



meeting      **COUNTY COUNCIL**

date            **28 FEBRUARY 2008**

agenda item number

## **REPORT OF THE STRATEGIC DIRECTOR OF RESOURCES**

### **TREASURY MANAGEMENT POLICY AND STRATEGY STATEMENT**

#### 1.    **Purpose**

- 1.1    To report the policy and strategy for Treasury Management for the next year.

#### 2.    **Background**

- 2.1    In 2002 the County Council adopted a CIPFA Code of Practice on Treasury Management.
- 2.2    As with the previous procedure, two annual reports are required: one on Policy & Strategy and a second on Activity. This report on Policy & Strategy, is for the financial year commencing 1 April 2008. The treasury management policy for 2008/9 is shown at Appendix A.
- 2.3    The Budget Report includes reference to the Prudential Code of Practice developed by CIPFA. This Code requires four Treasury Management Indicators to be reported and these are included in Appendix C.
- 2.4    Also attached to this report is the Treasury Management Strategy for 2008/9 (Appendix D) and the Approved List of counterparties for lending purposes (Appendix B).

#### 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 CIPFA Code of Practice on Treasury Management continue to be adopted.
- 4.2 That the Treasury Management Policy Schedule, Approved List, Strategy and Treasury Management Indicators be approved.

**ARTHUR DEAKIN  
STRATEGIC DIRECTOR OF RESOURCES**

**Background Papers available for inspection**

Nil

**APPENDIX A**

**Treasury Management Policy**

**TMP1 Schedule**

## **[1] liquidity risk management**

Monitoring daily by the Investments Manager and quarterly reports to the *Treasury Management Group* comprising the Strategic Director of Resources, the Head of Service (Investments) and the Investments Manager.

## **[2] interest rate risk management**

## **[3] exchange rate risk management**

## **[4] inflation risk management**

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

## **[5] credit and counterparty risk management**

### ***Policy***

The general policy is to invest surplus funds prudently, giving priority to security and liquidity rather than yield and investing in sterling instruments only.

### ***Approved List***

Attached as Appendix B 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;
- (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;
- (v) The Co-operative Bank (as the County Council's bank) and other local authorities; and
- (vi) AAA rated Money Market Funds.

The Strategic Director of Resources may remove any organisation from the *Approved List* but additions require Cabinet Member for Finance and Property approval. Some investments may involve opening accounts with the counterparties.

### ***Specified Investments***

Guidance issued by the Office of the Deputy Prime Minister (ODPM) suggests classifying investments between specified and non-specified. The former are investments offering high security and liquidity and should be in sterling with a maturity of no more than a year. Investments with local authorities or bodies with high credit ratings are specified investments. All investments (up to one year duration) with the counterparties in the *Approved List* are considered specified investments apart from those with the Co-operative Bank which does not have the same rating attributed by Fitch as the others listed.

### ***Non-specified Investments***

These are investments with a maturity of longer than a year or with less highly rated institutions. Because of the greater potential risk of these

investments, it is proposed to limit the amounts invested in non-specified investments as follows:

1. Investments over one year - £20 million or 25% of the total invested at the time of the investment, whichever is the higher.
2. Investments with the Co-operative Bank – subject to the individual limits set out below.

### ***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

These limits apply at the time the investment is made. On occasions when there are insufficient borrowers in the market at current market rates, the Strategic Director of Resources may authorise up to £10 million above these limits to the County Council's bankers for a period not exceeding 7 days.

### ***Authorisation***

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

### **[6] refinancing risk management**

Responsibility lies with the Head of Service (Investments).

### **[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.

### **[9] market risk management**

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

#### **TMP2**

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

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.

#### **TMP3**

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

#### **TMP4**

The Strategic 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 Strategic Director of Resources, the Head of Service (Investments) 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**

	£000
In-house (16% of Investments Section)	30
Reuters	2
Fitch	2
<b>Gross Expenditure</b>	<b>34</b>
Income for advice to Police Authority	-4
<b>Net Expenditure</b>	<b>30</b>

**TMP8**

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 Head of Service (Investments).

**TMP10**

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

**TMP11**

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

Fitch is used for Credit ratings.

**TMP12**

The treasury management function and its activities will be undertaken with openness, honesty, integrity and accountability with regular reporting to Council.

The County Council has adopted and implemented the key recommendations of the Code.

Policy & Strategy and Activity Reports are each reported to the County Council each year.

