NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

Treasury Management Mid-year Review 2013/14

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 17 January 2014

Purpose of Report:

To provide Members with an update on treasury management activity during the first half of the 2013/14 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 2013/14;
- a review of the Treasury Management Strategy Statement;
- a review of the Authority's investment portfolio for 2013/14;
- a review of the Authority's borrowing strategy for 2013/14;
- a review of compliance with Treasury and Prudential Limits for 2013/14.

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

2. REPORT

2.1 **Economic Update**

During the first half of 2013/14 economic indicators suggested that the economy is recovering, albeit from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy grew 0.7% in Q2. There were signs of renewed vigour in household spending in the summer, with a further pick-up in retail sales, mortgages, house prices and new car registrations.

2.2 The strengthening in economic growth appears to have supported the labour market, with employment rising at a modest pace and strong enough to reduce the level of unemployment further.

2.3 The 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan, and monetary policy was unchanged in advance of the new Bank of England Governor arriving. Bank Rate remained at 0.5% and quantitative easing also stayed at £375bn. In August, the Monetary Policy Committee provided forward guidance that Bank Rate is unlikely to change until unemployment first falls to 7%, which was not expected until mid-2016. However, 7% is only a point at which the MPC will review Bank Rate, not necessarily take action to change it. The three month to July average rate was 7.7%.

2.4 Tensions in the Eurozone eased over the second quarter, but the possibility of future problems remains. Economic survey data improved consistently over the first half of the year, pointing to a return to growth in Q2, so ending six quarters of Eurozone recession.

2.5 **Review of the Treasury Management Strategy**

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.

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 one 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 one year (only applies to nationalised or semi nationalised UK banks);
- Orange one year;
- Red six months;
- Green three 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, however on the 2 October the account was overdrawn by £2.2m due to the bank transferring the account balance into the deposit account overnight before a loan had been repaid. This was discussed with the bank at the time and it was agreed that no interest would be charged on the overdrawn amount and in future the bank would check with the Finance Team daily to confirm the amount to be transferred to the deposit account. All other aspects of the treasury management strategy outlined for 2013/14 remained in place as at the midpoint of the year.

2.10 **Review of the Investment Portfolio**

During the first half of the year, a total of 14 investments were made (excluding the overnight sweep to the Business Premium Account). The maximum value placed in any single investment was £2m and the longest duration was 364 days. 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 2013 revealed that the Authority had £16m invested with nine different institutions at an average interest rate of 0.57%. All of the £16m was placed with UK institutions (as defined by the Bank of England Prudential Regulation Authority).

2.11 Investment income earned up to 30 September 2013 totalled £64k. This is set against a budget for the year of £125k so the budget is on target at this stage.

2.12 Review of the Borrowing Strategy

The strategy for 2013/14 is to use a combination of revenue reserves, capital grant and internal funds to finance the majority of capital expenditure. Also, in 2010/11 £3m was borrowed from the PWLB and only £984k of this was used to fund capital expenditure at the time, leaving £2,016k available to fund future capital programmes.

2.13 The strategy also states that between £3m and £7m would need to be borrowed in the current year to replace a maturing PWLB loan and potentially the external loan. As at 30 September 2013, no new borrowing has been taken because there was no requirement to replace the external loan, and a capital receipt in respect of the sale of Dunkirk fire station was received in time to partially finance the repayment of the maturing PWLB loan. 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.

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 The strategy included a prediction on interest rates: the bank rate was forecast to remain at 0.5% throughout this year, and so far it has. The PWLB 10 year fixed loan rate was forecast to increase to 2.6% in September 2013 but, at the time of writing this report, stood at 3.92%. As stated in paragraph 2.13 above, any decision on borrowing will need to take account of interest rate predictions amongst other factors.

2.16 Review of compliance with treasury and prudential limits

The following indicators were approved by Members for the 2013/14 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 2013/14**	**Actual as at 30/09/13**
Estimate of Ratio of Financing Costs to Net Revenue Stream	5.5%	Not available until year end
Estimate of the Incremental Impact of the New Capital Investment Decisions on the Council Tax (Band D)	-£1.31	Not available until year end
Estimate of Total Capital Expenditure to be Incurred	£5,762,000	£5,151,000
Estimate of Capital Financing Requirement	£26,032,000	Not exceeded
Operational Boundary	£27,233,000	Not exceeded
Authorised Limit	£29,956,000	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%	1%
12 months to 5 years	Upper 30% Lower 0%	28%
5 years to 10 years	Upper 75% Lower 0%	19%
10 years to 20 years	Upper 100% Lower 0%	13%
Over 20 years	Upper 100% Lower 20%	39%
Upper Limit for Principal Sums Invested for Periods Longer than 364 Days	£2,000,000	Not applicable

2.17 The table above shows that no indicators were breached in the first half of the year.

2.18 Capita Asset Services has advised its local authority clients that a number of UK-based bank notice accounts are available for authorities to invest in, with potentially higher interest rates than money market deposits are earning. Only one of these accounts has a minimum investment level appropriate for this Authority (i.e. £2m) and this is the Santander 95 day Notice Account. This account pays interest at Bank Rate plus 0.1%, so currently 0.6%, which is higher than the average return on current investments of 0.57% (see paragraph 2.10 above) and it is therefore worth considering as an investment vehicle.

2.19 As outlined in paragraph 2.6 above, investments are made for durations which accord with Capita's credit quality list so, for example, an investment would be made for no more than 100 days (3 months) with a "Green" rated counterparty. This policy works well with fixed term deposits, but would be problematic with the Santander account, as 95 days' notice must be given for a withdrawal to be made from the account, otherwise there is an interest penalty. Members are requested to approve the use of the Santander 95 day Notice Account, with Officers having the discretion to deposit £2m in the account without adhering strictly to the credit-worthiness policy, on the understanding that market intelligence about the bank will be monitored and funds withdrawn immediately if there is any indication of a substantially increased risk to the security of the deposit.

2.20 The Treasury Management strategy for 2013/14 set out the proposal for a training seminar for members of the Finance and Resources Committee. During the year, efforts have focused on arranging risk management training, so it is proposed that Members consider participating in a treasury management training seminar immediately following either the April 2014 or the July 2014 committee meeting, subject to the availability of the Authority's external advisers to deliver the seminar.

