

## report

meeting	<b>NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY</b>		
date	<b>30 APRIL 2004</b>	agenda item number	<b>7</b>

### JOINTREPORT OF THE CHIEF FIRE OFFICER AND TREASURER

#### TREASURY MANAGEMENT STRATEGY

##### 1 PURPOSE OF REPORT

The purpose of this report is to report the Treasury Management Policy and Strategy for 2004/5 to the Fire Authority.

##### 2 BACKGROUND

2.1 At its meeting on 14<sup>th</sup> January 2000 the Fire Authority agreed a set of Treasury procedures and a medium term financial strategy which has been used by Officers to manage surplus funds and the Authority's overdraft facility.

2.2 The strategy employed by the Authority to date has been successful in terms of maximisation of interest by the investment of surplus cash balances.

2.3 At the Authority meeting of 13<sup>th</sup> February 2004 the Fire Authority adopted the CIPFA Prudential Code for Capital Accounting which includes within it a number of requirements and obligations regarding treasury management. It is considered appropriate at this time therefore to revisit and reaffirm this policy.

##### 3. CURRENT STRATEGY AND POLICY

3.1 The Authority uses a single main current account, an investment account and a number of local petty cash accounts. All these accounts are held with Barclays Bank PLC and are managed using the on line Business Master II system. This system allows the authority to make transfers to and from accounts in real time and thus allows the current account balance to be maintained for the most part at zero. All surplus funds are held either in the investment account for short periods or are lent out to institutional borrowers over longer periods.

3.2 It was the declared intention to maintain a bank overdraft at a level not exceeding £200,000 and this has been consistently achieved throughout 2003/4 and in earlier years. The prudential code authorised limit for the overdraft was set at £500,000 however it is anticipated that this can be managed at the £200,000 level. Arrangements have been made with the bank for a £200,000 overdraft facility.

3.3 The process of determining investments is broadly as follows:

Cash Budgets are prepared at the end of each month detailing the known cash transactions for the coming month and determining when influxes of cash will be required.

This process reveals where the cash surpluses will appear and allows the Head of Finance and the Finance Officer to determine the lending policy for the coming month. Lending is carried out using two independent brokers (recommended by the County Council) but is restricted to an approved lending list.

On a day to day basis the current bank account is routinely cleared to zero with the balance being placed on deposit.

The current account is examined daily to determine the amount required to clear all transactions that day and transfers are made electronically.

3.4 This procedure has been shown to be robust and has been examined in some detail by both internal and external auditors. Both auditors have expressed their satisfaction at the way the system is working.

3.5 In terms of interest rate risk exposures, that is the extent to which the Authority is exposed to changes in interest rates, were again set out at the February 2004 meeting and are considered sufficiently flexible to enable reasonable returns to be achieved. A summary of these limits is given as Appendix A.

3.6 Reporting and monitoring arrangements will be as set out in the February 2004 report i.e. quarterly in line with budget reporting and reporting on the remaining prudential indicators.

#### **4. APPROVED BORROWERS**

4.1 It is appropriate that the Authority has an approved list of institutions to which it will lend surplus cash. Clearly it is important that the authority is not exposed to any unnecessary risk, whilst at the same time seeking out reasonable rates of interest. The County Council has a list of approved borrowers and the Fire Authority have previously made use of a subset of this list.

4.2 The general policy is to invest surplus funds prudently, giving priority to security and liquidity rather than yield and investing in sterling instruments only thus minimising exchange rate risk.

4.3 Attached as Appendix B is a full list of approved borrowers, the principles behind this list being that they are any of the following:

- i) UK based financial institutions graded F1 short term and Support 1 or 2 by Fitch IBCA;
- ii) UK based wholly owned subsidiaries of institutions in i) above;
- iii) F1 rated UK subsidiaries of overseas F1 short term and support 1 institutions;

- iv) Overseas Banks rated F1 short term and Support 1;
- v) Other Local Authorities;
- vi) AAA rated Money Market Funds.

It may be a requirement to open accounts with some of these institutions particularly in relation to the AAA rated money market funds.

- 4.4 It is proposed that the Head of Resources and Finance be permitted to remove any organisation from the approved list but may not make additions without the approval of the Chair and Vice Chair.
- 4.5 The majority of investments in the past have been very short term i.e. under 6 weeks in term. As the Authority now has balances and reserves it will be necessary to review this position. Nevertheless it is still considered prudent to ensure the cash liquidity of the Authority in the short term and therefore it is proposed that no more than 10% of available investment should be committed beyond 365 days.

