

GREATER MANCHESTER FIRE & RESCUE AUTHORITY

POLICY RESOURCES & PERFORMANCE COMMITTEE 2 FEBRUARY 2012

AUTHORITY – 16 FEBRUARY 2012

Subject: TREASURY POLICY STATEMENT

Report of the Treasurer In Consultation with the County Fire Officer & Chief Executive

**Contact details: Paul McKevitt Tel 01942 827235
Email P.McKevitt@wigan.gov.uk**

1. Purpose of Report

To approve the Authority's Treasury Management policy for the 2012/13 financial year.

2. Code of Practice

The Authority has adopted CIPFA's Treasury Management in the Public Services 'Code of Practice' (2011 Edition).

3. Scope of the Treasury Management Function

The Authority defines the policies and objectives of its treasury management activities in the following statement:-

(i) The treasury management activities are:

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".

(ii) 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 Authority.

(iii) 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 best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management".

4. Approved Methods of Raising Capital Finance

The following methods of raising capital finance have been identified, in the report on prudential indicators, as being available to the Authority to use in 2012/13:

Borrowing supported by Central Government
Capital Fund
Capital Grants
Capital receipts from the agreed sales of surplus assets.
Revenue Funding

It is currently estimated that these sources of funding will, in 2012/13 amount to the following:

SOURCE OF FUNDING	£'000	%
Borrowing	0	0%
Capital Fund	57	1%
Capital Grants	2,926	50%
Capital Receipts	1,260	22%
Revenue funding	1,600	27%
TOTAL ESTIMATED FUNDING	5,843	100%

No additional funding source will be used without the consent of the Policy, Resources and Performance Committee.

5. Limits on External Borrowing

The Authority has a statutory duty under section 3 of the Local Government Act 2003 to determine and keep under review how much it can afford to borrow. In the Prudential report the Authority set limits to the amount of its external borrowing. An Authorised Limit of £8.5 million (rounded up to the nearest £0.5 million) and an Operational Boundary of £7.7 million have initially been determined for 2012/13. Within this overall limit, the amount of short-term debt (i.e. less than one year) would be limited by the Authority to no more than £4.0 million.

6. Policy on Sources and Types of Borrowing Instruments

The **sources** for borrowing in 2012/13 will be as follows:

- Public Works Loans Board.
- London Money Market either directly or through the use of brokers drawn from an approved list.

Those currently used are:-

- Sterling International Brokers Ltd.

- Tullett Prebon (UK) Ltd.
- ICAP Europe Ltd.
- The Greater Manchester Superannuation Fund.
- The Co-operative Bank.

The **types** of borrowing for 2012/13 will be as follows:

- Long term maturity loans from the PWLB.
- Short and medium term borrowing through the money market or the Co-operative Bank.
- Overdraft facility with the Co-operative Bank.

Borrowing in advance of need will only be undertaken where there is a clear business case for doing so for current capital programme or to finance future debt maturities.

7. Estimated Levels of New External Borrowing in 2012/13 and Borrowing Strategy

The table overleaf sets out the estimated capital cash flow forecast for the period 2012/13 to 2014/15 (inclusive). It shows that the Authority is estimated to have a £4 million surplus cash flow at the start of 2012/13. During 2012/13 the capital related outflows are expected to be less than the inflows resulting in a forecasted cash flow surplus of £6.250 million remaining at the end of the year. By the end of 2013/14 this is expected to have reduced to £2.447 million. The level of capital expenditure forecast to be incurred during 2014/15 and the requirement to repay £4 million of outstanding loans during this year means that there will be an estimated borrowing requirement of £5.033 million for this year.

Three Year Estimated Capital Cash Flow 2012/13 to 2014/15

	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>
	£'000	£'000	£'000
Estimated level of cash invested at start of year	4,000	6,250	2,447
Cash Outflows:			
Loans due for repayment	-2,000	0	-4,000
Demand for capital resources from the Capital Fund	-57	-6,456	0
Spend deficit to be funded by borrowing	0	0	-6,025
Cash Inflows:			
Raising of Minimum Revenue Provision for Debt Redemption	2,707	2,653	2,545
Transfers from the Capital Fund	1,600	0	0
Estimated Borrowing Requirement	0	0	5,033
Estimated Level of Cash Invested at Year End	6,250	2,447	0

8. Debt Restructuring Policy

The Authority will undertake debt restructuring as and when appropriate opportunities arise. Any decision to restructure debt will be taken to satisfy one or more of the following objectives.

To rebalance the debt repayment profile. No more than 10% of total long-term debt should mature in any one year.

To change the volatility structure of the debt.

To amend cash flows for treasury management purposes.

To produce reductions in capital financing costs as part of an overall budget strategy, provided that this is consistent with prudent debt management.