2.21 The Authority's Treasury Management Practices, which set out the manner in which the Authority will seek to achieve treasury management policies and objectives, have recently been reviewed and updated. They are attached as Appendix A for information and the remaining appendices (B to F) relate to the Treasury Management Practices..

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. EQUALITY IMPACT ASSESSMENT

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

It is recommended that:

9.1 Members note the contents of this report;

9.2 Members approve the use of the Santander 95 day Notice Account with modified application of the credit-worthiness policy as outlined in paragraph 2.19;

9.3 Members agree to the provision of a treasury management training seminar following either one of the next two committee meetings, subject to the availability of the Authority's external advisers to deliver the seminar.

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

None.

Peter Hurford
TREASURER TO THE FIRE AUTHORITY

NOTTINGHAMSHIRE
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Appendix A

TREASURY MANAGEMENT PRACTICES

Version 2.0

Prepared by:	Peter Underdown, Financial Management Trainee
Signed by:	Sue Maycock, Principal Accountant
Date:	19 December 2013

HISTORY OF AMENDMENTS TO THIS DOCUMENT

AMENDMENTS BY TREASURY MANAGEMENT CONSULTANTS

Dec 2004: major re-write of this template to take account of changes required by the Prudential Code

17.2.05: TMP 9 - references to Proceeds of Crime Act 2003 corrected to 2002.

8.12.06: update TMP 1.7.1 for 2006 English legislation and CIPFA Treasury Management Codes in 2004 and 2006

1.2.10: major amendments to incorporate changes from the revised 2009 CIPFA Treasury Management Code of Practice and Cross Sectoral Guidance Notes, Guidance Notes and Prudential Code

24.9.10 A Scottish TMP template was prepared separately from the English and Welsh template due to differences between these countries in investment principles etc.

25.1.12. Minor updating including changes due to the revised 2011 CIPFA TM Code and CLG and WAG investment guidance now being in final rather than draft form.

DERIVATIVES: the revised 2011 CIPFA Code of Practice on Treasury Management included references to organisations using derivatives / hedging instruments. The Localism Act 2011 appears to give local authorities legal power to use such instruments. As these are complex instruments which require a high level of expertise to understand and use, this development will require careful and detailed consideration before practical implementation of their use. For this reason, no references have been included for derivatives in this version of the Sector template for TMPs.

AMENDMENTS BY NFRS

November 2013: Full update to tailor practices to those of NFRS and incorporate elements of practice as described in existing NFRS documents. Changes tracked.

November 2013: Changes accepted (changes are detailed via tracking in Treasury Management Practices Capita Template Jan 2012 UPDATED.doc).

November 2013: Minor grammatical and format changes.

Contents

TMP1 Risk Management

The Fire Authority Treasurer will be responsible for the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk, will report annually to the Fire Authority on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.1.1 Policy on the use of credit risk analysis techniques

This organisation will use the Sector/Capita creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

In addition a credit default swap overlay is used as a further safeguard to give early warning of potential creditworthiness problems which may only belatedly lead to actual changes in credit ratings.

As this methodology is complex, readers are referred to the document produced by Sector "Sector Suggested Credit Policy 2012-13" for a full explanation.

1. NFRS will use credit criteria in order to select creditworthy counterparties for placing investments with.

2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors.

3. Treasury Management Consultants (Sector/Capita) will provide regular updates of changes to all ratings relevant to NFRS.

4. The treasury manager will maintain up-to-date records of the Sector creditworthiness colour ratings of relevant institutions, along with information on acceptable maturity periods, type, group, sector and country of each institution.

5. Credit ratings for individual counterparties can change at any time. For the purposes of the Authority, approved counterparties are those with Yellow, Purple, Blue, Orange, Red or Green ratings. Such approved counterparties may be used to make investments with maturity periods appropriate for their colour rating, not exceeding 364 days.

6. The Authority is alerted to changes to ratings of all three agencies as and when they occur through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

7. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

    - the quality financial press;
    - market data;
    - information on government support for banks, and;
    - the credit ratings of that government support.

8. Maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

    - Upper limit for principle sums invested for periods longer than 364 days: £2m.

9. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

- Maximum amount to be placed with any one institution - £2m.
- Group limits where a number of institutions are under one ownership – maximum of £2m.
- The provider of the Authority's current bank account is the only exception to these limits.
- It is noted that imposing any further spreading requirement due to the relatively small size of the Authority's investments and the fact that investment institutions will often only accept a minimum investment sum, which may render any such policy unworkable. Despite this Officers will,

wherever possible, avoid the concentration of investments with one counterparty or group.

- The majority of past investments have been for periods of 3 months or less. In the current financial climate no term deposit investments with other counterparties will be made for more than 1 year without the prior approval of the Treasurer and the Chair of Finance and Resources Committee.

10. Country limits – a minimum sovereign rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This list will be added to or deducted from by Officers should ratings change in accordance with this policy. Investments will not be made with counterparties that do not have a credit rating in their own right, with the exception of U.K. Government/Local Government bodies which do not carry credit ratings of their own.

11. The definition of **'high credit quality'** in order to determine what are specified investments as opposed to non-specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1.

12. Full individual listing of counterparties and counterparty limits, and country limits, are held by the treasury management team, and will be made available to members as required.

*** Sector note: please note that "high credit rating" has been changed to "high credit quality" in line with the wording in the CLG and WAG guidance 2010 as both the CIPFA TM Code and the guidance make clear that sole reliance must no longer be placed on credit ratings to determine high credit quality. "Minimal procedural formalities" has been deleted from paragraph 10 above as this phrase is no longer used in the 2010 version of the investment guidance.*

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to minimise the balance held in the Authority's main bank accounts at the close of each working day, with remaining balances placed in an overnight deposit account with the Authority's main banking provider. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Details of:

a. Standby facilities
At the end of each financial day any unexpected surplus funds are transferred to the investment account (Business Premium Account) which is available from the Authority's main bank, Barclays Bank PLC. This transfer is

to be authorised by a member of the finance team, to ensure that it does not exceed the balance in the main account, and to ensure that no payments are made from the main account after the transfer.

b. Bank overdraft arrangements
A £200,000 overdraft at 2% over base rate has been agreed as part of the banking services contract. 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 overdraft is assessed on a group basis for the Authority's accounts.

c. Short-term borrowing facilities
The Authority may access, with appropriate approval, temporary loans through approved brokers on the London money market.

d. Insurance/guarantee facilities
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

e. Large payments notice required
Notice is to be given to the treasury manager for all payments equal to or exceeding £10,000.