## **5. RISK MANAGEMENT IMPLICATIONS**

- 5.1 The investment of Local Authority Funds can not be achieved without some element of risk. However, careful choice of borrowers using established and respected indices can minimise this risk. There will undoubtedly be some interest rate loss as a result of this prudent approach but this is preferable to having any surplus cash balances in more risky ventures. Local Authorities are actually allowed to invest in BBB rated institutions (the lowest investment grade) whereas the institutions proposed in this report are generally rated as F1 and support or AAA which are the highest grades.

## **6. FINANCIAL IMPLICATIONS**

Financial implications are contained within the body of the report.

## **7. PERSONNEL IMPLICATIONS**

- 7.1 There are no Personnel implications in this report.

## **8. EQUAL OPPORTUNITIES IMPLICATIONS**

- 8.1 There are no equal opportunities implications in this report.

## **9. RECOMMENDATIONS**

- 9.1 That Members approve the Treasury Management Strategy set out above.
- 9.2 That members approve the investment limits of no more than 10% of investment being beyond 365 days.
- 9.3 That Members approve the Lending List as set out in Appendix B.

**P Woods**  
**CHIEF FIRE OFFICER**

**A Sumbly**  
**TREASURER**

## **Appendix A**

### **Nottinghamshire and City of Nottingham Fire Authority**

#### **Treasury Management Indicators 2004/5 to 2006/7**

##### **1. Limits for fixed interest rate exposures**

For both investments and borrowing the upper limit has been set at 100% with a lower limit of 30%. It is normal practice to fix interest rates on both borrowing and investment.

##### **2. Limits for variable interest rate exposures**

Again for both borrowing and investment the upper limit has been set at 30% with no lower limit. It may be necessary to change this policy at some time in the future depending on market trends.

##### **3. Debt Maturity**

Debt maturity on borrowing has been set out as:

	Upper Limit	Lower Limit
Under 12 Months	20%	0%
12 Months to 5 Years	20%	0%
5 years to 10 years	75%	0%
Over 10 Years	90%	25%

## NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY

## APPROVED LENDING LIST

**1. UK Based institutions rated F1 short term and support 1 or 2 by Fitch IBCA**

Abbey National plc	United Kingdom
Bank of Scotland	United Kingdom
Barclays Bank plc	United Kingdom
Bristol and West Halifax	United Kingdom
Lloyds TSB Bank	United Kingdom
Nationwide Building Society	United Kingdom
Royal Bank of Scotland plc	United Kingdom

**2. UK Based wholly owned subsidiaries of institutions in (1) above**

Ulster Bank	United Kingdom
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**3. Overseas Banks rated short term F1 and Support 1**

Allied Irish Bank	Ireland
Bank of Ireland	Ireland
IIB Bank Ltd	Ireland
Bankgesellschaft Berlin	Germany
Bayerische Landesbank	Germany
Deutsche Bank AG	Germany
DZ Bank AG Deutsche Zentral-Genossenschaftsbank	Germany
HSH Nordbank AG	Germany
Landesbank Baden-Wuerttemberg	Germany
Landesbank Berlin (guaranteed)	Germany
Landesbank Hessen-Thuringen Girozentrale	Germany
WestLB	Germany
Credit Suisse	Switzerland
Credit Suisse First Boston	Switzerland
UBS AG	Switzerland
Citibank (Nevada)	United States
JP Morgan Chase Bank	United States
Fortis Bank	Belgium
Bank of Montreal	Canada
Bank of Nova Scotia	Canada
Canadian Imperial Bank of Commerce	Canada
Royal Bank of Canada	Canada
Toronto Dominion Bank	Canada

## **Overseas Banks rated short term F1 and Support 1 (Cont'd)**

Danske Bank	Denmark
BNP Paribas	France
CIC-Lyonnaisse de Banque	France
Credit Agricole Indosuez	France
Societe Generale (SG)	France
Banque Generale du Luxembourg	Luxembourg
Dexia Banque Internationale a Luxembourg	Luxembourg
ABN Amro Bank NV	Netherlands
ING Bank NV	Netherlands
RabobankGroup	Netherlands
Banco Totta e Acores	Portugal
Skandinaviska Enskilda Banken	Sweden
Svenska Handelsbanken	Sweden

### **4. Others**

Non-Capped Local Authorities

### **5. AAA Rated Money Market Funds**

AIM Global  
Barclays Global Investors