



meeting

COUNTY COUNCIL

date

SEPTEMBER 2004

agenda item number

REPORT OF THE DIRECTOR OF RESOURCES

TREASURY MANAGEMENT

1. Purpose

- 1.1 To review the Treasury Management activity in 2003/04.

2. Background

- 2.1 There are two annual reports on Treasury Management: a Policy and Strategy report before the start of a financial year; and a report summarising activities undertaken during the previous 12 months.
- 2.2 This report deals with activity during 2003/04.
- 2.3 The CIPFA Treasury Management Code of Practice, which was adopted two years ago, recommends a report be made to the Council after the year end.
- 2.4 Attached are the following appendices:
- A. A short description of activity in the year;
 - B. The Out-turn document which lists the 12 Treasury Management Practices (TMPs) adopted for 2003/04 and includes commentary (in brackets) on relevant activity during the year:

3. Statutory and Policy Implications

- 3.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, Crime and Disorder, Human Rights and those

using the relevant services. No specific issues arise out of the proposals in this report.

4. **Recommendation**

- 4.1 That the annual report on Treasury Management be approved.

**A L DEAKIN
DIRECTOR OF RESOURCES**

Background Papers available for inspection

None

TREASURY MANAGEMENT

ANNUAL REPORT 2003/04

1. The Bank Base Rate declined in July 2003 to 3.5%, but increased twice, in November 2003 and February 2004. Longer lending rates and borrowing rates were unconvinced by the initial lowering of the Base Rate and steadily increased during the year.

	1/4/03	30/6/03	30/9/03	31/12/03	31/3/04
	%	%	%	%	%
Bank Base Rate	3.75	3.75	3.5	3.75	4.00
Lending Rates:					
- 7 day	3.75	3.5	3.5	3.5	3.75
- 1 month	3.62	3.59	3.61	3.80	4.12
- 1 year	3.45	4.50	3.92	4.32	4.68
Borrowing Rates (PWLB maturity)					
- 10 years	4.75	4.40	4.75	4.90	4.90
- 25 years	4.8	4.75	4.85	4.85	4.85

ACTIVITY

2. Short-Term

A summary of short-term lending and borrowing undertaken during 2003/04 is given below with more details of the organisations used for lending given in appendix A attached.

Lending		£m
	Lending 1/4/03	95
	Lending during year	<u>3,095</u>
		3,190
	Repayments during year	<u>3,090</u>
	Outstanding at 31/3/04	100

Borrowing		
	Borrowing 1/4/03	0
	Borrowing during year	<u>8</u>
		8
	Repayment during year	<u>8</u>
	Outstanding at 31/3/04	0

3. **Gilt**

In 1998/99, £8,063,000 nominal of Treasury 8.5% 2005 was purchased for £9,828,797 yielding 4.8% as a hedge against sterling joining the euro and interest rates declining to those in Europe. As interest rates rose the gilt price declined during the year to be valued at the year end at £8,593,545 (last year £9,057,168). The return on the gilt in the year, including the 8.5% dividend, was -1.0% (10.2%).

TMP1 Schedule - Out-turn 2003/04

(Out-turn comments are included in bold italics within brackets.)

[1] liquidity risk management

Monitoring daily by the Investments Manager and quarterly reports to the *Treasury Management Group* comprising the Director of Resources, the Assistant Treasurer (Financial Strategy) and the Investments Manager.

(The purpose of this item is to try to manage cash resources so that there isn't too much or too little cash at any one time. Since most of the cash resources managed by the Investments' Team belongs to the Pension Funds and fund managers are buying and selling investments every day, this can be very difficult.

During 2003/04 there were 3 days when cash needed to be borrowed from the market, compared with, an unusually high, 10 days in 2002/03.)

[2] interest rate risk management

(All long-term debt is currently at fixed interest rates providing certainty as to interest to be paid in the future.)

[3] exchange rate risk management

(All treasury instruments are in sterling (excludes Pension Funds' investments).)

[4] inflation risk management

Monitoring daily by the Investments Manager and quarterly reports to the *Treasury Management Group*.

[5] credit and counterparty risk management

Approved List

Attached as Appendix A is a list of approved counterparties. The principles behind the list are as follows:

- (i) UK based financial institutions graded F1 short term and Support 1 or 2 by Fitch IBCA;
- (ii) UK based wholly-owned subsidiaries of institutions in (i) above;
- (iii) F1 rated UK subsidiaries of overseas F1 short term and Support 1 institutions;
- (iv) Overseas banks rated F1 short term and Support 1; and
- (v) The Co-Operative Bank, nationalised industries and local authorities

The Director of Resources may remove any organisation from the *Approved List* but additions require Finance Portfolio Holder approval. ***(No organisations were added during the year. Dresdner Bank was removed from the list during the year as its short-term rating dropped to F2.)***

Diversification

The maximum amount lent to any one organisation listed in the *Approved List* is subject to the following sliding scale:-

	<u>Limit £m</u>
For total funds invested up to £80m	10
Between £80m and £120m	15
Over £120m	20

The Director of Resources may authorise up to £10 million above these limits to the County Council's bankers on occasions when there are insufficient borrowers in the market at current market rates.