1.3 Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1 Refer to the Annual Treasury Management Statement in Appendix A for details of approved interest rate exposure limits, trigger points and other guidelines for managing changes to interest rate levels, and upper limits for fixed and variable interest rate exposure.

1.3.2 Policies concerning the use of instruments for interest rate management.

a. forward dealing
Consideration will be given to dealing from forward periods dependent upon market conditions. When forward dealing is more than six months forward then the approval of the Director of Finance and Resources is required.

b. callable deposits
The Authority will use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.

c. LOBOS (borrowing under lender's option/borrower's option)
Use of LOBOs is considered as part of the annual borrowing strategy. All borrowing for periods in excess of 364 days must be approved by the Director of Finance and Resources.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

If relevant situations arise, the Authority will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels, and appropriate methods will be detailed in the Treasury Management Strategy Statement.

1.5 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

1.5.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Authority will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) to amend the maturity profile and /or the balance of volatility of the debt portfolio;
d) to transfer from maturity to annuity loans to maintain gross debt below the Capital Financing Requirement in the short to medium term.

Rescheduling will be reported to Members at the earliest meeting following its action.

1.5.2. Projected Capital Investment Requirements

The responsible officer will delegate the preparation of a three year plan for capital expenditure for the Authority. The capital plan will be used to prepare a three year revenue budget for all forms of financing charges.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

1.5.3. Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Authority will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on the council tax precept. It will also take into account affordability in the longer term beyond this three year period. (Note: paragraph 30 of the Prudential Code gives examples of matters relevant to the consideration of affordability, although this is not an exhaustive list.)

The Authority will use the definitions provided in the Prudential Code for borrowing (65), capital expenditure (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72), other long term liabilities (73).

1.6 Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.6.1. References to Relevant Statutes and Regulations

The treasury management activities of the Authority shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Authority. These are:

English Authorities: -

- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03

- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- Guidance on Investments ODPM 12.3.2004 (revised 1.4.10)
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006 Statutory Instrument No. 521
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP
- S.I. 2008 no. 414 (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Revised Guidance on Investments CLG 1.4.2010
- Localism Act 2011
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Authority is likely to get into a financially unviable position.
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Services Authority's Code of Market Conduct

- The Authority’s Scheme of Financial Management, encompassing:
  - Statement of Financial Principles, including the Authority’s Delegation Profiles.
  - The Authority’s Financial Procedures, including the Authority’s Standing Orders relating to Contracts.
  - The Authority’s Financial Regulations.

1.6.2. Procedures for Evidencing the Authority's Powers/Authorities to Counterparties

The Authority's powers to borrow and invest are contained in legislation.

Investing: Local Government Act 2003, section 12
Borrowing: Local Government Act 2003, section 1

Required Information on Counterparties
Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Authority's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

1.6.3 Statement on the Authority's Political Risks and Management of Same

The responsible officer shall take appropriate action with the Authority, the Chief Fire Officer and the Leader of the Authority to respond to and manage appropriately political risks such as change of majority group, change of leadership of the Authority or of Councils within the Authority's operational boundaries, change of Government etc.

1.6.4 Monitoring Officer

The monitoring officer is the Clerk to the Fire Authority; the duty of this officer is to ensure that the treasury management activities of the Authority are lawful.

1.6.5. Chief Financial Officer

The Chief Financial Officer is the Director of Finance and Resources; the duty of this officer is to ensure that the financial affairs of the Authority are conducted in a prudent manner and to make a report to the Authority if they have concerns as to the financial prudence of its actions or its expected financial position.

1.7 Fraud, Error and Corruption, and Contingency Management

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Authority will therefore:-

a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
c) Not allow staff to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
d) Maintain records of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.7.1 Details of Systems and Procedures to be Followed, Including Internet Services

Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the responsible officer or authorised persons.
- Loan procedures are defined in the Authority's Financial Procedures.

Procedures

- Banking through Barclays is carried out via the Barclays Internet Banking (BIB) system, with authorisation by chip and pin for approved finance officers.
- A list of all current procedure notes relating to current treasury management practices is contained in Appendix B.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained in the Agresso system.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the Senior Accountant for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Senior Accountant for resolution.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- The treasury management records include maturity dates which are monitored regularly.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution (see 1.5.1.6.) that the Authority invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorization of all deals.
- The Authority's bank holds a list of Authority officials who are authorised signatories for treasury management transactions.
- Initiation and authorisation of banking transactions are completed by separate officers, as required by the BIB system.
- The treasury management records cannot be accessed by colleagues outside of the finance team.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out weekly on a manual basis and monthly within the Agresso system.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the treasury management team.
- Periodic interest payments of PWLB and other long term loans are monitored by the treasury manager. This is used to check the amount paid to lenders.
- Average weighted capital loans fund interest rates are calculated monthly using information from the treasury management team.

1.7.2. Emergency and Contingency Planning Arrangements

Disaster Recovery Plan

All members of the treasury management team are familiar with this plan and new members will be briefed on it.

All computer files are backed up on the server daily to enable files to be accessed from remote sites.

In the event that Fire Authority HQ is unavailable, Finance staff are to relocate to another site and carry out transactions through the Authority's main banking provider either in person or by telephone. This will ensure a cash balance is maintained and payments can be made promptly to allow the Service's activities to continue.

1.7.3. Insurance Cover Details

Fidelity Insurance
The Authority has 'Fidelity' insurance cover with AIG Europe Ltd. This covers the loss of cash by fraud or dishonesty of employees.
This cover is limited to £2m for any one event with an excess of £5,000 for any one event

Professional Indemnity Insurance
The Authority has an Officials Indemnity Insurance policy, but this should not be relevant to the treasury management function, since there are no external customers.

Business Interruption
The Authority also has a 'Business Interruption' cover as part of its property insurance with Tokyo Marine Europe.

1.8 Market Risk Management
The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

1.8.1. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Gilts, CDs, Etc.)
The Authority's list of specified investment types does not include any investments whose principle sum may fluctuate. Consequently the Authority has no exposure to such risks.

TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS

In accordance with its low risk appetite, the Authority may undertake only the following types of specified investments:

- Deposits with the Debt Management Office
- 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

TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

The Authority has a number of approaches to evaluating treasury management decisions: -

a. reviews with our treasury management consultants
b. annual review after the end of the year as reported to Full Fire Authority.
c. half yearly and quarterly monitoring reports to Finance and Resources Committee / Full Fire Authority
d. comparative reviews
e. strategic, scrutiny and efficiency value for money reviews

2.1.1 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants every year to review the performance of the investment and debt portfolios.

2.1.2 Annual Review after the end of the financial year

An Annual Treasury Report is submitted to the Authority each year after the close of the financial year which reviews the performance of the investing and borrowing portfolios. This report contains the following: -

a. total debt and investments at the beginning and close of the financial year and average interest rates
b. borrowing strategy for the year compared to actual strategy
c. investment strategy for the year compared to actual strategy
d. explanations for variance between original strategies and actual
e. debt rescheduling done in the year
f. actual borrowing and investment rates available through the year
g. comparison of return on investments to the investment benchmark
h. compliance with Prudential and Treasury Indicators
i. other

2.1.3 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- Capita Benchmarking Club

2.2 Policy Concerning Methods for Testing Value for money in Treasury Management

2.2.1 Banking services

The Authority's banking arrangements are to be considered for competitive tender every 3 years unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

2.2.2 Money-broking services

The Authority will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

An approved list of brokers will be established which takes account of both prices and quality of services.

2.2.3 Consultants'/advisers' services

This Authority's policy is not to appoint full-time professional treasury management consultants.

2.2.4 Policy on External Managers (Other than relating to Superannuation Funds)

The Authority's policy is not to appoint external investment fund managers.

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

3.1.1 Records to be kept

The Treasury section has access to a computerised accounting system (Agresso) in which basic information on all investment and loan transactions are recorded, in addition to manual spread sheet-based records containing full details. The following records will be retained: -

- Daily cash balance forecasts
- PWLB rates supplied daily by Sector (records of other rates are not kept, but acquired when needed)
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans

3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

3.1.3 Issues to be addressed.

3.1.3.1. In respect of every treasury management decision made the Authority will:

a) Above all be clear about the nature and extent of the risks to which the Authority may become exposed.

b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

c) Be content that the documentation is adequate both to deliver the Authority's objectives and protect the Authority's interests, and to deliver good housekeeping

d) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded.

e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Authority will:

a) Consider the on-going revenue liabilities created, and the implications for the organisation's future plans and budgets.
b) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

3.1.3.3 In respect of investment decisions, the Authority will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Authority's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Pension Fund)
- leasing.

4.2 Approved Instruments for Investments

Please see the Annual Investment Strategy. The latest version of the AIS/TMSS is contained in Appendix A.

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act (2003), and within this limit the Authority has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Any intended changes to products or instruments to be used will require amending the TMP first and acquiring approval for that change.

Other Methods of Financing
Government and EC Capital Grants
Lottery monies
PFI/PPP
Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

5.1 Allocation of responsibilities

(i) Full Fire Authority

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of annual strategy.

(ii) Finance & Resources Committee

- Approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.
- Approving the selection of external service providers and agreeing terms of appointment.

(iii) Principal Accountant

- Reviewing the treasury management policy and procedures and making recommendations to the Finance & Resources Committee.

5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties must be undertaken by separate officers: -

Dealing & Accounting Entry	Negotiation and approval of deal. Receipt and checking of broker's confirmation note against loans diary. Reconciliation of cash control account. Bank reconciliation Production of transfer note. Processing of accounting entry
Authorisation/Payment of Deal	Entry onto system. Approval and payment.

5.3 Treasury Management Organisation Chart

Chief Financial
Officer: Director of
Finance and
Resources
I
Head of Finance:
Principal
Accountant
I
Treasury Manager:
Senior Accountant
I
Treasury
Management
Officer: Senior
Accountancy
Assistant

5.4 Statement of the treasury management duties/responsibilities of each treasury post

5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Authority is the Fire Authority Treasurer (S151 Officer). This person will carry out the following duties: -

a) Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
b) Submitting regular treasury management policy reports.
c) Submitting budgets and budget variations.
d) Receiving and reviewing management information reports.
e) Reviewing the performance of the treasury management function.
f) Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
g) Ensuring the adequacy of internal audit, and liaising with external audit.
h) Recommending the appointment of external service providers.

i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Treasury Manager, the Senior Officer Treasury Management Team or the Accountancy Assistants Treasury Management Team must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
l) Prior to entering into any capital financing, lending or investment

transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Authority's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's Financial Regulations

m) It is also the responsibility of the responsible officer to ensure that the Authority complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.1. Treasury Manager: Senior Accountant

The responsibilities of this post will be: -

a) execution of transactions
b) adherence to agreed policies and practices on a day-to-day basis
c) maintaining relationships with counterparties and external service providers
d) supervising treasury management staff
e) monitoring performance on a day-to-day basis
f) submitting management information reports to the responsible officer
g) identifying and recommending opportunities for improved practices

5.4.2. The Head of the Paid Service – the Chief Fire Officer

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented
b) Ensuring that the responsible officer reports regularly to the full Fire Authority on treasury policy, activity and performance.

5.4.3. The Monitoring Officer – the Head of Legal Services

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
c) Giving advice to the responsible officer when advice is sought.

5.4.4. Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.
b) Reviewing division of duties and operational practice.
c) Assessing value for money from treasury activities.
d) Undertaking probity audit of treasury function.

5.5 Authorisation of borrowing and lending transactions

Authorisation is required for new borrowing and lending transactions carried out by the treasury management team.

a. Borrowing: authorised by the Director of Finance and Resources.
b. Lending: authorised by the Principal Accountant.

5.6 Absence Cover Arrangements

In the event of the absence of:	**Cover arrangements:**
Senior Accountancy Assistant	The Senior Accountant to cover, and the Principal Accountant to cover the Senior Accountant.

Senior Accountant	The Principal Accountant to cover.
Both the Senior Accountant and the Senior Accountancy Assistant	The Principal Accountant to cover the Senior Accountancy Assistant, and the Director of Finance and Resources to cover the Senior Accountant.

