

Meeting: Council
Portfolio Area: Resources
Date: 30 June 2004

TREASURY MANAGEMENT STRATEGY
(Chief Executive's Department)

KEY DECISION

Author – Catherine Jewsbury Ext.No. 2351
Lead Officer – Scott Crudgington Ext.No. 2185
Contact Officer – Peter Shawcroft Ext.No. 2430

1 PURPOSE

1.1 To seek approval to the 2004/05 Treasury Management Strategy.

2 RECOMMENDATIONS

2.1 That the 2004/05 Treasury Management Strategy and the associated Prudential Indicators covering Fixed and Variable Interest Rate Exposure, Maturity Structure of Borrowing and Principal Funds Invested for Periods Longer than 364 days, be adopted .

3 BACKGROUND

In previous years, as part of the requirements of the CIPFA Code of Practice on Treasury Management, the Executive has considered an annual Treasury Management Statement. The Prudential Code has introduced new requirements for the manner in which capital spending plans are to be considered and approved and in conjunction with this, the development of an integrated treasury management strategy.

Due to the guidance being issued shortly before the start of 2004/05, approval by full Council was not possible prior to the start of the year and this report was approved at the March Executive. In future years, to comply with the Secretary of State's regulations, the report will be taken to the February Council.

Paragraph 4.2 Prospects for Interest Rates has been updated and an additional Appendix (Appendix B) detailing the various instruments comprising Specified and Non-Specified Investments has been added to the report.

The Prudential Code requires the Council to set a number of Prudential Indicators, certain of which replace the borrowing/variable interest limits previously determined as part of the Treasury Management Strategy, whilst also extending the period covered from one to three years. This report therefore incorporates the indicators to

which regard should be given when determining the Council's treasury management strategy for the next 3 financial years.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Prudential Indicators

The following Prudential Code Indicators form part of the Treasury Management Strategy. Indicators 4.1.1 through to 4.1.5 were approved at Council on 25 February 2004.

4.1.1 Authorised limit for external debt.

	2004/05 £000's	2005/06 £000's	2006/07 £000's
Borrowing	15,000	15,000	15,000
Other Long Term Liabilities	Nil	Nil	Nil

4.1.2 The code also requires an Operational Limit to be set which can be less than the Authorised Limit. However, in this Council's circumstances it is recommended that the Operational Limit equates to the authorised Limit.

4.1.3 The Council has adopted the CIPFA Code of Practice for Treasury Management and manages its treasury position in terms of borrowings and investments in accordance with the code.

4.1.4 Upper limit of variable interest rate exposure as a percentage of total debt

2004/05	2005/06	2006/07
100%	100%	100%

4.1.5 Short term borrowing limits

	2004/05 £000's	2005/06 £000's	2006/07 £000's
Borrowing	15,000	15,000	15,000

4.1.6 Interest Rate Exposure

Fixed Interest Rate This is defined as the maximum principal sums outstanding at fixed rates, less the principal sums outstanding in respect of investments that are fixed rate investments. As the Council is debt free, this is a negative figure. As an external fund manager is employed, it is felt that more meaningful figures are obtained if the internal and external funds are shown separately.

	2004/05 £000's	2005/06 £000's	2006/07 £000's
SBC	-25,000	-25,000	-25,000
Fund Manager	-26,000	-27,000	-28,000

Variable Interest Rate This is defined as above, but substituting 'variable rates' for 'fixed rates'

	2004/05 £000's	2005/06 £000's	2006/07 £000's
SBC	-10,000	-10,000	-10,000
Fund Manager	-26,000	-27,000	-28,000

4.1.7 Maturity Structure of Borrowing

As the Council is debt free, this indicator does not apply.

4.1.8 Total principal sums invested for periods longer than 364 days.

	2004/05 £000's	2005/06 £000's	2006/07 £000's
SBC	0	5,000	5,000
Fund Manager	17,000	27,000	28,000

4.2 Prospect for Interest Rates

The financial year started with the base rate at 3.75%, in July this was reduced to 3.5%, but due to the high level of consumer spending and associated debt, the rate was increased to 3.75% in November, with a further increases to 4% in February 2004, 4.25% in May and 4.5% in June. Interest rate expectations indicate further increases later in the year and in the first quarter of 2005. Current investment rates are as below.

One week	4.44%
One month	4.52%
Three months	4.72%
Six months	4.96%
One Year	5.28%

The Council has budgetted for an average return on investments for 2004/05 of 4%.

4.3 Investment Strategy

In May 1999, £20m was placed with an external fund manager. At 31 January 2004, the fund value including reinvested interest was £24.85m. A return on the investment of 4.5% has been forecast for 2004/05. During January 2004, the holding in Gilts was sold, moving to short dated CDs. At present, no immediate scope for Gilt prices to advance is foreseen, but UK and international factors will be monitored, to decide whether to re-enter the Gilt market.

From time to time, the Fund Manager has invested in Supranational Bonds. Under the Prudential Code, these were initially defined as capital investments which would have made them unsuitable for SBC use, however they have now been reclassified as revenue investments.

