

TREASURY MANAGEMENT 2004-2005

Report of: The Strategic Director for Finance & Corporate Services:

WARDS AFFECTED

All

Report Author: Mike Baish

Lead Member

Responsible: Councillor Alex Hollingsworth

Overview and Scrutiny

Council Finance and Performance

Responsibility: Management

Key Decision: No

SUMMARY AND RECOMMENDATIONS

Purpose & Recommendations of the Report

The treasury management strategy and policy Statement for 2004-5 were approved in March /April 2004. This report

requests changes to the counterparty limits set within the strategy in the light of advice from our Treasury advisers,

reports a breach of the investment criteria set out and approved.

Recommendations

The Executive Board/ Council are recommended to:

- a) Note the contents of this report with regard to the breach of limits
- b) Approve the revised lending list attached as appendix A.

1. PROPOSED REVISION OF LENDING LIST

1.1 Background

The Council has up to £60 million invested on the Money Market at any one time and over the course of the first 7 months of the financial year has found it increasingly difficult to get competitive rates within the limits of the current lending list. It is not envisaged that this position is likely to change in the short to medium term. This problem has arisen because of the limits that have been set within the Treasury Management strategy as maximum we can lend to an individual counterparty at any one time. There are always individual counterparties that will pay a slightly higher rate than some of the others, usually the bigger Building Societies, but because of the limit restrictions we can often not take these opportunities.

1.2 Revised Lending List

In consultation with Butlers, our Treasury Consultants, we have looked at the current Lending List which was approved in March 2004. We have reviewed the credit ratings for each counterparty and reviewed the limits in conjunction with this.

It is proposed that:

- For counterparties with a credit rating of F1+/AA- (or equivalent) the maximum limit is increased to £8 million, from a maximum limit of £4million,
- For counterparties with a credit rating of F1/A- (or equivalent), and Building Societies that do not have a credit rating but with an asset base of more than £2 billion, the maximum limit is increased to £5 million, from a maximum limit of £3.5million,
- For all Building Societies, that do not have a credit rating but with an asset base of up to £2 billion, the maximum limit is increased to £2.5 million, from a maximum limit of £1.5 million.

This classification results in the inclusion of several new counterparties to our list.

In addition to increasing these limits we have also revised some of the maximum lending periods to enable us to invest for periods of up to 183 days with some counterparties and 364 days with others.

Appendix A shows the new proposed Lending List.

A further report reviewing the Treasury Management Strategy and Prudential Indicators will be presented to Executive Board on the 10th January 2005.

2. BREACH OF LIMITS

2.1 Background: Treasury Management Practice 1 (5) – Credit and Counterparty Risk Management

This Council adopted the CIPFA Code of Practice for Treasury Management in the Public Sector on 26th March 2002 and applied its principles to all investment activity. In

accordance with the Code, the Strategic Director, Finance and Corporate Services is required to report any breach of investment guidelines.

The Council maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

2.2 Breach of Limit

On the 13th August 2004 an investment was placed with Lambeth Building Society for £2,000,000 for the period to 14th February 2005 at 5.03%.

There was an existing loan already in place with this counterparty for £2,000,000 which did not expire until 1st September 2004. This investment therefore breached the limit for this counterparty for a period of 19 days.

This Counterparty falls into the Non-Specified Investment category with an asset base of at least £2m.

As soon as the investment was placed and the transaction made, the Council's records were updated. At this point the error came to light and was reported to the senior member of staff responsible for Treasury Management. An investigation was undertaken and found that the breach of limits was a simple error, resulting from the day in question being exceptionally busy from a dealing perspective, with several new investments being made. The dealing officer checked the schedule of current investments quickly each time before verbally confirming the new investment and unfortunately in one case missed the existing arrangement.

The error was not in any way due to insufficient systems or procedures. This dealing officer has limited time to check the list before confirming a deal; the brokers require a timely response in order to secure the transaction, whilst the offer is still available. We have counseled the staff within the Treasury section and re-issued the procedure notes relating to this activity, emphasising the importance of rechecking the loans previously made to reduce the risk of a recurrence.

Members should be re-assured that the Council incurred no loss as a result of this breach.

