

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



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| REPORT REFERENCE NO. | DSFRA/09/9 |
| MEETING | DEVON & SOMERSET FIRE & RESCUE AUTHORITY |
| DATE OF MEETING | 31 MARCH 2009 |
| SUBJECT OF REPORT | TREASURY MANAGEMENT POLICY |
| LEAD OFFICER | Treasurer to the Authority |
| RECOMMENDATIONS | <i>That the revisions to the Devon and Somerset FRA Treasury Management Policy document, as outlined in this report, be approved.</i> |
| EXECUTIVE SUMMARY | <p>The foundation for effective treasury management within the authority is underpinned by the adoption of CIPFA (Chartered Institution of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. This code requires that the authority will create and maintain a Treasury Management Policy Statement, and suitable Treasury Management Practices (TMPs).</p> <p>The Treasury Management Policy for the new combined authority was approved by the Shadow Devon and Somerset FRA, at its meeting held on the 16 March 2007, and subsequently adopted by the full Fire Authority. This report proposes revisions to that policy document relating to two issues.</p> |
| RESOURCE IMPLICATIONS | None |
| EQUALITY IMPACT ASSESSMENT | None |
| APPENDICES | A. Investment Counterparty List |
| LIST OF BACKGROUND PAPERS | Devon and Somerset FRA Treasury Management Policy – March 2007. |

1. **INTRODUCTION**

- 1.1 The foundation for the delivery of effective treasury management within the Authority is underpinned by the adoption of the CIPFA Code of Practice for Treasury Management in the Public Services. Included within this code is the requirement that the Authority will create and maintain, as the cornerstone for effective treasury management;
- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities;
 - Suitable Treasury Management Practices (TMPs), setting out the manner in which the authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.2 The Treasury Management Policy (including TMPs) for the newly created combined authority was considered and adopted by the Shadow Devon and Somerset Fire and Rescue Authority at its meeting held on the 16 March 2007 (Minute SDSFRA/53 refers) and was subsequently ratified by the full Authority at its inaugural meeting on 11 April 2007 (Minute DSFRA/5 refers). Copies of the document as approved are included in the Members' handbook and are available on the Service website (www.dsfire.gov.uk).
- 1.3 This report proposes amendments to the original document to reflect recent changes relating to two specific issues, as highlighted in this report.

2. **TREASURY MANAGEMENT POLICY**

- 2.1 The general statement of the Treasury Management Policy for the authority is;
- The Authority defines its treasury management activities as:
'the management of its cash flow, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks'
 - The Authority 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.
 - The Authority 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 techniques within the context of effective risk management.
- 2.2 This report makes no changes to the general statement of Treasury Management Policy, but proposes changes to the TMPs to reflect recent changes relating to revised credit ratings attached to UK banks which are now financially backed by the government.

3. **REVISED CREDIT RATINGS FOR BANKS IN RECEIPT OF EXTERNAL FINANCIAL SUPPORT**

3.1 Treasury Management Practice 1 (Risk Management) identifies that the Authority will use credit criteria assigned by credit rating agencies to assess credit worthiness of individual investment counterparties. However, given that some banks are now receiving substantial financial support from the government and the credit ratings assigned to those banks do not conform to the credit criteria usually used by local authorities to identify high credit worthiness, it is proposed that paragraph (e) (iii) of TMP 1 be replaced with the following (insertions shown in bold) to enable the Authority to continue to invest with those banks.

(e) Credit and Counterparty Policies

(iii) *The Authority will use credit criteria in order to select creditworthy counterparties for placing investments with. However consideration will be given to the use of building society's that are not credit rated but the decision to invest will be based on asset size rather than a formal rating. **In addition, consideration will also be given to the use of UK banks which are in receipt of financial support from the government, in which case the government guarantees in place will be relied upon rather than individual credit ratings. The form of guarantees in place will either be in the form of an explicit guarantee i.e. a nationalised bank, or an implicit guarantee i.e. those banks included within the government financial support package, issued to ensure the security of the UK banking system.***

3.2 This change will also require a consequential amendment to Treasury Management Practice No 4 (Approved Instruments, Methods and Techniques), which includes as paragraph (b) a list of approved instruments for investment. A revised paragraph (b) (insertions shown in bold) to incorporate those banks with government backing is provided below.

