

report

meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY	
date	24 March 2006	agenda item number

JOINT REPORT OF THE CHIEF FIRE OFFICER AND TREASURER

TREASURY MANAGEMENT STRATEGY 2006/07

1 PURPOSE OF REPORT

The purpose of this report is to inform Members of the Fire & Rescue Authority's Treasury Management Strategy for 2006/07.

2 BACKGROUND

- 2.1 The Local Government Act 2003 requires the Authority to set out its treasury strategy for borrowing and to prepare an annual investment strategy; this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 2.2 A report on the Prudential Code for Capital Accounting was approved by Members at the Authority's meeting on 24 February 2006. That report set out the prudential indicators for 2006/07. This Treasury Management Strategy report is complementary to that Prudential Code report.
- 2.3 The Authority has appointed Sector Treasury Services as treasury adviser. Sector has provided the Authority with its view on anticipated interest rates for the forthcoming year.

3 MANAGEMENT OF CASH RESOURCES

- 3.1 The Authority uses a main current account, an investment account and a number of local petty cash accounts. All of these accounts are held with Barclays Bank PLC and are managed using the online 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 at a minimum level. All surplus funds are held either in the investment account for short periods, in an investment account with the Bank of Scotland or are lent to institutional borrowers over longer periods.
- 3.2 The bank overdraft level is £200,000 and this is usually sufficient. There are occasions when the overdraft exceeds £200,000 and temporary arrangements are made with the bank to increase the limit to £500,000. The Prudential Code report included an overdraft limit of £500,000 within the authorised limit to allow for such instances, however it is proposed that the overdraft facility remains at a level of £200,000 which is appropriate for most situations.
- 3.3 A three year cash flow projection is prepared together with a three month rolling cash flow forecast. The three month forecast is updated regularly and this process reveals when cash surpluses will arise. The Principal Accountant and the Senior

Accountant can then determine the lending policy for the coming month. Lending is carried out using either the Bank of Scotland or two independent brokers (recommended by the County Council), restricted to an approved lending list (Appendix A).

- 3.4 The current bank account is cleared to zero on a daily basis with the balance being transferred to the Business Premium Account. When the balance on the latter account is greater than £250,000 but less than £1,000,000, it is transferred to the Treasury Deposit Account. This policy generates higher levels of interest.
- 3.5 Cash management processes have been examined by both internal and external auditors and have been shown to be robust.

4 BORROWING STRATEGY

4.1 The prudential indicators for 2006/07 are set out below. Background information relating to these indicators was contained within the Prudential Code for Capital Accounting report approved by Members on 24 February 2006.

4.2	Authorised limit for borrowing:	£15,117,000
	Operational limit for borrowing:	£13,743,000

	Upper limit for variable rate interest exposures	30%
	Upper limit for fixed rate interest exposures	100%

Loan Maturity:		
	Under 12 months	less than 20%
	12 months to 5 years	less than 20%
	5 years to 10 years	less than 75%
	Over 10 years	Greater than 25% less than 90%

4.3 The capital financing requirement is the sum of money required from external sources to fund capital expenditure. For 2006/07 this figure is £13,047,000, of which £6,614,000 has already been financed within existing revenue budgets.

4.4 The Authority's strategy has been to borrow funds from the Public Works Loan Board (PWLB). The PWLB is an agent of HM Treasury and its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies. Its interest rates are generally favourable compared to those applicable to borrowings from other sources within the marketplace. It is therefore proposed that the Authority continues to borrow funds from the PWLB in 2006/07 to finance capital expenditure, but keep this practice under continuous review to take account of any relevant changes in the marketplace.

4.5 Sector's view on PWLB interest rates is that :

- The 10 year PWLB rate will remain at 4.25% in quarter 1 of 2006/07 but will then rise to reach 4.5% in quarter 2 and 4.75% in quarter 4.
- The 25 to 30 year PWLB rate will remain flat at 4.25% until quarter 3 of 2006/07 when it will rise to 4.5%.
- The 50 year PWLB rate will remain flat at 4.0% until quarter 3 of 2006/07 when it will rise to 4.25%

4.6 This forecast indicates, therefore, that the borrowing strategy for 2006/07 should be set to take long dated borrowings in the first and second quarters of the year, before

PWLB rates rise. The Authority's upper and lower limits for loan maturity will inform decisions about the length of borrowings taken in 2006/07.