5.7 Dealing Limits

There are no dealing limits for individual posts.

5.8 List of Approved Brokers

See TMP 11.1.2.

5.9 Policy on Recording of Conversations

It is this Authority's policy to rotate business between brokers.

5.10 Policy on Recording of Conversations

It is not this Authority's policy to record brokers' conversations

5.11 Direct Dealing Practices

The Authority will consider dealing direct with counterparties if it is appropriate and the Authority believes that better terms will be available. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

5.12 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

TMP 6 Reporting Requirements and Management Information Arrangements

6.1 Annual programme of reporting

a) Annual reporting requirements before the start of the year: -
   a. Review of the organisation's approved clauses, treasury management policy statement and practices.
   b. Strategy report on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement.

b) Mid-year review of the TMSS and treasury management activities, and quarterly reviews of compliance with treasury performance indicators.

c) Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the full Fire Authority for approval before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this Authority may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

3. The Treasury Management Strategy Statement is concerned with the following elements:
   a) Prudential and Treasury Indicators
   b) current Treasury portfolio position
   c) borrowing requirement
   d) prospects for interest rates
   e) borrowing strategy
   f) policy on borrowing in advance of need
   g) debt rescheduling
   h) investment strategy
   i) creditworthiness policy
   j) policy on the use of external service providers
   k) any extraordinary treasury issue
   l) the MRP strategy

4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy Statement, included within the TMSS

At the same time as the Authority receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

a) The Authority's risk appetite in respect of security, liquidity and optimum performance
b) The definition of high credit quality *(this has been changed from high credit rating – per CLG guidance, as sole reliance is no longer to be placed on using credit ratings)* to determine what are specified investments as distinct from non-specified investments
c) Which specified and non-specified instruments the Authority will use
d) Whether they will be used by the in house team, external managers or both (if applicable)
e) The Authority's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
f) Which credit rating agencies the Authority will use
g) How the Authority will deal with changes in ratings, rating watches and rating outlooks
h) Limits for individual counterparties and group limits
i) Country limits
j) Levels of cash balances
k) Interest rate outlook
l) Budget for investment earnings
m) Use of a cash fund manager (if applicable)
n) Policy on the use of external service providers

6.4 The Annual Minimum Revenue Provision Statement, included within the TMSS

This statement will set out how the Authority will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.5 Policy on Prudential and Treasury Indicators, included within the Prudential Code Report and the TMSS

1. The Authority approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Fire Authority.

6.6 Mid-year review

The Authority will review its treasury management activities and strategy on a six monthly basis. This review will consider the following: -

a) activities undertaken
b) variations (if any) from agreed policies/practices
c) interim performance report

d) regular monitoring
e) monitoring of treasury management indicators for local authorities.

6.7 Quarterly review

The Authority will review its compliance with treasury performance indicators on a quarterly basis, and report this to the Finance and Resources Committee.

6.8 Annual Review Report on Treasury Management Strategy

An annual report will be presented to the full Fire Authority at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

a) transactions executed and their revenue (current) effects
b) report on risk implications of decisions taken and transactions executed
c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
d) performance report
e) report on compliance with CIPFA Code recommendations
f) monitoring of treasury management indicators

6.9 Publication of Treasury Management Reports

All reports to the Fire Authority or sub-committees of the Fire Authority are made available for public inspection.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Authority has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Authority's treasury management activities.

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Director of Finance and Resources will prepare a three year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income.

The Principal Accountant will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.3 List of Information Requirements of External Auditors.

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- **Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type**
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports from the Agresso financial system
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations including investment income schedules and movement in capital values.

7.4 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Corporate Management Board, whilst a quarterly budget monitoring report goes to the Finance and Resources Committee. The report is intended to highlight any variances between budgets and spend in order that the Authority can assess its financial position. Details of treasury management activities are included within this report, if applicable.

TMP 8 Cash and Cash Flow Management

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

8.2 Bank Statements Procedures

The Authority can access daily bank statements via the BIB online system. All amounts on the statement are checked to source data from Payroll, Creditors etc.

Manual bank reconciliation is undertaken on a weekly basis by the Treasury Management Officer, and a system-based bank reconciliation is carried out monthly

8.3 Payment Scheduling and Agreed Terms of Trade With Creditors

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments.

8.4 Arrangements for Monitoring Debtors / Creditors Levels

Details of invoices over £10k are passed to the treasury management team to inform cash flow forecasts. Advanced notice of expenditure over £10k is also provided where possible when orders are placed. Details are passed to the treasury team on a daily basis to assist in updating the cash flow models.

8.5 Procedures for Banking of Funds

All money received by an officer on behalf of the Authority will without unreasonable delay be passed to the Senior Finance Assistant to deposit in the Authority's banking accounts. The Senior Finance Assistant will notify the Treasury Management Officer of any significant sums banked so that the figures can be taken into account in the daily cash flow.

8.6 Practices Concerning Prepayments to Obtain Benefits

The Authority has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the responsible officer.

TMP 9 Money Laundering

9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

9.3 The Money Laundering Regulations 2007

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Authority will do the following: -

a) evaluate the prospect of laundered monies being handled by them
b) determine the appropriate safeguards to be put in place
c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
d) make all its staff aware of their responsibilities under POCA
e) appoint a member of staff to whom they can report any suspicions. This person is Director of Finance and Resources.

f) in order to ensure compliance is appropriately managed, this Authority will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.

g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is Director of Finance and Resources and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence and this will be effected by following the procedures below.

The Authority does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA website on www.fsa.gov.uk.

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Authority will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on www.fsa.gov.uk).

All transactions will be carried out by BACS for making deposits or repaying loans.

TMP 10 Training and Qualifications

The Authority recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

a) Treasury management staff employed by the Authority
b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Authority operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Treasury Manager (Senior Accountant) to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff that from time to time cover for absences from the treasury management team.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

The Treasury Manager (Senior Accountant) will maintain records on all staff and the training they receive.

10.3 Approved Qualifications for Treasury Staff

It is desirable for treasury management staff to hold the Association of Accounting Technicians professional qualification as a minimum standard.

10.4 Record of Secondment of Senior Management

Records will be kept of senior management who are seconded into the treasury management section in order to gain first-hand experience of treasury management operations.

10.5 Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.6 Member training records

Records will be kept of all training in treasury management provided to members.