(b) Approved Instruments for Investments

Investments will be with those bodies identified by the Authority for its use through the Annual Investment Strategy.

| <i>Specified Investments (all maturities will be up to 1 year)</i> | <i>Non Specified Investments</i> |
|--|----------------------------------|
| <i>1. Deposits with the Debt Management Agency Deposit Facility</i> | |
| <i>2. Term deposits with the UK government, UK local authorities, credit-rated banks and building societies (including callable deposits and forward deals)</i> | |
| <i>3. Money Market Funds</i> | |
| <i>4. Banks nationalised by the UK Government e.g. Northern Rock</i> | |
| <i>5. UK Banks in receipt of financial support from the government (as at March 2009 – 8 UK banks of Abbey, Barclays, HBOS, Lloyds TSB, HSBC, Nationwide BS, RBS, Standard Chartered)</i> | |

3.3 A revised list of investment counterparties is included as Appendix A.

4. SUMMARY

5.1 This report proposes changes to the authority Treasury Management Policy document which in turn reflect changing circumstances, in particular to approve the continued use of those UK banks, which are now in receipt of some form of government guarantee.

5.2 Whilst the whole document of the revised Treasury Management Policy, including these proposed changes, is not included within this report, a copy can be made available on request. Also, as indicated earlier, the original Treasury Management Policy has been issued to Members as part of the Constitutional Documents Handbook and is available on the Service website.

5.3 Subject to the approval of these changes, a copy of the revised document will be distributed to Members.

KEVIN WOODWARD
Treasurer

List of Approved Counterparties : Ratings as at 13 March 2009

| | Country | Maximum Deposit | Maximum Period | Fitch short-term Rating | Fitch long-term Rating | Fitch individual Rating | Fitch support Rating |
|--|-------------|-----------------|----------------|-------------------------|------------------------|-------------------------|----------------------|
| 1 Fire & Rescue Service Bankers | | | | | | | |
| Barclays Bank PLC | UK | £10m | 3 Months | F1+ | AA- | B | 1 |
| 2 Local Authorities | | | | | | | |
| | UK | £5m | 364days | n/a | | | |
| 3 UK Banks | | | | | | | |
| Abbey National PLC | UK | £5m | 364days | F1+ | AA- | B | 1 |
| Alliance & Leicester | UK | £5m | 364days | F1+ | AA- | B/C | 1 |
| Bank of Scotland (HBOS) | UK | £5m | 3 Months | F1+ | AA- | C/D | 1 |
| Bank of Scotland (Call Account) | UK | £5m | 3 Months | F1+ | AA- | C/D | 1 |
| Debt Management Agency Deposit Facility | UK | £5m | 364days | | | | |
| Clydesdale Bank | UK | £5m | 364days | F1+ | AA- | B/C | 1 |
| Halifax plc | UK | £5m | 364days | F1+ | AA+ | C | 1 |
| HSBC Bank plc | UK | £5m | 364days | F1+ | AA | A/B | 1 |
| Lloyds Bank plc | UK | £5m | 364days | F1+ | AA- | B | 1 |
| 4 Foreign Banks | | | | | | | |
| Deutsche Bank AG | Germany | £3m | 364days | F1+ | AA- | B/C | 1 |
| ING Bank NV | Netherlands | £3m | 364days | F1+ | AA | B | 1 |
| KBC Bank NV | Belgium | £3m | 3 Months | F1+ | A+ | B/C | 1 |
| National Australia Bank Ltd | Australia | £2m | 3 Months | F1+ | AA | B | 1 |
| Total investments in foreign banks | | | | | | | |
| 5 Building Societies | | | | | | | |
| Nationwide BS | UK | £2m | 364days | F1+ | AA- | B | 1 |
| Coventry BS | UK | £2m | 3 Months | F1 | A | B | 3 |
| Leeds BS | UK | £1m | 3 Months | F1 | A | B | 3 |
| Total investments at building societies | | | | | | | |
| 6 Fixed Money Market Funds | | | | | | | |
| Northern Trust Global Investments Ltd | UK | £5m | 364days | | AA+ | | |