THIS REPORT HAS BEEN SEEN AND APPROVED BY:
Penny Gardner – Business Unit Manager Financial and Asset Management
Alex Hollingsworth – Portfolio Holder
Mark Luntley – Strategic Director, Finance and Corporate Services

Background papers / Information:

- i. CIPFA – The Prudential Code – Part IV Local Government Act 2003
- ii. CIPFA Code of Practice for Treasury Management in the Public Services
- iii. Treasury Management Policy Statement – Executive Board 26th March 2002
- iv. Treasury Management & Prudential Indicators 2004-5 – Executive Board 15.3.2004

APPENDIX A

OXFORD CITY COUNCIL LENDING LIST 2004/2005

Institution	Group	Max Limit	Max Period (days)	Building Societies		CREDIT RATINGS:					
				Assets £000's	UK Asset Ranking	FITCH Long	FITCH Short	Moody's Long	Moody's Short	S & P Long	S & P Short
<u>BUILDING SOCIETIES:</u>											
Assets greater than £2bn											
Britannia B.S		5.0	364	20,864,500	2	A+	F1	A2	P1		
Yorkshire B.S		5.0	364	14,382,006	3	A+	F1	A2	P1	A	A1
Nationwide B.S		8.0	364	83,283,500	1	AA-	F1+	Aa3	P1	A+	A1
Chelsea B.S		5.0	364	7,828,218	6	A	F1	A3	P1		
Coventry B.S		5.0	364	8,936,500	5	A	F1	A2	P1		
Portman B.S (joint with Sun Bank Plc and Staffordshire B.S)		5.0	364	14,098,800	4	A	F1	A2	P1		
Principality B.S		5.0	364	3,574,224	12	A	F1	A2	P1		
Skipton B.S		5.0	364	7,133,434	7	A	F1	A3	P1		
West Bromwich B.S		5.0	364	4,281,600	9	A	F1	A3	P1		
Norwich & Peterborough B.S		5.0	364	2,838,636	14			A3	P1		
Dunfermline B.S		5.0	364	1,869,232	16			A3	P1		
Cheshire B.S		5.0	364	4,022,700	11			A3	P1		
Derbyshire B.S		5.0	364	3,914,468	10			A3	P1		
Leeds & Holbeck B.S		5.0	364	5,362,246	8			A3	P1		
Newcastle B.S		5.0	364	3,076,867	13			Baa1	P2		
Stroud & Swindon B.S		5.0	364	2,076,289	15						
Assets £1bn - £2bn											
Nottingham B.S		2.5	183	1,910,965	17						
Scarborough B.S.		2.5	183	1,287,112	19						
Progressive B.S.		2.5	183	1,014,037	20						
Assets £0.5bn - £1bn											
Cumberland B.S.		2.5	183	935,325	21						
Lambeth B.S.		2.5	183	900,937	22						
* Kent Reliance B.S		2.5	183	837,567	26						
National Counties B.S.		2.5	183	758,389	23						
Cambridge B.S.		2.5	183	660,302	24						
Furness B.S.		2.5	183	667,908	25						
Leek United B.S.		2.5	183	590,298	27						
Hinckley & Rugby B.S.		2.5	183	555,226	28						
Darlington B.S.		2.5	183	544,043	29						
Universal B.S.		2.5	183	503,191	30						
<u>UK CLEARING BANKS & SUBSIDIARIES</u>											
Barclays Bank Group Ltd											
Barclays Bank	Barclays Bank Grp	8.0	364			AA+	F1+	Aa1	P-1	AA	A1+
HBOS Group											
Bank Of Scotland Plc	HBOS Grp	8.0	364			AA+	F1+	Aa2	P1	A+	A1+
Halifax Plc	HBOS Grp	8.0	364			AA+	F1+	Aa2	P1	AA	A1+
Lloyds TSB Group											
Lloyds TSB Bank	Lloyds TSB	8.0	364			AA+	F1+	Aaa	P1	AA	A1+
Royal Bank of Scotland Group											
Royal Bank of Scotland plc	RBOS Grp	8.0	364			AA+	F1+	Aa1	P1	AA	A1+
National Westminster Bank (RB of S)	RBOS Grp					AA+	F1+	Aa1	P1	AA	A1+
Ulster Bank Ireland Ltd (R.B of SCO)	RBOS Grp									AA-	A1+
Ulster Bank Ltd (RB of SCOT)	RBOS Grp							Aa2	P1	AA-	A1+

