Part I
Release to Press

Stevenage
BOROUGH COUNCIL

Meeting: **AUDIT COMMITTEE**

Date: **17 March 2009**

Agenda Item:
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TREASURY MANAGEMENT STRATEGY (REVISED)

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1 PURPOSE

1.1 To update Members on the changes to the Treasury Management Strategy (Appendix One) approved by the February Council.

1.2 To update Members on recommended changes to the Treasury Management Strategy, since its approval at February Council.

2 RECOMMENDATIONS

2.1 To note the Treasury Management Strategy approved by Council in February 2009.

2.2 To note the further revisions to the Treasury Management Strategy and recommend it to Council for approval.

3 BACKGROUND

3.1 The report approved at the February Council was an update to the changes made to the Strategy in October. At that time, the limit for investments was lowered and lending was restricted to one year to reflect the issues raised by the Icelandic banking collapse. However the measures introduced have led to restrictions on the institutions with which the Council was able to invest. As a result, Council approved some relaxation to the limits and time periods for the revised lending list. the changes to the Strategy are detailed in Appendix One (paragraph 4.2.8). These were:

- The lending limit is returned to £7.5Million per banking group
- Investments can be dealt for up to five years with the Strategic Director (Resources) approval and limited to those institutions which appear on the Debt Management Office (DMO) web site. (Appendix E of Appendix One).

Members at the February Executive recommended that the Treasury Management Strategy be referred to the March Audit Committee for comment.

3.2 Since the Strategy was approved at the February Council, more institutions have been removed from the lending list. This is because a number of British Banks have been given substantial loans by the British Government. As a result, they have fallen outside the Council's lending criteria.

4 REASONS FOR RECOMMENDED COURSE OF ACTIONS AND OTHER OPTIONS

4.1 Due to the current economic problems, the British Government has provided loans to several British Banks. This has changed their individual ratings with the result that they fall outside the criteria used by the Council, so they no longer form part of the monthly list used as an initial basis for making investments.

4.2 British Banks which receive Government support fall into two categories

Fully Nationalised banks These include banks such as Northern Rock and Bradford and Bingley. These banks do not conform to the credit criteria used within the Strategy to identify banks which are of the highest credit worthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone strength. Accordingly, Fitch has assigned an 'F' rating which means that the banks have failed at an historic point in time (and are now owned by the Government). However, these institutions are now the recipient of an F1+ short term rating as they effectively take on the the creditworthiness of the Government itself, i.e. deposits made with them are essentially being made to the Government. They also have a support rating of one; in other words on both counts, they have the highest ratings possible.

Partially Nationalised These banks are not fully nationalised, but receive substantial support from the Government. Royal Bank of Scotland (RBS) falls into this category, in this case the individual rating is E, i.e. the Fitch definition is 'A bank which requires external support'. Royal Bank of Scotland (RBS) is currently 57% owned by the Government and this will rise to 68% after the forthcoming rights issue.

The enlarged Lloyd's Banking Group of which Bank of Scotland is a part, is 43% owned by the Government and it is thought that this is likely to increase. So, although the Bank of Scotland has high ratings in all aspects apart from the it's individual rating it fails the Council's criteria, its individual rating being C/D. While the Council can still invest with Lloyds TSB, it is on 'negative watch' which is indicative that its rating may fall and as a result would avoid investing with them.

4.3 It is becoming increasingly difficult to find banks which meet the Council's credit criteria. Many banks are now part of the same group and lending limits pertain to the group, rather than the bank. There are also fewer names in general which meet the credit criteria. Several British banks now have substantial Government support, but fall outside the current criteria due to their individual rating. The Treasury Management options to invest are substantially reduced and this is causing problems in placing investments. This situation would be improved if the Council

were able to invest in these Government supported institutions. If approval is not granted to use the banks which receive Government assistance, then the Council will have to use the Debt Management Office (DMO) which would result in substantially less interest than currently received. On 26 February, the Council would be able to obtain 2% for three months on the money market as opposed to 0.45% with the DMO.

5 IMPLICATIONS

5.1 Financial Implications

If approval is not given to use British banks which receive Government backing, the Council will need to use the DMO. The consequence being that the Council will receive reduced income at a time when interest rates are at an all time low.

5.2 Legal Implications

None

BACKGROUND PAPERS

- Sector Bulletins
- Fitch Rating updates

APPENDICES

- Appendix One
- Appendix A to Appendix One
- Appendix B to Appendix One
- Appendix C to Appendix One
- Appendix D to Appendix One
- Appendix E to Appendix One