

GREATER MANCHESTER FIRE & RESCUE AUTHORITY

POLICY RESOURCES & PERFORMANCE COMMITTEE 2 FEBRUARY 2012

Subject : TREASURY POLICY STATEMENT 3RD INTERIM REPORT

Report of Treasurer

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Purpose of the Report

1. The purpose of this report is to review the operation and exercise of delegated Treasury Management powers during the first nine months of 2011/12 and also consider the prospects for the remainder of the financial year. In addition the report sets out the organisations with which the Authority can place its surplus funds and explains how the lending list is drawn up.

General Financial Market Conditions & Strategy Adopted

2. The bank base rate remained at 0.5% and borrowing rates remained significantly above investment rates during the first nine months of the year. The strategy adopted has therefore been to continue to utilise available cash balances to finance new capital expenditure rather than take on new long term borrowing. The advice from Sector, the Authority's treasury advisors, is that bank rates are expected to remain unchanged for the next eighteen months resulting in the likely continuation of this strategy throughout the remainder of the year. Utilising available cash balances in this way has the added advantage of reducing exposure to counterparty risk as surplus balances are used to fund new capital expenditure rather than being invested.
3. The investments that have been made have been done so using the same cautious approach that has been applied in previous years with investment decisions being strongly influenced by counterparty risk considerations and a desire for high liquidity.

External Borrowing / Investment Transactions

4. The table overleaf sets out the numbers and amounts of transactions undertaken during the April to December 2011 period.

Treasury Management Cash Transactions 1st April to 31st December 2011	Number of Transactions	Amount £million
<u>Outward Transactions</u>		
Investments made	4	12.00
Call account additions	43	83.99
Borrowing repaid (short term)	5	2.17
TOTAL	52	98.16
<u>Inward Transactions</u>		
Borrowing undertaken (short term)	5	2.17
Investments repaid	2	7.00
Call account withdrawals	89	76.12
TOTAL	96	85.29
Net Cash Out flow for period		12.87

Long Term Borrowing

5. Currently the Authority holds loans totalling £8,998,000. Included in this total is a loan of £2,298,000 which matures in January 2012. It is at an interest rate of 8.875% which equates to £203,948 per year.
6. No decision has yet been taken as to whether or not any further long term borrowing will be undertaken during the current financial year either to replace the above loan or to fund new capital expenditure. This decision will be taken later in the year and will be determined by cashflows taking place up to that point.
7. No debt restructuring has taken place during the period under review.
8. The Authority has a statutory obligation to determine and keep under review the "Affordable Borrowing Limits". During the financial year to date it has operated within the treasury limits and Prudential Indicators set out in the Authority's Treasury Management Strategy Statement and in compliance with the Authority's Treasury Management Practices. The Prudential and Treasury Indicators are shown overleaf.

Prudential Indicators – 2011/12

	£	Actual 30/12/11 £
(i) Operational Boundary	12,096,000	8,998,000
(ii) Authorised Limit	13,000,000	8,998,000
(iii) Fixed Rate Exposure Limit	12,096,000	8,998,000
(iv) Variable Rate Exposure Limit	0	0

The Authority's policy is to borrow only at fixed rates of interest.

(v) Maturity Structure for new borrowing

<u>Proposed for 11/12</u>	<u>Upper Limit</u>	<u>Lower Limit</u>	<u>Actual</u>
Under 12 months	0	0	0
12 months and within 24 months	0	0	0
24 months and within 5 years	50	0	0
5 years and within 10 years	50	0	0
10 years and above	100	50	0

Comparison of Investment Rates

9. The average rate of interest for the period 1st April to 31st December 2011 on temporary investments has been compared to the 7 Day London Interbank Bid Rate (LIBID). The average interest rate obtained by the Authority on temporary investments was 0.95% which exceeded the published LIBID rate of 0.48%.

Credit Ratings

10. Regular data on credit ratings supplied by all three rating agencies, together with wider advice, financial and economic information and the credit default swap (CDS) market provided by Sector, are all compared to formulate the Authority's lending list.
11. The down grading earlier in this financial year of the credit ratings of UK financial institutions as a result of the continuing uncertainty over the quality of the euro zone sovereign debt led to the Authority reducing the maximum investment period of deposits with these institutions to three months.
12. The investment counterparty list as it currently stands is set out overleaf.

<u>Clearing Banks</u>	<u>Maximum Investment Period</u>	<u>Maximum Investment Limit £m</u>	
Barclays PLC	3 months	10.0	
Co-operative Bank	3 months	10.0	
HSBC PLC	3 months	10.0	
Royal Bank of Scotland	3 months	10.0	
Lloyds TSB PLC	3 months	10.0	} Group limit
Bank of Scotland	3 months	10.0	
<u>Building Societies</u>			
Nationwide	3 months	2.0	
<u>Local Authorities</u>			
(including Police, Fire & Passenger Transport)	364 days	5.0	

13. A proactive approach is adopted in monitoring and amending institutions on the investment counterparty list together with varying the maximum periods of investment within the 364 day limit.

