

# Audit Committee

5th December 2008

## Treasury Management



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### Report of Stuart Crowe, County Treasurer [Cabinet Portfolio Member for Corporate Resources, Councillor Michele Hodgson]

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#### Purpose of Report

- 1 In the light of recent concern about local authority short term lending and borrowing, this report presents information on the arrangements in the County Council.

#### Background

- 2 As a matter of routine all authorities lend and or borrow to finance their transactions. Authorities came in for criticism when a number of banks failed or ran into difficulties in the current international financial climate.
- 3 Authorities have some freedom but are required to have regard to guidance and codes of practice.

#### The Position in the County Council

- 4 The County Council sets out and agrees its Treasury Management strategy and policies as part of the Budget process. The current year's information is included in the Budget Book approved by the County Council at its meeting on 26 February 2008. Appendix A sanctions the extract.
- 5 The County Council has currently £251.8m on short term loan. This is made up of funds from the County Council, including Pension Fund and from other organisations.
- 6 The loans are spread between Banks, Building Societies and other organisations as follows:

	£m
Building Societies	140.0
UK Banks	91.8
Overseas Banks	5.0
Other Organisations	15.0
<b>Total</b>	<b>251.8</b>

- 7 The Banks, Building Societies and other organisations used fit the criteria determined in the original strategy. This is further refined by views taken on a range of information available on a weekly basis to inform decisions. This includes the use of short and long-term ratings determined by Moody's and Fitch ratings agencies. Central Accounting staff also receive real-time ratings alerts from Moody's, which notify of any changes to the rating or outlook for any of the organisations on the Council's counterparty list. I am currently involved in the decisions being made by the Central Accounting staff twice per week in the current climate.
- 8 The County Council has borrowing totalling £172.8m. The debt profile is set out in the following table:

	<b>£m</b>
Payable within current and next financial years	1.4
Payable between 2 and 5 years	2.9
Payable between 5 and 10 years	0.9
Payable after 10 years	167.6
<b>Total</b>	<b>172.8</b>

- 9 Decisions to borrow are delegated to me. They are made on the basis of resources available to the Council, planned spending on capital, government supported borrowing, interest rates available both from PWLB and from other organisations.

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27<sup>th</sup> November 2008  
p/reports/ct25-08

**Extract from Budget Book 2008/09 (Annex M)**

**Treasury Management Policy Statement**

- 1 Durham County Council defines its treasury management activities as:  
  
*“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.*
  
- 2 Durham County Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
  
- 3 Durham County Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

## **Treasury Management Strategy 2008/09**

The CIPFA Code of Practice for Treasury Management in the Public Services recommends that the County Council draw up an annual Treasury Management Strategy before the start of each financial year, which it may vary at any time.

In implementing this strategy, the County Council will give priority to security and liquidity, rather than yield. However the County Council will aim to achieve the highest rate of interest consistent with the proper levels of security and liquidity. In order to achieve this, the strategy deals with the use of specified investments, non-specified investments and the liquidity of investments.

The strategy also covers the County Council's approach to borrowing and the use of external managers.

The main areas of the strategy are as follows:

### **1 Specified Investments**

Specified Investments are defined as those satisfying the following conditions:

- a) Denominated in sterling
- b) To be repaid or redeemed within 12 months of the date on which the investment was made
- c) Do not involve the acquisition of share capital or loan capital in any body corporate
- d) Are made with the UK Government, local authorities, parish councils, community councils, or with a body or in an investment scheme which has been awarded a high credit rating by a credit agency

The County Council will invest surplus money in specified investments, by means only of short-term deposits with the institutions set out below for the amounts, on the terms and conditions and for the periods which the County Treasurer considers most suitable for the County Council. In making investment and repayment arrangements the County Treasurer shall take all responsible action to ensure the security of the sum invested and interest due. In doing so, the County Treasurer will have regard to guidance issued by CIPFA and the Department for Communities and Local Government (CLG).

- (i) UK Government;
- (ii) UK Local Authorities;
- (iii) UK clearing banks and other banks or licensed deposit takers which are 100% owned by a clearing bank;
- (iv) Major building societies (provided that the County Treasurer is satisfied as to financial standing);

- (v) Former major building societies acquiring or having acquired 'bank' or 'public limited company' status;
- (vi) Non-UK banks incorporated in the UK or European Economic Area (EEA) entitled to accept deposits through a branch in the UK, as regulated by the Financial Services Authority (FSA) (provided that the County Treasurer is satisfied as to financial standing);
- (vii) Money Market Funds.

## **2 Non-specified Investments**

Non-specified investments are those not meeting the definition in Section 1 above. It is proposed that during 2008/09 the County Council will not invest in non-specified investments, including those to be repaid or redeemed more than 12 months from the date on which the investment was made.

## **3 Liquidity of Investments**

In normal circumstances:

- a) The maximum period for which funds may prudently be committed is 364 days.
- b) The minimum amount to be held during the financial year in investments other than long-term investments is to be 100% of the County Council's overall investments.

## **4 Short-Term Borrowing**

Money may be borrowed to meet the short-term requirements of the County Council for the amounts, from the sources, on the terms and conditions and for the periods which are considered the most suitable for the County Council.

## **5 Medium and Long-Term Borrowing (Capital Financing)**

Money may be borrowed from the Public Works Loan Board or from other appropriate sources using any appropriate loan instruments permitted by statute, to meet the County Council's requirements, for the amounts, on the terms and for the periods which are considered the most suitable for the County Council.

## **6 External Managers (other than those relating to the Pension Fund)**

The County Council may, upon the recommendations of the County Treasurer, appoint one or more external managers to manage the short-term investment of surplus County Council money. Any such managers appointed are to be bound by this Treasury Management Policy Statement.