(No Limits were exceeded. A summary of total amounts lent to each organisation is appended.)

Authorisation

The Investments manager may lend sums up to and including 3 months. Longer periods up to 364-day require permission from one other member of the *Treasury Management Group*.

(There were no loans made longer than 3 months during the year.)

[6] refinancing risk management

Responsibility lies with the Assistant Treasurer (Financial Strategy).

[7] legal and regulatory risk management

The Investments Manager will monitor any future regulatory requirements.

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

Systems and procedures are subject to both internal and external audit. In the case of an emergency disabling County Hall, the Investments Manager is able to carry out a limited daily treasury operation from home.

(An audit report with no recommendations was received in January 2004.)

[9] market risk management

Decisions on investment in tradeable securities, which risk loss of capital, will only be authorised by the *Treasury Management Group*.

(There were no purchases or sales of tradeable securities in the year.)

TMP2

Cash management returns are benchmarked against the 7-day rate each year.

(The average return achieved was 3.63% against a benchmark of 3.54%.)

The target for borrowing rates is to achieve a managed decline in the average rate and borrow each year close to the lowest rate available.

(The average borrowing rate declined from 7.68% to 7.48% during the year.

£10 million was borrowed from the PWLB at 4.35% for 15 years. For this period rates varied during the year between a high of 5.25% and a low of 4.05 %.

TMP3

Meetings of the Treasury Management Group will be serviced and minuted by the Investments Manager.

TMP4

The Director of Resources is authorised to borrow and make early repayments within the limits, and by any instrument allowed by statute. In particular this includes:-

- (a) by overdraft or short-term loan from an authorised Bank;
- (b) by loan from a bank, merchant bank, bank subsidiary, local authority, nationalised industry, building society or other organisation of acceptable financial standing;
- (c) the PWLB;
- (d) loan instruments, including transferable loans up to five years duration and non-transferable of no fixed duration;
- (e) accepting deposits from charities and individuals; and
- (f) by any other means approved by the Secretary of State.

TMP5

Responsibilities:

Treasury Management Group

This group comprising the Director of Resources, the Assistant Treasurer (Financial Strategy and Accounting) and the Investments Manager shall be responsible for the function of Treasury Management as defined in the *Treasury Management Policy Statement*. In particular it will:-

- (a) authorise the use of borrowing instruments;
- (b) set borrowing and lending strategies for the Investments Manager;
- (c) authorise deletions from the *Approved Lending List*;
- (d) monitor external borrowing levels against the Council's agreed limits;
- (e) monitor cash management and debt management performance.

The Investments Manager is responsible for day to day decisions within the parameters set by the *Treasury Management Policy Statement* and decisions of the *Treasury Management Group*.

Cash Flow

The *Treasury Management Group* will receive annual and weekly cash flow forecasts.

The officer dealing on the money market each day must prepare a cash flow forecast for that day based on the most up-to-date information available and this must be checked by another officer under the responsibility of the Investments Manager before that day's deals are carried out.

Dealing Procedures

Deals must be actioned in accordance with the office procedural manual and be within the limits set out in **TMP1**. Dealing staff must be aware of the principles set out in the "London Code of Conduct" published by the Bank of England.

Documentation

Deals must be documented in accordance with the office procedural manual.

Transmission Procedures

The transfer of funds will be actioned in accordance with the procedural manual under the responsibility of the Investments Manager. The authorisation of a County Council cheque signatory is necessary before funds may be transferred. The Investments Manager will not be an authorised cheque signatory for this purpose.

Limits to Decision making

Individual deal limits specified in **TMP1** apply to all staff dealing on the money market.

Any borrowing or lending for periods greater than three months may only be actioned on the authority of a member of the *Treasury Management Group*.

Counterparty Limits

Money may only be lent to organisations listed on the *Approved List*.

TMP6

The Cabinet Member for Finance and Property and the County Council will receive annual reports on strategy.

The Cabinet Member for Finance and Property and the County Council will receive annual reports on performance of the Treasury Management function.

The Cabinet Member for Finance and Property will receive quarterly reports on performance.

The Treasury Management Group will receive quarterly reports on policy and performance.

Members of the Treasury Management Group will be informed immediately of any breach of the principles contained in **TMP5**.

TMP7

Treasury Management Budget

	Budget £000	Actual £000
In-house (16% of Investments Section)	26	26
Reuters	7	7
Fitch IBCA	2	2
Performance Measurement	4	0
Gross Expenditure	39	35
Income for advice to Police Authority	-5	-5
Net Expenditure	34	30

TMP8

Annual and weekly Cash Flow forecasts are submitted to the Treasury Management Group.

TMP9

Suspicious that a third party is attempting to involve the County Council in a "money laundering" operation should be reported to the Assistant Treasurer (Audit).

(None were reported)

TMP10

Requests and suggestions for training may be discussed at any time with the Investments Manager. It is also a standard item at annual PRD meetings.

TMP11

Reuters are used for Money Market and Gilt on-line information.

Fitch IBCA is used for Credit ratings.