Prospects for the Remainder of the Year

14. The appendix attached to this report provides details of the actual average weekly cash balances held by the Authority for the first nine months of 2011/12 in the form of a graph. It also provides details of estimated cash balances that will be held for the rest of 2011/12. The estimated figures reflect all known cashflow movements such as the receipt of Government grants and precepts and the payment of creditors and salaries.
15. At 31st December the Authority's cash balances stood at £16.220 million. The graph shows that looking forward they are expected to fall steadily before ending the year at around £4.0 million. However Members will appreciate that whilst the forecasted cash balances represent our current best assessment, it is almost impossible to forecast these to a high degree of accuracy as inevitably there will be significant items whose impact at this stage is unknown, an example would be redundancy related payments. Given this uncertainty, the cash balances are constantly monitored and the treasury management strategy adapted accordingly.

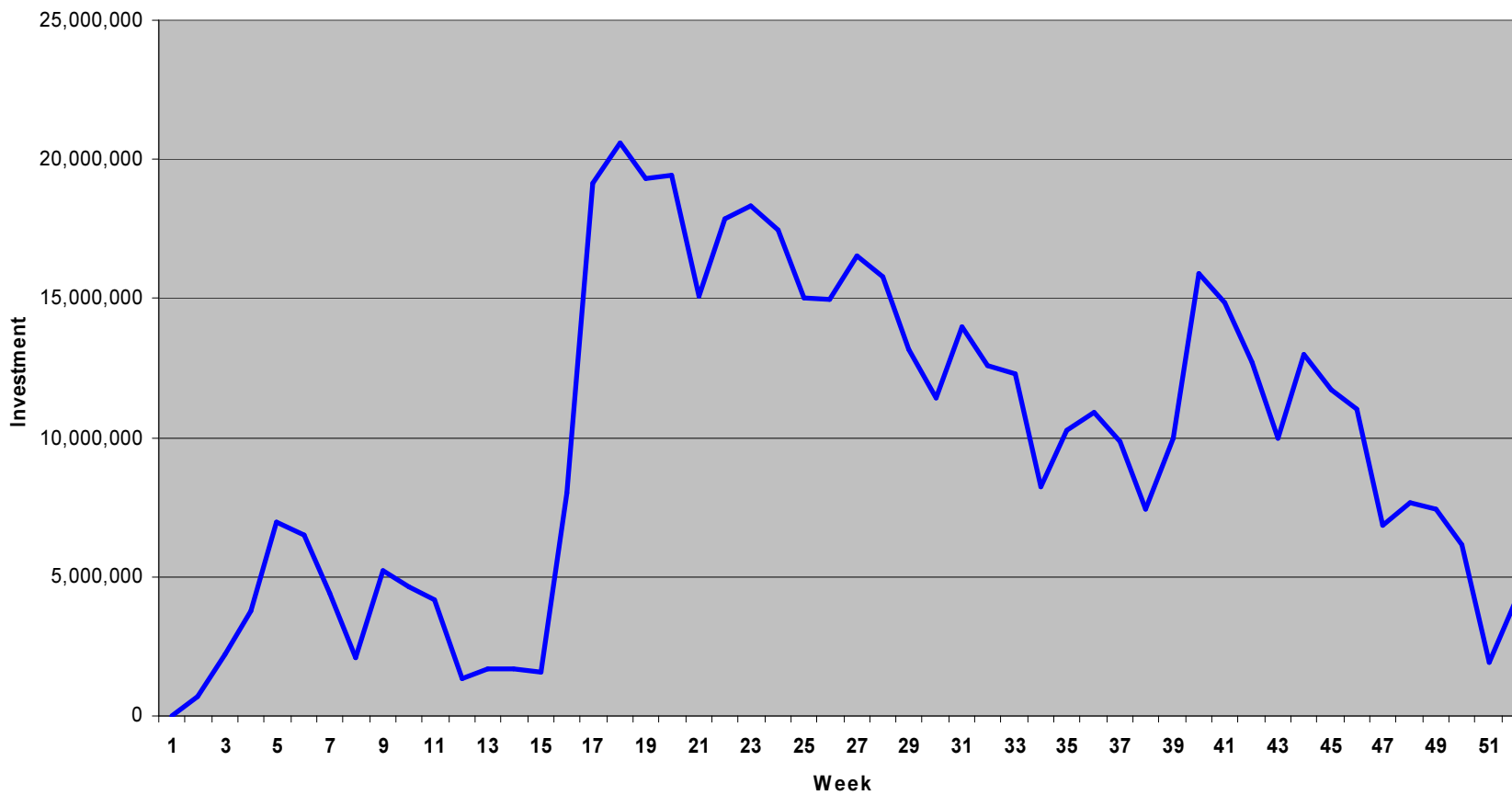
Recommendation

16. Members are requested to accept the report.

PAUL McKevitt
Treasurer to the Authority

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2011/12 Fire Investments
Daily Average per Week



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