NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

TREASURY MANAGEMENT MID YEAR REVIEW 2014/15

Report of the Treasurer to the Fire Authority

Date: 16 January 2015

Purpose of Report:

To provide Members with an update on treasury management activity during the first half of the 2014/15 financial year.

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1. BACKGROUND

1.1 Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

1.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Fire Authority on 9 April 2010. The Code was updated in 2011.

1.3 The primary requirements of the Code are as follows:

1. The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
2. The creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.
3. Receipt by the Fire Authority of an annual Treasury Management Strategy Statement for the year ahead, a mid-year review report and an annual report covering activities during the previous year.
4. Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority the delegated body is the Finance and Resources Committee.

1.4 This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2014/15
- A review of the Treasury Management Strategy Statement
- A review of the Authority's investment portfolio for 2014/15
- A review of the Authority's borrowing strategy for 2014/15
- A review of compliance with Treasury and Prudential Limits for 2014/15

1.5 The Authority has appointed Capita Asset Services (formerly Sector Treasury Services) as its external treasury management adviser.

2. REPORT

ECONOMIC UPDATE

2.1 After strong UK GDP growth of 2.7% in 2013 it seems likely that strong growth will continue through 2014 and into 2015. However for this recovery to become sustainable in the longer term, it needs to move away from dependence on consumer expenditure and the housing market and towards exporting.

2.2 The overall strong growth has resulted in unemployment falling much faster than expected. In turn it is recognised that wage inflation needs to rise above the level of general inflation in order to make the recovery sustainable, but this needs to be as a result of productivity increases, which are not currently in evidence. Unemployment is expected to continue to fall.

2.3 Inflation (CPI) reached its lowest rate since 2009 in September 2014 i.e. 1.2% and this downward trend may well continue. Markets are expecting the Monetary Policy Committee to be cautious about raising the bank rate whilst consumers are heavily in debt and forecasts are that the rate may increase in mid-2015, which is still earlier than anticipated in the Treasury Management Strategy approved by Members in February 2014.

2.4 PWLB rates have generally decreased since this year's strategy was written but some degree of volatility in rates is still expected.

REVIEW OF THE TREASURY MANAGEMENT STRATEGY

2.5 The Treasury Management Strategy approved by the Authority sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The risk appetite of this Authority is low in order to give priority to security of its investments. Accordingly the following types of low risk investments may be made:

- Deposits with the Debt Management Agency (Government);
- Term deposits with Banks and Building Societies;
- Term Deposits with uncapped English and Welsh local authority bodies;
- Triple-A rated Money Market Funds;
- UK Treasury Bills;
- UK-based bank notice accounts.

2.6 The Authority will aim to limit its investment with any single counterparty to £2m although the strategy noted that this was sometimes difficult to achieve. No term deposits will be made for more than 1 year without the prior approval of the Treasurer and the Chair of Finance and Resources Committee. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of potential counterparties. The Authority will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks);
- Orange 1 year;
- Red 6 months;
- Green 3 months.

2.7 The Authority will avoid locking into longer term deals whilst investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

2.8 In terms of cash resources, the strategy is to maintain a bank overdraft facility of £200,000, to continue to use cash flow forecasting to predict cash surpluses and shortfalls so that these can be managed and to invest small bank account balances in the Business Premium Account on a daily basis.

2.9 In the first half of the year, there were no instances of the bank account being overdrawn.

REVIEW OF THE INVESTMENT PORTFOLIO

2.10 During the first half of the year, a total of 17 investments were made (excluding the overnight sweep to the Business Premium Account). The maximum value placed in any single investment was £2m and the maximum term of 365 days was for a single investment of £1m. Two investments were placed with other local authorities and the remainder were placed with banks and building societies meeting the credit rating criteria shown above. An analysis of investments as at 30 September 2014 revealed that the Authority had £12m invested with 7 different institutions at an average interest rate of 0.58%. All of the £12m was placed with UK institutions (as defined by the Bank of England Prudential Regulation Authority).

2.11 Investment income earned up to 30 September 2014 totalled £42k. This is set against a budget for the year of £86k so the budget is on target at this stage.

REVIEW OF THE BORROWING STRATEGY

2.12 The strategy for 2014/15 is to use a combination of capital receipts, capital grant and internal funds to finance the majority of capital expenditure. A £2m PWLB loan matured in September 2014 and it was anticipated that new borrowing would need to be taken to replace this loan, however the capital programme is currently underspending and the maturing loan was repaid without the need to borrow at that time.

2.13 The decision on whether or not to borrow this year will be kept under review in the light of the capital programme forecast expenditure for the year, and interest rate predictions. As it is expected that borrowing will need to take place over the next three years, any opportunity to borrow at advantageous rates will be taken and Capital Asset Services will advise Officers if such a situation arises.

2.14 No rescheduling of debt has taken place to date, as the interest rate climate has not resulted in an advantageous environment for rescheduling.

2.15 All other aspects of the borrowing strategy remain in place at this mid-point in the year.

REVIEW OF COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

2.16 The following indicators were approved by Members for the 2014/15 financial year. As at 30 September, the actual performance was as shown in the final column of the table below.

Treasury or Prudential Indicator or Limit	Approved for 2014/15	Actual as at 30/09/14
Estimate of Ratio of Financing Costs to Net Revenue Stream	5.4%	Not available until year end
Estimate of the Incremental Impact of the New Capital Investment Decisions on the Council Tax (Band D)	-£0.41	Not available until year end
Estimate of Total Capital Expenditure to be Incurred	£6,281,000	£5,878,000
Estimate of Capital Financing Requirement	£26,996,000	Not exceeded
Operational Boundary	£26,346,000	Not exceeded
Authorised Limit	£28,981,000	Not exceeded
Upper limit for fixed rate interest exposures	100%	100%
Upper limit for variable rate interest exposures	30%	0%
Loan Maturity:	**Limits:**	
Under 12 months	Upper 20% Lower 0%	0%
12 months to 5 years	Upper 30% Lower 0%	31.8%
5 years to 10 years	Upper 75% Lower 0%	9.99%
10 years to 20 years	Upper 100% Lower 0%	14.68%
Over 20 years	Upper 100% Lower 20%	43.54%
Upper Limit for Principal Sums Invested for Periods Longer than 364 Days	£2,000,000	Not applicable

2.17 The table above shows that one indicator was breached in the first half of the year. A small breach of the 12 month to 5 year upper limit has occurred because total borrowing has reduced during the year and no new borrowing has taken place, which means that Officers have not had the opportunity to re-balance the maturity profile. The actual proportion of debt in the 12 month to 5 year band is 31.8% but this is not considered to be a significant risk for the Authority, and the breach will be addressed when a new loan is next taken.

2.18 A treasury management training seminar took place immediately following the July 2014 Finance and Resources Committee meeting, delivered by Capita Asset Services. This was well attended by both Members and Officers and gave a useful insight into both the role of Members in treasury management matters as well as the current treasury management position for the Authority.

3. FINANCIAL IMPLICATIONS

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

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report details a review of activities rather than a new policy.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report, other than the requirement to act within the Authority's powers when undertaking treasury management borrowings and investments.

8. RISK MANAGEMENT IMPLICATIONS

The investment of local authority funds cannot be achieved without some element of risk. Careful choice of borrowers using creditworthiness 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.

9. RECOMMENDATIONS

That Members note the contents of this report.

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

None.

Peter Hurford
TREASURER TO THE FIRE AUTHORITY