



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

TREASURY MANAGEMENT STRATEGY 2008/09

Report of the Treasurer of the Fire and Rescue Authority

Agenda Item No:

Date: 4 April 2008

Purpose of Report:

To inform Members of the Authority's Treasury Management Strategy for 2008/09.

CONTACT OFFICER

Name : Neil Timms
Head of Finance and Resources

Tel : 0115 967 0880

Email : neil.timms@notts-fire.gov.uk

**Media Enquiries
Contact :** Elisabeth Reeson
(0115) 967 5889 elisabeth.reeson@notts-fire.gov.uk

1. BACKGROUND

- 1.1 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. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Authority to produce a balanced budget. Section 32 requires the Authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby resulting increases in charges to revenue are limited to a level which is affordable within the projected income of the Authority for the foreseeable future.
- 1.2 A report on the Prudential Code for Capital Accounting was approved by Members at the Authority's meeting of 22 February 2008. That report set out the prudential indicators for 2008/09. This Treasury Management Strategy report is complementary to that Prudential Code report.
- 1.3 The Authority has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management.
- 1.4 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.

2. REPORT

MANAGEMENT OF CASH RESOURCES

- 2.1 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.
- 2.2 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. It is proposed that the overdraft facility remains at a level of £200,000, but is reviewed during the year to take account of expenditure and income cash flows relating to the building of Highfields Fire Stations, and the sale of Beeston and Dunkirk fire stations, and is temporarily increased if necessary.

- 2.3 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 the point at which 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 (attached as Appendix A).
- 2.4 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, it is transferred to the Treasury Deposit Account. This policy generates higher levels of interest.
- 2.5 Cash management processes have been examined by both internal and external auditors and have been shown to be robust.

BORROWING STRATEGY

- 2.6 The prudential indicators for 2008/09 are set out below. Background information relating to these indicators was contained within the Prudential Code for Capital Accounting report approved by Members of the Authority on 22 February 2008.

Authorised limit for borrowing: £24,720,000
Operational limit for borrowing: £22,473,000

| | |
|--------------------------------------------------|------|
| 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 100% |

- 2.7 The capital financing requirement is the sum of money required from external sources to fund capital expenditure. For 2008/09 this figure is £15,203,000, of which £10,324,000 has already been financed within existing revenue budgets.
- 2.8 The Authority's strategy in the past has been to borrow funds from the Public Works Loan Board (PWLB). The PWLB is an agent of Her Majesty's 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. However, in 2007/08, a £4m loan was borrowed from a bank, with a fixed interest rate which was lower than the equivalent PWLB rate. It is therefore proposed that the Authority continues to borrow primarily from the PWLB, but considers fixed rate market borrowing when market rates are at least 25 basis points below the PWLB rates.

2.9 Sector's view on PWLB interest rates for 2008/09 is that:

- The 10 year PWLB rate will start and finish the year at 4.55%, falling to 4.50% in quarters 2 and 3;
- The 25 year PWLB rate is expected to stay at 4.50% for the year;
- The 50 year PWLB rate is expected to remain flat at 4.45%;
- PWLB rates are expected to increase during the periods beyond 2008/09.

This forecast indicates, therefore, that there is little difference between short and long term borrowing rates, giving the Authority an opportunity borrow in 2008/09 and spread debt maturities, which are currently concentrated around longer terms. The interest rates are not expected to vary significantly during the year, so borrowing could be undertaken at any time.

ECONOMIC BACKGROUND

2.10 The sub prime crisis and the major downturn in the housing market in the United States has prompted fears around the world of the potential impact on world banking systems and on world growth. This has led to a downturn in economic sentiment at the start of 2008, and some forecasters are making a downward re-assessment of forecast interest rates in 2008 and 2009.