**NOTTINGHAMSHIRE COUNTY COUNCIL APPROVED LENDING LIST****Appendix B  
01-Apr-08****1. UK BASED INSTITUTIONS RATED F1 SHORT TERM AND SUPPORT 1 OR 2 BY FITCH IBCA**

1	Abbey National plc	United Kingdom
2	Bank of Scotland plc	United Kingdom
3	Barclays Bank plc	United Kingdom
4	HSBC Bank plc	United Kingdom
5	Lloyds TSB Bank plc	United Kingdom
6	Nationwide Building Society	United Kingdom
7	Royal Bank of Scotland plc	United Kingdom
8	Credit Suisse International	United Kingdom

**2. UK BASED WHOLLY-OWNED SUBSIDIARIES OF INSTITUTIONS IN (1) ABOVE**

9	Ulster Bank Ltd	United Kingdom
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**3. OVERSEAS BANKS RATED SHORT TERM F1 AND SUPPORT 1**

10	Dexia Bank Belgium	Belgium
11	Fortis Bank	Belgium
12	Bank of Montreal	Canada
13	Bank of Nova Scotia	Canada
14	Canadian Imperial Bank of Commerce	Canada
15	Royal Bank of Canada	Canada
16	Toronto-Dominion Bank	Canada
17	Danske Bank	Denmark
18	BNP Paribas	France
19	Calyon	France
20	Societe Generale (SG)	France
21	Bayerische Landesbank	Germany
22	Deutsche Bank AG	Germany
23	DZ Bank AG Deutsche Zentral-Genossenschaftsbank	Germany
24	HSH Nordbank AG	Germany
25	Landesbank Baden-Wuerttemberg	Germany
26	Landesbank Hessen-Thueringen Girozentrale	Germany
27	Norddeutsche Landesbank Girozentrale	Germany
28	Allied Irish Banks plc	Ireland
29	Bank of Ireland	Ireland
30	IIB Bank Limited	Ireland
31	ABN Amro Bank NV	Netherlands
32	ING Bank NV	Netherlands
33	Rabobank Group	Netherlands
34	Banco Santander Totta	Portugal
35	Skandinaviska Enskilda Banken	Sweden
36	Svenska Handelsbanken	Sweden
37	Credit Suisse	Switzerland
38	UBS AG	Switzerland
39	Citibank NA	USA
40	JPMorgan Chase Bank NA	USA

**4. OTHERS**

Local Authorities  
Co-Operative Bank

**5. AAA RATED MONEY MARKET FUNDS**

AIM Global  
Barclays Global Investors



**Prudential Limits Monitoring****1. Prudential Indicators**

Below is a table of Treasury management indicators, reported to Council in March 2006, and external debt indicator included in the 2006/07 Budget, together with the position as at 31 March 2007. All indicators were satisfactorily within their limits.

<b>Indicator</b>	<b>2006/7</b>	<b>Position at 31/03/07</b>	<b>Limit adhered to</b>
1.(a) Upper borrowing limit for fixed interest rate exposures - borrowing	100%	100%	Yes
1.(b) Upper limit for fixed interest rate exposures - investments	100%	100%	Yes
2.(a) Upper borrowing limit for variable interest rate exposures - borrowing	100%	0%	Yes
2.(b) Upper limit for variable interest rate exposures - investments	25%	0%	Yes
3.(a) Upper limit for debt maturity	25%	12%	Yes
3.(b) Lower limit for debt maturity	0%	0%	Yes
4. Upper limit for investments over 364 days	10%	0%	Yes

Authorised limit for external debt	£337m.	£255m.	Yes
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## **APPENDIX D**

### **Strategy for 2008/9**

#### **1. Borrowing**

PWLB rates for 25 year periods have been in the range 4.4% to 5.3%, whilst shorter dates have been as high as 5.9%. Interest rates on LOBO loans from Commercial Banks also increased substantially during 2007/8.

This was as expected in this report last year and so, as forecast, no borrowing was taken. In fact borrowing levels were reduced when the holder of one of our LOBOs exercised their option to request an increase in interest rate and we exercised our option to repay the £10 million. The interest rate paid on this loan at 4.20% was the second highest of our ten loans and the lender wanted an increase to 4.51%. We hope to re-borrow at less than 4.00% in 2008/9.

At the point of writing this report the County Council's draft capital programme assumes borrowing in 2008/9 of around £70 million with around another £20 million in the following year. Cash levels are still relatively high due mainly to pension fund cash balances and various balance sheet reserves. However, over half of the pension fund cash balances and some balance sheet reserves will be used early in the new financial year, so it is expected that further borrowing will be required in 2008/9. PWLB and LOBO borrowing rates are expected to decline slightly over the year, so opportunities will be taken to borrow with a target of funding below 4.00%. Should rates not decline as far as hoped for and at a point that funding is required, then short-term variable-rate borrowing will be used until rates decline to acceptable levels.

#### **2. Lending**

The Bank Base Rate started 2006/7 at 5.25% and, after two further rises and then two reductions, is likely to end the year at the same level. There are also expectations of further declines in 2008/9.

With cash resources declining and existing loans out for longer periods to take advantage of earlier higher interest rates, there will be fewer future opportunities to lend longer for advantage