10.7 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP 11 Use of External Service Providers

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Authority will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks
- The credit ratings of that government support

11.1.1 Banking Services

a) Name of supplier of service is Barclays Bank.
b) Regulatory status – banking institution authorised to undertake banking activities by the FSA
c) The branch address is:
Barclays
2 High St
Nottingham
NG1 2EN
Tel: - 08457 555 555
d) Services are provided on a rolling contract.
e) Cost of service is variable depending on schedule of tariffs and volumes
f) Payments due quarterly.

11.1.2 Consultants'/Advisers' Services

Treasury Consultancy Services

The Authority will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.
The performance of consultants will be continually reviewed by the treasury management team.

a) Name of supplier of service is Sector Treasury Services Limited. Their address is 40 Dukes Place, London, EC3A 7NH. Tel: 0871 664 6800.
b) Regulatory status: investment adviser authorised by the FSA.

c) Contract commenced 01/11/11 and runs for 3 years.

Leasing Consultancy Services

Services commenced on 13/05/13, and are provided as an addendum to the Treasury Consultancy Services contract.

Other Consultancy services may be employed on short term contracts as and when required.

11.1.3 Credit Rating Agency

The Authority receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

11.2 Procedures and Frequency for Tendering Services

See TMP2.

TMP 12 Corporate Governance

12.1.1 List of Documents to be Made Available for Public Inspection

a. The Authority is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

b. It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

c. The following documents are available for public inspection: -

   Treasury Management Policy Statement
   Treasury Management Strategy Statement
   Annual Investment Strategy
   Minimum Revenue provision policy statement
   Annual Treasury Review Report
   Treasury Management monitoring reports (e.g. half yearly, quarterly)

   Annual accounts and financial instruments disclosure notes
   Annual budget
   3 Year Capital Plan

   Minutes of full Fire Authority and sub-committee meetings

Appendix B

List of treasury management procedures and records as at 17 December 2013

Procedures

1. T:\Finance\Financial Procedures\Cash Flow

Records

1. Main Cashflow Spreadsheet: T:\Finance\TREASURY MANAGEMENT\Cashf14. Contains:
    a. Monthly cash flow forecasts projecting four years into the future.
    b. Daily cash flow forecasts for the current financial year.
    c. Record of issued and presented cheques.
    d. Record of historical and outstanding loans.
    e. Projections of precept payments for the current financial year.
    f. Projections of large payments, based on advice received from other departments.
2. Details of outstanding invoices over £10k: T:\Finance\TREASURY MANAGEMENT\OVER10K 2005 onwards.
3. Details of loans held with the PWLB: T:\Finance\TREASURY MANAGEMENT\PWLB.
4. Sector credit rating list with colour and term ratings (regularly updated): T:\Finance\TREASURY MANAGEMENT\Copy of credit rating list – base list (excel) 061213.
5. Standard settlement instructions: T:\Finance\TREASURY MANAGEMENT\STANDARD SETTLEMENT INSTRUCTIONS
6. Borrowing authorisation document: T:\Finance\TREASURY MANAGEMENT\Borrowing Authorisation blank
7. Revenue Support Grant and NNDR Schedule of Payments

Appendix C

Annual Treasury Management Strategy Statement 2013/14

NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

TREASURY MANAGEMENT STRATEGY 2013/14

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 22 February 2013

Purpose of Report:
To inform Members of the Authority's Treasury Management Strategy for 2013/14.
To seek approval of the Authority's Minimum Revenue Provision policy for 2013/14.

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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 borrowing, for managing its investments and for giving priority to the security and liquidity of those investments.

1.2 Treasury management is defined as "the management of investments and cash flows, 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."

1.3 The Authority adopted the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2009 (the Code) on 9 April 2010 (the Code was updated in 2011). It is a requirement of the Code that the Authority creates and maintains:

A treasury management policy statement, which states the policies, objectives and approach to risk management of its treasury management activities. This statement is given in Appendix A.
Suitable treasury management practices, setting out how the Authority will seek to achieve those policies and objectives and how activities will be controlled and managed.

1.4 A report on the Prudential Code for Capital Accounting is also on this agenda. This report sets out the prudential indicators for 2013/14, which are designed to ensure that the Authority's capital investment plans are affordable, prudent and sustainable and are in accordance with CIPFA's Prudential Code. This Treasury Management Strategy report is complementary to that Prudential Code report and the proposed prudential and treasury limits for 2013/14 are included in both reports for completeness.

1.5 This report also sets out the Authority's Minimum Revenue Provision policy for 2013/14 for approval by Members in paragraph 2.40.

1.6 The Authority has appointed Sector Treasury Services as its external treasury management adviser. Sector has provided the Authority with its view on anticipated interest rates for the forthcoming year.

2. REPORT

TREASURY MANAGEMENT STRATEGY FOR 2012/13

2.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

2.2 The Act therefore 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.

2.3 The suggested strategy for 2013/14 in respect of the following aspects of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury adviser, Sector Treasury Services.

2.4 The strategy covers:

- Prudential and Treasury Indicators
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the Minimum Revenue Provision policy
- training of Officers and Members

2.5 The Authority recognises that whilst there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, responsibility for treasury management decisions remains with the organisation at all times. The Authority will therefore ensure that undue reliance is not placed upon external service providers.

BALANCED BUDGET REQUIREMENT

2.6 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Authority to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Authority for the foreseeable future.

ECONOMIC BACKGROUND

2.7 The Eurozone debt crisis has continued to affect the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to grow significantly in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930.

2.8 The Eurozone sovereign debt crisis has abated somewhat following the European Central Bank's (ECB) pledge to buy unlimited amounts of bonds of countries which ask for a bailout. Sentiment in financial markets has improved considerably since this ECB action and recent Eurozone renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and there is no guarantee that the situation will not worsen in the future.

2.9 The Government's austerity measures, aimed at getting the public sector deficit into order over the next four years, now look as if they will fail to achieve their objectives within the original planned timeframe. Achieving this target is dependent on the UK economy growing at a reasonable pace but recession in the Eurozone has depressed growth whilst tax receipts have not kept pace with additional welfare benefit payments. Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is, though, little evidence that consumer confidence levels are recovering nor that the manufacturing sector is picking up. On the positive side, growth in the services sector has rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had the time to make a significant impact.

