



Dorset Fire Authority

MEETING	Dorset Fire Authority
DATE OF MEETING	24 September 2014
OFFICER	Treasurer to the Fire Authority
SUBJECT OF THE REPORT	Treasury Management - Revision of Counterparty ratings
EXECUTIVE SUMMARY	<p>The Treasurer to the Fire Authority assesses the risk of each potential counterparty by using credit ratings, as part of range of measures. The three credit rating agencies: Fitch, Standard and Poors and Moody's assess the financial strength of each institution in a number of ways and rate them accordingly.</p> <p>One of the assessments that the credit rating agencies make is referred to as the support rating, which vary from 1 (the highest) to 5 and estimate the likelihood that support from a sovereign or parent would be received should it become necessary. The current strategy states that the Authority would not use counterparties with a support rating of less than 3.</p> <p>The credit rating agencies have been undertaking a review of these support ratings, with the rationale being the evolving regulatory background and unwillingness of Governments to step in if there is a problem with an institution. The primary drive is to remove implied levels of support previously built into the ratings. In time, this will see most, if not all, Support ratings drop to 5 (indicating little or no likelihood of sovereign support).</p> <p>Furthermore, the removal of implied sovereign support will see Long Term ratings gravitate towards Viability ratings (Fitch) and Financial Strength ratings (Moody's). As such there will be little reason to use Support ratings or the "standalone" ratings from Fitch (Viability) and Moody's (Financial Strength). It is therefore recommended to discontinue their use.</p> <p>The Treasurer will still pay regard to the following minimum short and long term ratings:</p> <p>Short term: F1 Long term: A-</p> <p>The County Council on behalf of the Fire Authority engage the services of Treasury Management advisers, Capita, who will continue to monitor these ratings and report on any changes. Credit Default Swap (CDS) prices and other market intelligence will also continue to be used.</p>

RISK ASSESSMENT	Treasury Management is an inherently risky activity, although the measures that are put in place to manage and reduce these risks are appropriate. This report recommends a change to these measures due to changes in the market environment.
COMMUNITY IMPACT ASSESSMENT <i>Note: If the matrix indicates negative impacts on the community or staff, an equality impact assessment (EIA) will need to be completed.</i>	N/A
BUDGET IMPLICATIONS	All Treasury Management budget implications are reported as part of the budget outturn and monitoring report that include the progress of the capital programme.
RECOMMENDATIONS	That the Fire Authority approves removal of the support ratings as a means of assessing the financial strength of counterparties.
BACKGROUND PAPERS	Treasury Management Annual Strategy 2014/15 Capita Treasury Solutions - Independent Economic Analysis
APPENDICES	None
REPORT ORIGINATOR AND CONTACT	Richard Bates, Treasurer to Dorset Fire Authority Tel: (01305) 228548