In the UK:

- § GDP: growth has been strong during 2007 but is expected to cool to 2.0% in 2008;
- § Higher than expected immigration from Eastern Europe has underpinned strong growth and dampened wage inflation;
- § House prices started on the downswing in Q3 2007 and this is expected to continue into 2008;
- § The combination of increases in Bank Rate and hence mortgage rates, short term mortgage fixes expiring and being renewed at higher rates, food prices rising at their fastest rate since 1993 and increases in petrol prices, have all put consumer spending power under major pressure;
- § Banks have also tightened their lending criteria since the sub prime crisis started and that will also dampen consumer expenditure via credit cards and on buying houses through obtaining mortgages;
- § Government expenditure will be held under a tight rein for the next few years, undermining one of the main props of strong growth during this decade;
- § The Monetary Policy Committee (MPC) is very concerned at the build up of inflationary pressures and the consequent likely knock on effects on general prices. The prices of UK manufactured goods have risen at the fastest rate in 16 years, in January 2008 – 5.7%. Food prices have also risen at their fastest rate since June 2001 (6.6% annual increase in

January 2008) driven by strong demand from China and India. Consequently, the MPC is going to be much more cautious about cutting rates compared to the US in the face of these very visible inflationary pressures. In addition, UK growth was still strong in Q4 (despite expectations of a significant cooling off). The downward trend in Bank Rate is now expected to be faster than at first thought after the initial cut in December 2007. However, the MPC's room for cutting rates is currently limited by concerns over inflationary pressures.

- § The Bank Rate fell from 5.75% to 5.50% in December 2007. Sector's view is that the Bank Rate is likely to decrease further during 2008/09 – to 5.00% in the first quarter and 4.75% in the second quarter.

INVESTMENT STRATEGY

2.11 The Authority's investment priorities are the security of capital and the liquidity of investments. The investment strategy for 2008/09 will be to continue to aim for the optimum return on investments, whilst having due regard to appropriate levels of security and liquidity.

2.12 Investment opportunities arise when there are temporary cash surpluses. The Authority has a list of approved institutions to which it will lend surplus cash. This list is derived from a list published by Sector of institutions which are rated by Fitch for credit-worthiness. To ensure security of investments, the Authority is using the following criteria to determine approved institutions:

- A rating of A+ or higher to indicate an institution's ability to repay its long term debt;
- A rating of F1 or higher to indicate an institution's ability to repay its short term debt;
- A rating of B or higher to indicate an institution's overall security and soundness and
- A rating of 2 or higher (for UK institutions) or 1 or higher (for overseas institutions) to indicate the likelihood of financial support from another organisation if the institution experiences a financial crisis.

In addition, the Authority will invest with English and Welsh Local Authorities and in AAA rated Money Market funds. Although the list of approved institutions is long, in practice only some institutions are likely to accept the Authority's investments due to the relatively small sums involved.

2.13 The Authority is alerted to changes in Fitch ratings by Sector. If a downgrade results in an institution 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.

2.14 The majority of past investments have been for periods of three months or less. It is proposed that no more than 10% of available investment should be

committed beyond 365 days to ensure liquidity of funds. It is likely that the Authority will achieve better rates from its investments in the early part of the year, due to the forecasted fall in the Bank Rate.

3. FINANCIAL IMPLICATIONS

The Authority generates significant income from short term investments and managing cash actively. In 2007/8 this is anticipated to realise in excess of £200,000.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising directly from this report.

5. EQUALITY IMPACT ASSESSMENT

An initial equality impact assessment has been undertaken and is attached at Appendix B.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising directly from this report.

7. 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.

8. RECOMMENDATIONS

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

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

9. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Peter Hurford
TREASURER TO THE FIRE AND RESCUE AUTHORITY

NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY

APPROVED LENDING LIST

UK Based Institutions

| | |
|-----------------------------|-----|
| Abbey plc | GBR |
| Bank of Scotland plc | GBR |
| Barclays Bank plc | GBR |
| HSBC Bank plc | GBR |
| Lloyds TSB Bank | GBR |
| MBNA Europe Bank Ltd | GBR |
| National Westminster Bank | GBR |
| Nationwide Building Society | GBR |
| Royal Bank of Scotland plc | GBR |
| Ulster Bank Ltd | GBR |

