Shropshire and Wrekin Fire and Rescue Authority
29 April 2009

Investment and Treasury Management Policy

Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

1 Purpose of Report

This report updates the Authority on Treasury Management issues as at 31 March 2009, and in the light of responses to the Icelandic banks crisis.

2 Recommendations

The Fire Authority is recommended to:

a) