Credit and Counterparty Risk Management.

This is dealt with by a clear statement each year in the Authority's Annual Investment Strategy (as approved in February for 2010/11). The Authority will only lend to those counterparties acceptable to the PTMS, and subject to endorsement by the Treasurer. The PTMS maintains a credit worthiness policy (attached to the TMPs and to this report as Appendix 2).

The Authority also follows Communities and Local Government guidance on investments, which was updated in March. A list of specified investments (i.e. those which the Authority might make), and non-specified investments, which would not be considered without formal reference to the Authority, is maintained.

7 Borrowing

This report has not covered borrowing to any extent because the current position is that any borrowing will be made through the Public Works Loans Board, and therefore does not raise any significant areas of risk.

8 Financial Implications

There are no direct financial implications arising from this report.

9 Legal Comment

There are no legal implications arising directly out of this report.

10 Equality Impact Assessment

This report deals with agreed recommended national management practices. As the recommendations within the report have no impact on people, no equality impact assessment has been completed.

11 Appendices

Appendix 1

Shropshire and Wrekin Fire and Rescue Authority
Treasury Management Practices: Main Principles

Appendix 2

Creditworthiness Policy of Provider of Treasury Management Services

12 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Business Continuity Planning		Legal	
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Area Assessment		Operational Assurance	
Efficiency Savings		Retained	
Environmental		Risk and Insurance	*
Financial	*	Staff	
Fire Control/Fire Link		Strategic Planning	
Information Communications and Technology		West Midlands Regional Management Board	
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	
Integrated Risk Management Planning			

Treasury Management Practices

Part 1: Main Principles

March 2010

Shropshire and Wrekin Fire Authority

Treasury Management Practices

The Authority adopted the CIPFA Code of Practice for Treasury Management in February 2002, which required the creation and maintenance of a Treasury Management Policy Statement and treasury management practices. It also required the adoption of a Policy Statement as follows:

The Authority defines the policy and objectives of its treasury management activities as follows:

- i- The management of the Authority's *investments and* cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.
- ii- The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.
- iii- The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

The emphasis on investments post the Iceland banking crash is noted and the amendment made in the 2009 revision to the code is shown in italics.

Treasury Management Practices (TMPs) set out the manner in which Shropshire and Wrekin Fire Authority will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. The Authority has a service level agreement with Shropshire Council for the provision of banking and treasury management services. It agrees that the Council as Treasury Management Services Supplier maintains its cash balances and undertakes investment and borrowing on its behalf. In practice therefore the Authority must ensure that the Council's TMP's are acceptable and in accordance with its own TMP's.

Part 1 of Treasury Management Practices sets out in summary, the principles of treasury management to which this Authority will adhere. Part 2 sets out the detailed procedures to be followed under the following headings:

- TMP 1 Risk management**
- TMP 2 Performance measurement**
- TMP 3 Decision-making and analysis**
- TMP 4 Approved instruments, methods and techniques**
- TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**
- TMP 6 Reporting requirements and management information arrangements**
- TMP 7 Budgeting, accounting and audit arrangements**
- TMP 8 Cash and cash flow management**
- TMP 9 Money laundering**

- TMP 10 Training and qualifications**
- TMP 11 Use of external service providers**
- TMP 12 Corporate governance**

TMP1 Risk Management

“The Treasurer will, in consultation with the provider of Treasury Management Services (PTMS) design, implement and monitor all arrangements for the identification, management and control of treasury management risk. He/she will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Authority’s objectives in this respect. Such action will be in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.”

[1] Liquidity risk management

“Shropshire and Wrekin Fire Authority (SWFA) will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of its business/service objectives.”

SWFA will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to fund future debt maturities.

[2] Interest rate risk management

“SWFA will manage any exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirement and management information arrangements*

SWFA will achieve this by the prudent use of its approved financing and investment instruments, methods, and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected potentially advantageous changes in the level or structure of interest rates. This will be subject to the consideration and if necessary, approval of any policy or budgetary implications.

[3] Exchange rate risk management

SWFA will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

[4] Inflation

SWFA separates this issue each year in its budgetary and accounting processes.

[5] Credit and counterparty risk management

“SWFA regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved Instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.”

[6] Refinancing risk management

“SWFA will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Authority as can reasonably be achieved in the light of market conditions prevailing at the time.

SWFA will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.”

[7] Legal and regulatory risk management

“SWFA will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP1.5 Credit and counterparty risk management*, it will ensure that there is evidence of counterparties’ powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

SWFA recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Authority.”

[8] Fraud, error and corruption, and contingency management

“SWFA will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.”

[9] Market risk management

“SWFA will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.”

TMP2 Performance Measurement

“SWFA is committed to the pursuit of best value in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Authority’s stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.”

TMP3 Decision-making and Analysis

“SWFA will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.”

TMP4 Approved Instruments, Methods and Techniques

“SWFA will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1, *Risk management*.”

TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

“SWFA considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that Treasury Management activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when SWFA intends, as a result of lack of resources or other circumstances, to depart from these principles, the Treasurer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Treasurer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedules to the “Main Principles of Treasury Management Practice” notified to SWFA by the PTMS.

The Treasurer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedules to the “Main Principles of Treasury Management Practice” notified to SWFA by the PTMS.

The delegation to the Treasurer in respect of treasury management is set out in the schedule to this document. The Treasurer will fulfil all such responsibilities in accordance with the Authority’s policy statement and TMPs and, as a CIPFA member, the Standard of Professional Practice on treasury management.”

TMP6 Reporting Requirements and Management Information Arrangements

“SWFA will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Authority will receive:

- an annual report on the strategy and plan to be pursued in the coming year;
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Authority’s Treasury Management Policy Statement and TMPs;
- an annual investment strategy setting out the procedures for determining the use of each class of investment and appropriate limits to be applied to each class; and
- quarterly Treasury Management Update reports (including Prudential Indicators) and incorporating a mid year review.

The Authority has delegated responsibility for scrutiny of treasury management policies and practices to the Audit and Performance Management Committee.

The present arrangements and the form of these reports are detailed in the Part 2 schedules to this document.”

TMP7 Budgeting, Accounting and Audit Arrangements

“The Treasurer will prepare, and SWFA will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The form which SWFA’s budget will take is set out in the schedules to this document. The Treasurer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

SWFA will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. .

SWFA will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedules to this document.”

TMP8 Cash and Cash Flow Management

“Unless statutory or regulatory requirements demand otherwise, all monies in the hands of SWFA will be under the control of the Treasurer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Treasurer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] Liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedules to this document.

TMP9 Money Laundering

“SWFA is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will ensure that the PTMS maintains procedures for verifying and recording the identity of counterparties and reporting suspicions, and that staff involved in this are properly trained. The present arrangements are detailed in the schedules to the “Main Principles of Treasury Management Practices” notified to SWFA by the PTMS.”

TMP10 Training and Qualifications

“SWFA recognises the importance of ensuring that all members and staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals or external providers who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Treasurer will recommend and implement the necessary arrangements or be satisfied with those of an external provider.

The present arrangements of the PTMS are detailed in the schedules to the “Main Principles of Treasury Management Practices notified to SWFA by the PTMS.”

TMP11 Use of External Service Providers

“SWFA recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Treasurer, and details of the current arrangements are set out in the schedules to this document.

TMP12 Corporate Governance

SWFA is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

SWFA has adopted and has implemented the key recommendations of the Code. These, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management. The Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.”

The Authority is required under Regulation 4 of the Accounts and Audit Regulations 2003 to be responsible for ensuring that the financial management of the organization is adequate and effective and that it has a sound system of internal control that facilitates the effective exercise of the Authority’s functions including arrangements for the management of risk. SWFA carries out an annual review of the effectiveness of its system of internal control and produces an Annual Governance Statement, prepared in accordance with proper practices within the annual statement of accounts.

Creditworthiness Policy of Provider of Treasury Management Services (PTMS)

The Council uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year following the credit crisis and problems with Icelandic Banks 2008. It now uses a sophisticated modelling approach with credit ratings from all three rating agencies Fitch, Moody's and Standard and Poor. It does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies
- CDS Spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

This modeling 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 code 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.