9. Annual Investment Strategy

The Authority will have regard to the DCLG Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to the guidance, the Audit Commissions' report on Icelandic investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Noted ("the CIPFA TM Code"). The function of the Annual Investment Strategy is to set out the general policy objectives for investments, the procedures for determining which investments in the "Specified" and "Non Specified"

categories the Authority will use in the forthcoming financial year and the maximum periods for which funds may be committed in each category.

All surplus bank balances, or as much as it is practicable to assess, which are not immediately required to meet the outgoings of the Authority shall be invested.

Investment Objectives:- (in priority order)

- (i) Capital protection
- (ii) Ensuring the required liquidity
- (iii) Enhanced return consistent with security and liquidity.

Delegation to the Authority Treasurer

The Treasurer shall be responsible for the investment of funds in accordance with this Policy.

Class of Investments Authorised

Investments shall be made only in term deposits with approved local authorities and approved credit rated deposit takers such as banks and building societies. No other forms of investment will be used during 2012/13 without the prior approval of the Policy Resources and Performance Committee.

Approved investment list

The Authority, in conjunction with its treasury advisor, Sector, will use Fitch, Moodys and Standard and Poors ratings to derive its credit criteria. All credit ratings will be continually monitored. The Authority is alerted to changes to ratings of all three agencies 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.

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

Currently foreign institutions are excluded from the Authority's investment list and it is recommended that we continue with that policy.

As a result, investment shall be made only in one or more of the organisations listed below:-

- (i) **Banks**
 - Barclays Bank plc
 - Co-operative Bank plc
 - Bank of Scotland plc)
 - Lloyds TSB Bank plc) Group Limit
 - HSBC Bank plc
 - Royal Bank of Scotland plc

- (ii) **Building Societies**
 - Nationwide

- (iii) **Local Authorities**
 - County Councils
 - Metropolitan Districts
 - London Boroughs
 - Shire Districts
 - Unitary Authorities in England and Wales
 - Police Authorities
 - Fire and Rescue Authorities
 - Passenger Transport Authorities
 - Unitary Councils in Scotland

Any changes to the list of organisations above shall be subject to the prior approval of the Policy, Resources and Performance Committee.

Limit of investment with any one organisation

At any one time the total sum invested in any one of the organisations listed in the approved investment list shall not exceed:-

£10m for clearing banks (includes total for the group if applicable)

£2m for building societies.

and

£5m for Local Authorities.

In the event that, for whatever reason, the funds available for investment in whole or in part cannot be placed with any of the organisations in the Approved Organisations List then such funds shall be placed on overnight deposit with The Royal Bank of Scotland plc, or the Co-operative Bank plc.

Investment periods

The Treasurer shall determine the repayment period for each investment and, subject to the Authority's cash flow requirements, maintain a spread of repayment periods. All investments will however be for a period of less than one year.

10. Policy on Interest Rate Exposure

At present there are no variable interest rate loans outstanding and the Authority, in setting prudential indicators, has determined that it will continue to borrow only at fixed interest rates.

11. Policy on Use of External Managers

No external cash or fund managers are currently appointed and it is not expected that this situation will change during 2012/13.

12. Policy on Delegation of the Treasury Management Function

The Authority will delegate to the Policy Resources and Performance Committee the adoption, implementation, amendment and monitoring of the Treasury Policy Statement.

The following matters are delegated to the Treasurer:

- a) The production of a Treasury Policy Statement each year for approval by the Policy Resources and Performance and full Authority prior to the start of the financial year.
- b) The staffing and organisation of the Treasury Management function.
- c) Ensuring that all staff engaged in Treasury Management receive appropriate training.
- d) The production of a clear statement of responsibilities delegated to each post engaged in Treasury Management indicating the limits which apply and the arrangements for absence cover.
- e) The production and regular review of the Treasury Management Practices which details the procedures to be followed in carrying out Treasury Management activities and the arrangements for monitoring both compliance and performance.
- f) Decisions on the policies for borrowing and investing in the ensuing period.
- g) Decisions on long term borrowing.
- h) Decisions on the restructuring of the Authority's debt.
- i) Authorising additions and deletions to the list of approved money brokers.
- j) Advising the Authority's Monitoring Officer when necessary.

13. Review Requirements and Reporting Arrangements

The Treasurer will report at least twice a year on the operation and exercise of delegated Treasury Management powers.

A mid year review report will also be presented to both the Policy Resources and Performance Committee and the full Authority.

In addition, an annual report by the Treasurer will be presented to the full Authority no later than 31st July in the succeeding financial year.

Paul McKeivitt
Treasurer to Greater Manchester
Fire & Rescue Authority

Steve McGuirk
County Fire Officer &
Chief Executive