The balance of the investments are managed in-house. The principal consideration when undertaking an investment in-house is the Council's cash flow requirements, ie investments are scheduled to mature on a date when it is known large cash flows will occur. When surplus cash becomes available for investment, it is used to maintain a balanced investment portfolio in terms of durations in order to smooth out short-term movements in base rates. Due to the transitional arrangements in place for the first three years, it is not expected that the pooling of capital receipts will have a significant effect on the funds available for investment in the short term.

A list of banks and building societies, which currently meet our credit worthiness is attached at Appendix A.

A list of the types of instruments comprising Specified and Non-Specified Investments is attached at Appendix B.

4.4 Strategy – Summary

- a) That the Prudential Indicators be adopted and kept under review.
- b) That surplus funds are invested according to Treasury Policy
- c) That the use of the external fund manager is kept under review.

5 IMPLICATIONS

5.1 Financial Implications

The report is of a financial nature and outlines the Prudential Indicators and the principals under which the Treasury Management functions are managed.

5.2 Legal Implications

None.

BACKGROUND DOCUMENTS

- CIPFA Prudential Code for Capital Finance in Local Authorities
- Sector Treasury Management Documents

APPENDICES

- Lending List Appendix A
- Specified and Non-Specified Investments Appendix B

Stevenage Borough Council Lending List

Institution	Country	Max Length of Deposit
Australia and New Zealand Banking Group Ltd	Australia	2yr
Commonwealth Bank of Australia	Australia	5yr
National Australia Bank Ltd	Australia	5yr
Westpac Banking Corporation	Australia	2yr
Raiffeisen Zentralbank Osterreich AG	Austria	6mth
Bank Brussels Lambert	Belgium	6mth
Dexia Bank	Belgium	5yr
Fortis Bank NV	Belgium	2yr
KBC Bank NV	Belgium	2yr
Bank of Montreal	Canada	2yr
Bank of Nova Scotia	Canada	2yr
Canadian Imperial Bank of Commerce	Canada	2yr
National Bank of Canada	Canada	1yr
Royal Bank of Canada	Canada	5yr
Toronto Dominion Bank	Canada	2yr
Danske Bank AS	Denmark	2yr
Jyske Bank	Denmark	1yr
Nordea Bank Danmark (name changed from Unibank A/S).	Denmark	2yr
Nordea Bank Finland plc (name changed from Merita Bank Ltd)	Finland	2yr
BNP Paribas	France	5yr
Banque Sanpaoic	France	6mth
CIC Group	France	6mth
Credit Agricole (Caisse Nationale de)	France	5yr
Credit Agricole Indosuez	France	1yr
Credit Lyonnais	France	2yr
Dexia Credit Local	France	5yr
Natexis Banque Populaires	France	6mth
Societe Generale	France	2yr
Bayerische Landesbank Girozentrale	Germany	6mth
Deutsche Bank AG	Germany	1yr
HSH NordBank	Germany	1yr
Landesbank Baden-Wuerttemberg	Germany	1yr
Landesbank Berlin Girozentrale	Germany	6mth
Landesbank Hessen Thuringen Girozentrale (Helaba)	Germany	1yr
Landesbank Rheinland-Pfalz Girozentrale	Germany	1yr
Landwirtschaftliche Rentenbank	Germany	1yr
Norddeutsche Landesbank Girozentrale	Germany	1yr
Rheinhyp Rheinische Hypothekenbank AG	Germany	6mth
SEB AG	Germany	6mth
WestLB AG	Germany	6mth
Banca Cassa di Risparmio di Torino SpA (Banca	Italy	6mth

CRT)		
Banca Intesa	Italy	6mth
Banca Monte dei Paschi di Siena	Italy	6mth
Cariverona Banca SpA	Italy	6mth
San Paolo IMI SpA	Italy	2yr
UniCredito Italiano SpA	Italy	2yr
Banque et Caisse d'Epargne de l'Etat	Luxembourg	6mth
Banque Generale du Luxembourg SA	Luxembourg	2yr
Clearstream Banking	Luxembourg	6mth
Dexia Banque Internationale a Luxembourg SA	Luxembourg	5yr
ABN AMRO Bank NV	Netherlands	2yr
Bank Nederlandse Gemeeter	Netherlands	5yr
ING Bank NV	Netherlands	2yr
NIB Capital Bank NV	Netherlands	5yr
Rabobank International	Netherlands	2yr
Den Norske Bank ASA	Norway	6mth
Nordea Bank Norge ASA (named changed from Christiania Bank og Kreditkasse)	Norway	5yr
Banco Commercial Portugues SA	Portugal	1yr
Banco Espirito Santo a Comercial de Lisboa (BES)	Portugal	1yr
Banco Totta e Acores SA	Portugal	1yr
Caixa Geral de Depositos SA	Portugal	2yr
Allied Irish Banks plc	Rep of Ireland	2yr
Bank of Ireland	Rep of Ireland	2yr
DePfa Bank plc	Rep of Ireland	6mth
Irish Life & Permanent plc	Rep of Ireland	6mth
Irish Intercontinental Bank Ltd (IIB Bank)	Rep of Ireland	1yr
Banco Bilbao Vizcaya Argentaria	Spain	2yr
Banco de Sabadell SA	Spain	6mth
Banco Santander Central Hispano	Spain	2yr
Confederacion Espanola de Cajas de Ahorros	Spain	2yr
Caja de Ahorros de Galicia (Caixa Galicia)	Spain	6mth
Nordea Bank Sweden (name changed from Nordbanken AB)	Sweden	2yr
Skandinaviska Enskilda Banken AB (publ)	Sweden	6mth
Svenska Handelsbanken AB (publ)	Sweden	2yr
ForeningsSparbanken AB (publ)	Sweden	1yr
Credit Suisse First Boston	Switzerland	2yr
UBS AG	Switzerland	5yr
3i Group	UK	6mth
Abbey National plc	UK	2yr
Abbey National Treasury Services plc	UK	1yr
Alliance & Leicester plc	UK	6mth
Bank of New York Europe Ltd	UK	6mth
Bank of Scotland	UK	5yr
Barclays Bank plc	UK	5yr
Bradford and Bingley	UK	6mth
Bristol & West plc	UK	2yr
Cheltenham and Gloucester plc	UK	6mth
CIBC World Markets plc	UK	6mth