The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of potential worldwide counterparties. The Council will therefore use counterparties within the following durational bands:-

- Purple – 2 years (Lending currently restricted to a maximum of 1 year)
- Blue – 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange – 1 year
- Red – 6 months
- Green – 3 months
- No Colour – Not to be used

The Sector creditworthiness service uses ratings from all three agencies, but by using a scoring system, does not give undue reliance to just one agency's ratings.

The Council's approved lending list is reviewed continuously and formally updated monthly. Additions to, and deletions from, the list must be approved by the Director of Resources. The internal treasury team will also monitor the financial press and remove institutions immediately from the approved lending list if there is any cause for concern. The internal treasury team will also reduce an institutions period or cash limit if there are credit rating downgrades in line with Sector's colour coded bands.

No Foreign Banks are currently included on the Council's approved list due to the recent problems in Iceland. The number of Building Societies which meet the Council's minimum credit rating criteria has also reduced. Only one Building Society currently appears on the approved lending list.

Money Market Funds

Money Market Funds are generally AAA rated which is the highest level of credit worthiness. These funds allow instant access to cash and provide enhanced yield and security. The council currently has four AAA rated Money Market Funds set up however, since the problems with Icelandic Banks in October 2008 Money Market Funds have temporarily been removed from the Council's approved lending list due to not all assets within the funds meeting our minimum credit criteria. Money Market Funds may be considered again but only with the express approval of the Director of Resources.

Local Authorities

Despite the absence of formal credit ratings, in Sector's view, the risk attached to UK local authorities is acceptable where the nature of the transaction is a cash deposit. All UK Local Authorities, with the exception of Local Authorities under S114 notice, are therefore approved counterparties.

Nationalised and Part Nationalised Institutions

Nationalised and Part Nationalised institutions e.g. RBS Group, Lloyds Banking Group can also be included on the approved lending list as they effectively take on the credit rating of the UK Government.

Debt Management Office Account (DMO)

Following the credit crunch and problems with Icelandic banks in October 2008 an account has been set up with the UK Government. Deposits are placed in the Debt Management Office account for periods up to 6 months as this offers the highest level of security.

Details of credit rating agencies' services or other services which provide current credit ratings and updates on changes

SC uses credit ratings from the following credit rating agencies supplied via its treasury management advisers Sector Treasury Services:

- Fitch
- Moody's
- Standard & Poor

The contract for the supply of this service commenced on 01 January 2007 and expires on 31 December 2011 at which time it will be reviewed. The contract was extended for a further 2 years in December 2009.

Description of the general approach to collecting and using information other than credit ratings for counterparty risk assessment

In addition to credit ratings the Council also continuously monitor an institutions Credit Default Swap (CDS) ratings with are provided by our treasury advisor on a weekly basis. CDS are the most widely traded credit derivative instrument in the credit market. A CDS is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event of the reference entity. The reference entity is the third party on whom the contract is based.

A credit event usually includes events such as default on coupon payments, restructuring of debt, bankruptcy etc. The contract essentially gives protection or insurance to the buyer of the CDS in the case of a credit event of the reference entity. CDS spreads are monitored on a weekly basis against a benchmark (iTraxx Senior Financials index), if an institutions CDS rating moves out of range then the counterparty is removed from the approved lending list if they no longer meet the minimum credit criteria or the maximum period limit is reduced if they still appear on Sectors colour coded matrix. The CDS overlay is used as a further safeguard to give early warning of potential creditworthiness which may only belatedly lead to actual changes in credit ratings.

Information on government support for banks and the credit ratings of that government support is also monitored. Included on the weekly lists are details of each Country's Sovereign Rating which is also taken into account when including institutions on the approved lending list. The UK's Sovereign Rating is the highest possible and currently stands at AAA which is where all the Council's deposits are currently being placed.

The Financial Press is monitored on a daily basis and action taken to remove an institution immediately if there are any concerns that the institution is in financial difficulty. Economic data is also provided on a daily basis from our treasury advisor. This provides details on share prices and other relevant information relating to financial institutions.