5 INVESTMENT STRATEGY

- 5.1 The Authority's investment priorities are the security of capital and the liquidity of investments. The investment strategy for 2006/07 will be to continue to aim for the optimum return on investments, whilst having due regard to appropriate levels of security and liquidity.
- 5.2 The Authority has a list of approved institutions to which it will lend surplus cash. This list is a subset of the County Council's approved borrowers list. Counterparties on the list must be:
- 5.2.1 UK based financial institutions graded F1 short term and support 1 or 2 by Fitch IBCA ;
 - 5.2.2 UK based wholly owned subsidiaries of institutions in 5.2.1 above ;
 - 5.2.3 F1 rated UK subsidiaries of overseas F1 short term and support 1 institutions ;
 - 5.2.4 Overseas banks rated F1 short term and support 1 ;
 - 5.2.5 Other Local Authorities ;
 - 5.2.6 AAA rated Money Market funds.
- 5.3 The Authority is alerted to changes in Fitch ratings by Sector. If a downgrade results in a counterparty no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. It is proposed that the Head of Finance and Resources be permitted to remove any counterparty from the approved list but may not make additions without the approval of the Chair and Vice Chair.
- 5.4 Sector's view on investment rates is that they are likely to fall by up to 0.5% by the end of 2006/07.
- 5.5 The majority of past investments have been for periods of less than six weeks. It is proposed that no more than 10% of available investment should be committed beyond 365 days to ensure liquidity of funds.

6 PERSONNEL IMPLICATIONS

There are no specific personnel implications which arise directly from this report.

7 FINANCIAL IMPLICATIONS

The financial implications of this report are set out in full within the body of the report.

8 EQUALITY IMPACT ASSESSMENT

There are no issues of equality arising from this report.

9 RISK MANAGEMENT IMPLICATIONS

The investment of local authority funds cannot be achieved without some element of risk. Careful choice of borrowers using established and respected indices will minimise this risk. This prudent approach will undoubtedly result in some interest rate loss but the principles of security and liquidity are paramount.

10 RECOMMENDATIONS

10.1 That Members approve the Treasury Management Strategy as set out in this report.

10.2 That Members approve the lending list as set out in Appendix A.

11 BACKGROUND PAPERS FOR INSPECTION

- Prudential Code for Capital Accounting: report to Fire & Rescue Authority 24 February 2006.

Paul Woods
CHIEF FIRE OFFICER

Alan Sumbly
TREASURER OF THE FIRE & RESCUE AUTHORITY

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 plc	United Kingdom
Bank of Scotland plc	United Kingdom
Barclays Bank plc	United Kingdom
Bristol and West plc	United Kingdom
Lloyds TSB Bank plc	United Kingdom
Nationwide Building Society plc	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 Banks plc	Ireland
Bank of Ireland	Ireland
IIB Bank Ltd	Ireland
Bayerische Landesbank Girozentrale	Germany
Deutsche Bank AG	Germany
DZ Bank AG Deutsche Zentral-Genossenschaftsbank	Germany
HSH Nordbank AG	Germany
Landesbank Baden-Wurrtemberg	Germany
Landesbank Hessen-Thuringen Girozentrale	Germany
WestLB AG	Germany
Credit Suisse	Switzerland
USB AG	Switzerland
Citibank (Nevada)	United States
JP Morgan Chase Bank	United States
Fortis Bank NV	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 (Contd)

Danske Bank AS	Denmark
BNP Paribas	France
Credit Agricole	France
Societe Generale (SG)	France
Banque Generale du Luxembourg SA	Luxembourg
Dexia Banque Internationale a Luxembourg SA	Luxembourg
ABN Amro Bank NV	Netherlands
ING Bank NV	Netherlands
Rabobank International	Netherlands
Banco Santander Totta SA	Portugal
Skandinaviska Enskilda Banken AB	Sweden
Svenska Handelsbanken AB	Sweden

4. Others

Non-capped Local Authorities

5. AAA Rated Money Market Funds

AIM Global
Barclays Global Investors