Citibank International Plc	UK	6mth
Citigroup Global Marketing Inc	UK	5yr
Clydesdale Bank	UK	6mth
Co-Operative Bank plv	UK	6mth
Credit Suisse First Boston International	UK	6mth
Egg Banking	UK	6mth
Halifax plc	UK	5yr
HBOS Treasury Services plc	UK	1yr
HSBC Bank plc	UK	5yr
Lloyds TSB Bank plc	UK	5yr
Merrill Lynch International Bank Ltd	UK	6mth
National Westminster Bank plc	UK	5yr
Northern Rock plc	UK	6mth
Royal Bank of Scotland plc	UK	5yr
Ulster Bank Ltd	UK	6mth
Bank of America NA	US	5yr
Bank of New York	US	2yr
Citibank NA	US	5yr
JP Morgan Chase Bank	US	6mth
State Street Bank and Trust Company	US	1yr
Building Societies		
Britannia BS	UK	6mth
Coventry BS	UK	6mth
Nationwide BS	UK	2yr
Principality BS	UK	6mth
Skipton BS	UK	6mth
Yorkshire BS	UK	6mth

SUPRANATIONAL INSTITUTIONS with credit ratings		
African Development Bank		1yr
Asian Development Bank		1yr
Caribbean Development Bank		1yr
European Atomic Energy Community		1yr
European Bank for Reconstruction and Development		1yr
European Coal and Steel Community		1yr
European Community		1yr
European Investment Bank		1yr
Inter American Development Bank		1yr
International Bank for Reconstruction and Development		1yr
International Finance Corporation		1yr

STEVENAGE BOROUGH COUNCIL
SPECIFIED AND NON-SPECIFIED INVESTMENTS

<p align="center">Specified Investments <i>(all maturities for specified investments will be up to 1 year)</i></p>	<p align="center">Non Specified Investments Maximum of the Council's overall investments in this category will be 50%</p>
<p>1. Deposits with the Debt Management Agency Deposit Facility <i>Use : in-house</i></p>	<p>1. Term deposits with <ul style="list-style-type: none"> ▪ the UK government, ▪ UK local authorities, ▪ credit-rated banks and building societies (including callable deposits, forward deals) with maturities greater than 1 year <i>Use : in-house</i></p>
<p>2. Term deposits with <ul style="list-style-type: none"> ▪ the UK government, ▪ UK local authorities, ▪ credit-rated banks and building societies (including callable deposits and forward deals) <i>Use : in-house and by fund managers</i></p>	<p>2 Certificates of Deposit issued by credit-rated banks and building societies with maturities greater than 1 year <i>Use : by fund managers</i></p>
<p>3. Certificates of Deposit issued by credit-rated banks and building societies. <i>Use : by fund managers</i></p>	<p>3 UK government gilts with maturities in excess of 1 year. <i>Use : by fund managers</i></p>
<p>4. Gilts <i>Use : by fund managers</i></p>	<p>4. Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (as defined in SI 2004 No 534) <i>Use : in-house on a 'buy and hold' basis only. Also for use by fund managers</i></p>
<p>5. Money Market Funds <i>Use : in-house and by fund managers</i></p>	<p>5. Bonds issued by multilateral development banks (as defined in SI 2004 No 534) <i>Use : in-house on a 'buy and hold basis' only. Also for use by fund managers</i></p>
<p>6. Gilt Funds and other Bond Funds <i>These are open-end mutual funds investing predominantly in UK govt gilts and corporate bonds. These funds do not have any maturity date.</i> Before use, to ensure it is not a body corporate by virtue of its set-up structure <i>Use : by fund managers</i></p>	<p>6 Sovereign bond issues (other than UK govt gilts) : any maturity, sterling-denominated, rating meeting the council's credit criteria <i>Use : by fund managers</i></p>
<p>7. Treasury bills <i>Use : by fund managers</i></p>	