Overseas Institutions

| | |
|------------------------------------------|-----|
| ABN AMRO Bank N.V. | NLD |
| Allied Irish Banks | IRL |
| American Express Bank Ltd | HKG |
| Banco Bilbao Vizcaya Argentaria (BBVA) | ESP |
| Banco Santander Central Hispano | ESP |
| Banco Santander Totta SA | PRT |
| Bank Nederlandse Gemeenten | NLD |
| Bank of America N.A. | USA |
| Bank of Ireland | IRL |
| Bank of Montreal | CAN |
| Bank of Nova Scotia | CAN |
| Bank of Tokyo – Mitsubishi UFJ Ltd | JPN |
| Bank of Tokyo – Mitsubishi | JPN |
| BNP Paribas | FRA |
| Caixa Geral de Depositos | PRT |
| Canadian Imperial Bank of Commerce | CAN |
| Citibank, N.A. | USA |
| Credit Agricole | FRA |
| Credit Suisse | CHE |
| Danske Bank | DNK |
| DBS Bank (Hong Kong) | HKG |
| Deutsche Bank AG | DEU |
| Dexia Bank Belgium | BEL |
| Dexia Banque Internationale a Luxembourg | LUX |
| Dexia Credit Local | FRA |
| DNB NOR Bank | NOR |
| First Active plc | IRL |
| Fortis bank | BEL |

| | |
|-----------------------------------------------|-----|
| Fortis Banque Luxembourg | LUX |
| Hongkong and Shanghai Banking Corporation | HKG |
| HSBC Bank USA NA | USA |
| IIB Bank Limited | IRL |
| ING Bank NV | NLD |
| Intesa Sanpaolo Spa | ITA |
| JPMorgan Chase Bank | USA |
| Mitsubishi Trust & Banking Corporation (MTBC) | JPN |
| Mitsubishi UFJ Trust and Banking Corporation | JPN |
| Mizuho Corporate Bank Ltd | JPN |
| National Bank of Kuwait | KWT |
| Nordea Bank AB | SWE |
| Nordea Bank Finland plc | FIN |
| Rabobank International | NLD |
| Royal Bank of Canada | CAN |
| Skandinaviska Enskilda Banken AB | SWE |
| Societe Generale (SG) | FRA |
| Sumitomo Mitsui Banking Corporation Europe | JPN |
| Svenska Handelsbanken | SWE |
| Swedbank (ForeningsSparbanken AB) | SWE |
| Toronto-Dominion Bank | CAN |
| UBS AG | CHE |
| Unicredito Italiano | ITA |

INITIAL EQUALITY IMPACT ASSESSMENT

Appendix B

| Section | Manager | Date of Assessment | New or Existing |
|---------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------|
| SMT | Neil Timms | 13/03/2008 | New |
| Name of Report to be assessed | TREASURY MANAGEMENT STRATEGY 2008/09 | | |
| 1. Briefly describe the aims, objectives and purpose of the report. | To inform Members of the Authority's Treasury Management Strategy for 2008/09. | | |
| 2. Who is intended to benefit from this report and what are the outcomes? | Elected members in terms of knowing what the strategy is and finance officers from having clear guidance on Treasury matters | | |
| 3. Who are the main stakeholders in relation to the report? | The Fire Authority, The Treasurer | | |
| 4. Who implements and who is responsible for the report? | The Fire Authority via the SMT and the Head of Finance and Resources | | |

5. Please identify the differential impact in the terms of the six strands below. Please tick yes if you have identified any differential impacts. Please state evidence of negative or positive impacts below.

| <i>STRAND</i> | Y | N | <i>NEGATIVE IMPACT</i> | <i>POSITIVE IMPACT</i> |
|--------------------|----------|----------|------------------------|------------------------|
| Race | | N | | |
| Gender | | N | | |
| Disability | | N | | |
| Religion or Belief | | N | | |
| Sexuality | | N | | |
| Age | | N | | |

| | | | | | |
|------------------------------------------------------------------------------------------------------------|----------|----------|-------------------------------------------------------------------|----------|----------|
| 6. Can this adverse impact be justified on the grounds of promoting equality of opportunity for one group? | Y | N | 7. Should the policy/service proceed to a full impact assessment? | Y | N |
| | | | | | N |

I am satisfied that this policy has been successfully impact assessed. I understand the impact assessment of this policy is a statutory obligation and that, as owners of this policy, we take responsibility for the completion and quality of this process.

Signed (completing person) Neil Timms

Date 13/03/2008