2.10 This economic outlook has some key treasury management implications:

- Given the weak outlook for economic growth, the prospects for any changes in Bank Rate before 2015 seem limited.
- The longer term prospect is that gilt yields and PWLB rates will rise due to the high volume of gilt issuance in the UK and in other major western countries.
- Investment returns are likely to remain relatively low during 2013/14 and beyond.

2.11 Sector Treasury Services has provided a forecast on the bank interest rate, which draws on current City forecasts:

Sector Bank Rate Forecasts	
As at 31 March 2013	0.50%
As at 31 March 2014	0.50%
As at 30 September 2014	0.50%
As at 31 March 2015	0.75%

MANAGEMENT OF CASH RESOURCES

2.12 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 online. 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 or are lent to institutional borrowers over longer periods.

2.13 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.

2.14 A 3 year cash flow projection is prepared together with a 3 month rolling cash flow forecast. The 3 month forecast is updated regularly and this process reveals when cash surpluses are likely to arise.

2.15 The current bank account is cleared to zero on a daily basis with the balance being transferred to the investment account (Business Premium Account).

2.16 Cash management processes have been examined by internal auditors and have been shown to be robust.

BORROWING STRATEGY

2.17 The prudential indicators for borrowing are set out in Appendix B. Background information relating to these indicators is contained within the Prudential Code for Capital Finance 2013/14 report which is elsewhere on this agenda.

2.18 The capital financing requirement is the sum of money required from external sources to fund capital expenditure i.e. the Authority's underlying need to borrow or lease. For 2013/14 this figure is estimated at £26,032,000, which is lower than would have been the case if the Authority had not approved the use of revenue reserves to finance future capital expenditure as part of the budget 2011/12 to 2013/14.

2.19 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 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. 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 lower than PWLB rates.

2.20 The loan of £4m referred to in paragraph 2.19 is structured as a "Lender Option Borrower Option (LOBO)" loan. This means that on 7 March 2013 and on that anniversary every five years, the lender may revise the interest rate, which is currently 4.13%. The Authority may choose to repay the loan without penalty if the amended interest rate is not advantageous. If the lender does exercise the option to revise the interest rate, the strategy will be to either agree to continue the loan with the revised interest rate or to repay the loan and replace it with new, long term debt at a lower rate depending on which is the most advantageous option for the Authority.

2.21 Sector's view on future PWLB interest rates is:

	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Mar 15	Mar 16
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.75%
5 yr PWLB	1.50%	1.50%	1.60%	1.60%	1.70%	2.20%	2.90%
10 yr PWLB	2.50%	2.50%	2.60%	2.60%	2.70%	3.20%	3.90%
25 yr PWLB	3.80%	3.80%	3.80%	3.80%	3.90%	4.30%	5.00%
50 yr PWLB	4.00%	4.00%	4.00%	4.00%	4.10%	4.50%	5.20%

The table above has been adjusted for the PWLB certainty rate, which is a 20 basis points reduction in the interest rate for Authorities such as this one which have applied for it.

2.22 In view of the above forecast the Authority's borrowing strategy will be based upon the following information.

A combination of revenue reserves, capital grant and internal funds will be used to finance the majority of capital expenditure in 2013/14 and 2014/15.
Two PWLB loans mature in the short term (September 2013 and September 2014). The first loan will be repaid with a combination of a capital receipt from the expected sale of Dunkirk fire station and cash released from the annual minimum revenue provision charge. The second loan will need to be replaced with new borrowing. The LOBO loan referred to in paragraph 2.20 may be replaced with new borrowing if the lender exercises the option to revise the interest rate and new borrowing can be taken at a lower rate than that offered.
The two maturing PWLB loans have a total value of £5m (which is £9m including the LOBO loan) and it is estimated that new borrowing in the period 2013/14 to 2014/15 will be in the region of £3m (or £7m if the LOBO loan is replaced).
Sector's view is that PWLB rates will remain fairly constant throughout 2013/14 with a small rise in the final quarter, but are likely to rise in 2014/15 and again in 2015/16. It may therefore be advantageous to take out new loans next year before rates increase, as this will have a lesser impact on the revenue budget for the periods of the loans. However if this is in advance of the need to spend, there will be a cost of capital impact as referred to in paragraph 2.25 below.
PWLB rates on loans of less than ten years duration are expected to be lower than longer term PWLB rates. However, the existing debt maturity profile of the Authority will mean that longer term borrowing at a higher cost is required to give a balanced loans portfolio.
Consideration will also be given to borrowing fixed rate market loans at 0.25% – 0.50% below the PWLB target rate and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
Consideration will also be given to taking annuity loans rather than maturity loans for new borrowing as this will ensure that over the medium term debt will reduce alongside Capital Financing Requirement (CFR) projections. This will help the Authority to meet the new Prudential indicator which states that gross debt should not exceed the CFR other than in the short term.

2.23 In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change in position:

if it were felt that there was a significant risk of a sharp **fall** in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
if it were felt that there was a significant risk of a much sharper **rise** in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

2.24 The Authority's gross debt position is projected to be £25.5m by the end of 2012/13, but investments of approximately £10m are expected to be in place at 31 March 2013, giving a net debt position of around £16m. Some of these investments will be used over the year to finance capital expenditure from revenue reserves, which will narrow the gap between gross and net debt. Currently, investment interest rates are substantially lower than debt interest rates so using reserves rather than borrowing to finance capital expenditure will give better value for money in the short term. It must be pointed out though, that with interest rates likely to rise over the medium term, additional longer term costs will be incurred when surplus reserves have been exhausted and there is once more a requirement to borrow at higher rates.

2.25 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed, although this scenario is unlikely anyway given that current borrowing rates are higher than current investment interest rates, creating a cost of capital impact. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of funds invested. In determining whether borrowing will be undertaken in advance of need the Authority will:

- ensure that borrowing is only undertaken to finance the capital programme approved within the current Medium Term Financial Strategy
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

2.26 The rescheduling of debt involves the early repayment of existing borrowings and their replacement with new loans. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, this would indicate a potential to generate savings by switching from long to short term debt. However, a premium would be payable which may negate the savings, and the loan maturity profile of the Authority indicates that this would increase exposure to interest rate risk. It is therefore unlikely that rescheduling of debt will take place in 2013/14 although this will be kept under review should circumstances change. Rescheduling will be considered for the following reasons:

- the generation of cash savings and / or discounted cash flow savings,
- enhancing the balance of the portfolio by amending the maturity profile
- switching from maturity to annuity loans to maintain gross debt below the Capital Financing Requirement in the short / medium term

Any rescheduling of debt will be reported to Members at the earliest meeting following its action.