Institution	Group	Max Limit £M's	Max Period (days)	Building Societies		CREDIT RATINGS:					
				Assets £000's	UK Asset Ranking	FITCH		Moody's		S & P	
						Long	Short	Long	Short	Long	Short
OTHER UK BANKS											
Bank of England		8.0	364							AAA	A1+
Citigroup											
Citibank International Bank	Citigroup	8.0	364			AA+	F1+	Aa1	P1	AA	A1+
Abbey National Plc		8.0	364			AA-	F1+	Aa3	P1	A+	A1+
* Abbey National Treasury Services	Abbey National					AA-	F1+	Aa3	P1		
Alliance & Leicester		8.0	364			AA-	F1+	A1	P1	A+	A1+
* Alliance & Leicester Group Treasury	Alliance & Leicester							A1	P1		
Bank of Ireland											
* Bristol and West PLC	Bank of Ireland					AA-	F1+	Aa3	P1	A-	
National Australia Bank Group											
Clydesdale Bank (Nat Australia Bank)	National Australia Bank	8.0	364					A1	P1		
Deutsche Bank AG		8.0	364			AA-	F1+	Aa3	P1		
HSBC		8.0	364			AA	F1+	Aa2	P1	AA-	A1+
Bradford & Bingley		5.0	364			A+	F1	A1	P1		A2
Northern Rock Plc		5.0	364			A+	F1	A1	P1	A	A1
Cooperative Bank, The		5.0	364			A	F1	A3	P1		
* Egg Bank						A+	F1	A3	P2		
* Heritage Bank Limited						A	F1				
Close Brothers		5.0	364			A	F1				
* Standard Life Bank		8.0	364					A2	P1	A-	A2
MERCHANT BANKS											
* N M Rothchild & Sons		5.0	364			A	F1	Baa1	P2		
* Singer & Friedlander Ltd		5.0	364			A	F1				
* Scroders Plc		5.0	364			A+	F1			A-	A
OVERSEAS BANKS											
Bayerische Landesbank GZ		8.0	364			AAA	F1+	Aaa	P1		
HSH Nordbank ag		8.0	364			AAA	F1+	Aa3	P1	AA-	A1+
Landesbank Baden-Wurtemberg		8.0	364			AAA	F1+	Aaa	P1	AAA	A1+
* Landesbank Hessen-Thuringen Girozentrale						AAA	F1+	Aaa	P1	AA+	A1+
Norddeutsche Landesbank GZ		8.0	364			AAA	F1+	Aa2	P1		A1+
WestLBAG (Guaranteed)						AAA	F1+	Aa2	P1	AA	A1+
Landesbank Berlin		8.0	364			AAA	F1+	Aa3	P1		
Dexia Banque Internationale a Luxembourg		8.0	364			AA+	F1+	Aa2	P1	AA	A1+
* Rabobank		8.0	364			AA+	F1+	Aaa	P1	AAA	A1+
* UBS AG		8.0	364			AA+	F1+	Aa2	P1	AA+	A1+
* Citibank N.A		8.0	364			AA+	F1+	Aa1	A-	AA	A1+
* Commonwealth Bank of Australia		8.0	364			AA	F1+	Aa3	P1	AA-	A1+
* National Australia Bank		8.0	364			AA	F1+	Aa3	P1	AA-	A1+
* Royal Bank of Canada		8.0	364			AA	F1+	Aa2	P1	AA-	A1+
* BNP Paribas		8.0	364			AA	F1+	Aa2	P1	AA	A1+
* Credit Agricole		8.0	364			AA	F1+	Aa2	P1	AA-	A1+
* Calyon		8.0	364			AA	F1+	Aa2	P1	AA-	A1+
* State Street Bank & Trust Co		8.0	364			AA	F1+	Aa2	P1	AA	A1+
* Australia & New Zealand Banking Group		8.0	364			AA-	F1+	Aa3	P1	AA-	A1+
* Westpac Banking Corporation		8.0	364			AA-	F1+	Aa3	P1	AA-	A1+
Fortis Bank		8.0	364			AA-	F1+	Aa3	P1	AA-	A1+
KBC Bank		8.0	364			AA-	F1+	Aa3	P1	A+	A1
* Bank of Montreal		8.0	364			AA-	F1+	Aa3	P1	AA-	A1+
* Bank of Nova Scotia		8.0	364			AA-	F1+	Aa3	P1	A+	A1+
* Toronto-Dominion Bank		8.0	364			AA-	F1+	Aa3	P1	A+	A1
* Canadian Imperial Bank of Commerce Group		8.0	364			AA-	F1+	Aa3	P1	A+	A1
* Danske Bank		8.0	364			AA-	F1+	Aa1	P1	AA-	A1+
Nordea Group		8.0	364			AA-	F1+	Aa3	P1	A+	A1+
Credit Lyonnais		8.0	364			AA-	F1+	Aa3	P1	A-	A2