INVESTMENT STRATEGY

2.27 The Authority will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, the Audit Commission's report on Icelandic investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance. The Authority's investment priorities are:

(a) the security of capital and
(b) the liquidity of its investments.

The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Authority is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

2.28 Investment opportunities will arise when there are temporary cash surpluses. In accordance with guidance from CIPFA, and in order to minimise the risk to investments, the Authority sets a minimum acceptable credit quality of counterparties for investment. To determine the institutions with which investments may be placed, the Authority uses the creditworthiness service provided by Sector Treasury Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors forming the core element. It is recognised that ratings should not be the sole determinant of the quality of an institution, and Sector's creditworthiness service does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries
- information from the financial press and share price information

2.29 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine both the credit-worthiness of institutions and the duration for investments. It is regarded as an essential tool, which the Authority would not be able to replicate using in house resources.

2.30 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

Institutions within the "purple band" (24 months), the "yellow band" (5 years) or with no colour band will not be used.

2.31 The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix C. This list will be added to or deducted from by Officers should ratings change in accordance with this policy.

2.32 The latest credit list provided by Sector will be made available to Members at the meeting.

2.33 In accordance with its low risk appetite, the Authority may undertake the following types of "specified" investments:

- Deposits with the Debt Management Office (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

2.34 The risks associated with investing will be reduced if investments are spread e.g. over counterparties or over countries. The Authority will therefore aim to limit its investment with any single counterparty to £2m. It is, however, difficult to impose any further spreading requirement due to the relatively small size of the Authority's investments and the fact that investment institutions will often only accept a minimum investment sum, which may render any such policy unworkable. Despite this Officers will, wherever possible, avoid the concentration of investments with one counterparty or group.

2.35 The majority of past investments have been for periods of 3 months or less. In the current financial climate no term deposit investments with other counterparties, such as UK semi-nationalised banks and local authorities, will be made for more than 1 year without the prior approval of the Treasurer and the Chair of Finance and Resources Committee. The Authority will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

2.36 All credit ratings will be monitored via a weekly update from Sector. The Authority is alerted to changes to ratings of all three agencies as and when they occur through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

2.37 Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support.

MINIMUM REVENUE PROVISION POLICY 2013/14

2.38 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. These regulations were an amendment to the 2003 regulations and introduced several changes to the capital finance regime for local authorities (including fire authorities) in England. The most significant of these were new provisions dealing with the calculation of Minimum Revenue Provision (MRP), which is the amount an authority charges to its revenue account in respect of the financing of capital expenditure.

2.39 Under the regulations, Authorities must make a "prudent provision" for MRP and guidance is given on the interpretation of this: "provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service". This guidance translates into the asset life method. Authorities are permitted to continue charging MRP calculated using the old method for borrowing and credit arrangements which funded capital expenditure incurred before 1 April 2007. This method calculates a charge of 4% of the capital financing requirement each year to revenue.

2.40 The following policy on MRP is therefore recommended to members and budgetary provision for MRP has been made on this basis:

> For all borrowing and credit arrangements to fund capital expenditure incurred before or during 2006/07, the minimum revenue provision applied in 2013/14 will

continue to be calculated on the basis of the 4% CFR (capital financing requirement) method. This method will continue to be used in future years for capital expenditure incurred during or before 2006/07.

For all borrowing and credit arrangements to fund capital expenditure incurred from 2007/08 onwards, the minimum revenue provision applied in 2013/14 will be calculated on the basis of the Asset Life method.

TRAINING OF OFFICERS AND MEMBERS

2.41 Under the Code, good practice is defined as ensuring that all staff involved in treasury management are appropriately trained and experienced to undertake their duties. Employees within the Finance Department who carry out treasury management activities are suitably trained and experienced and routinely attend at least one treasury management update event each year to ensure that their knowledge keeps pace with changes. It is also suggested that those tasked with treasury management scrutiny responsibilities also have access to suitable training and it is therefore proposed that the Authority arrange a treasury management training seminar during 2013/14 for Members of the Finance and Resources Committee.

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. EQUALITY IMPACT ASSESSMENT

There are no equalities issues arising directly from this report.

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

It is recommended that:

9.1 Members note the Treasury Management Strategy 2013/14 as set out in this report.

9.2 Members approve the Minimum Revenue Provision policy 2013/14.

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

None.

PETER HURFORD
TREASURER TO THE FIRE AUTHORITY

Appendix D

TREASURY MANAGEMENT POLICY STATEMENT

1. The Authority defines its treasury management activities as: “The management of the 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”.

2. 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.

3. 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.”

Appendix E

PRUDENTIAL AND TREASURY INDICATORS FOR 2013/14

Estimate of Ratio of Financing Costs to Net Revenue Stream	5.5%
Estimate of the Incremental Impact of the New Capital Investment Decisions on the Council Tax (Band D)	-£1.31
Estimate of Total Capital Expenditure to be Incurred	£5,762,000
Estimate of Capital Financing Requirement	£26,032,000
Operational Boundary	£27,233,000
Authorised Limit	£29,956,000
Upper limit for fixed rate interest exposures	100%
Upper limit for variable rate interest exposures	30%
Loan Maturity:	Limits:
Under 12 months	Upper 20% Lower 0%
12 months to 5 years	Upper 30% Lower 0%
5 years to 10 years	Upper 75% Lower 0%
Over 10 years	Upper 100% Lower 0%
Over 20 years	Upper 100% Lower 30%
Upper Limit for Principal Sums Invested for Periods Longer than 364 Days	£2,000,000

Appendix F

APPROVED COUNTRIES FOR INVESTMENTS – FITCH RATINGS

AAA	AA+	AA
Australia	Hong Kong	Abu Dhabi (UAE)
Canada		Belgium
Denmark		
Finland		
France		
Germany		
Luxembourg		
Netherlands		
Norway		
Singapore		
Sweden		
Switzerland		
U.K.		
U.S.A.		