Institution	Group	Max Limit	Max Period (days)	Building Societies		CREDIT RATINGS:					
				Assets £000's	UK Asset Ranking	FITCH		Moody's		S & P	
						Long	Short	Long	Short	Long	Short
* Societe Generale (SG)		8.0	364			AA-	F1+	Aa3	P1	AA-	A1+
* Allied Irish Banks, plc		8.0	364			AA-	F1+	Aa3	P1	A	A1
* Anglo Irish Bank Corporation		8.0	364			AA-	F1+	A2	P1		
OVERSEAS BANKS Continued											
Bank of Ireland		8.0	364			AA-	F1+	Aa3	P1	A+	A1
DePfa Bank Plc		8.0	364			AA-	F1+	Aa3	P1	AA-	A1+
SanPaolo IMI SpA (Italy)		8.0	364			AA-	F1+	Aa3	P1	A+	A1
Unicredito Italiano SpA		8.0	364			AA-	F1+	Aa2	P1	A+	A1
* ABN AMRO Bank		8.0	364			AA-	F1+	Aa3	P1	AA-	A1+
* Internationale Nederlanden Bank/ING Bank		8.0	364			AA-	F1+	Aa2	P1	AA-	A1+
* Development Bank of Singapore		8.0	364			AA-	F1+	Aa2	P1	A+	A1
* Banco Bilbao Vizcaya Argentaria		8.0	364			AA-	F1+	Aa2	P1	AA-	A1+
* Banco Santander Central Hispano		8.0	364			AA-	F1+	Aa3	P1	A+	A1
* Svenska Handelsbanken		8.0	364			AA-	F1+	Aa1	P1	A+	A1
* Credit Suisse First Boston		8.0	364			AA-	F1+	Aa3	P1	A+	A1
* Bank of America N.A		8.0	364			AA-	F1+	Aa1	P1	AA-	A1+
Bank of New York (the)		8.0	364			AA-	F1+	Aa2	P1		
National Bank of Canada		5.0	364			A+	F1	A1	P1	A	A1
Credit Industriel et Commercial (CIC Group)		5.0	364			A+	F1	A1	P1	A+	A1
* BHF- Bank		5.0	364			A+	F1	Aa3	P1		A2
Irish Intercontinental Bank (IIB Bank)		5.0	364			A+	F1	A1	P1	A	A1
* Banca Monte dei Paschi di Siena		5.0	364			A+	F1	A1	P1	A	A1
* Banco Esquiito Santo		5.0	364			A+	F1	A1	P1	A-	A2
* Banco Commercial Portugues		5.0	364			A+	F1	A1	P1	A-	A2
* ForeningsSparBanken (Swedbank)		5.0	364			A+	F1	Aa3	P1	A	A1
* Skandinaviska Enskida Banken		5.0	364			A+	F1	Aa3	P1	A	A1
* Den Norske Bank		5.0	364					Aa3	P1		
* JP Morgan Chase Bank		8.0	364			A+	F1+	Aa2	P1	AA-	A1+
* Wachovia Bank N A		5.0	364			A+	F1	Aa2	P1	A+	A1
* Bayerische Hypo und Vereinsbank AG		5.0	364			A	F1	A3	P1	A-	A2
Deutsche Genossenschafts-Hypo AG		5.0	364			A	F1	A2	P1	A	A1
* Dresdner Bank, AG		5.0	364			A-	F1	A1	P1	A	A1
Irish Permanent plc		5.0	364					A1	P1		
* Bankgesellschaft Berlin AG		5.0	364			BBB+	F1	A2	P1		

N.B. - No placements to be made without first manually checking current loan arrangements (incl. Dealt ahead loans) against lending limit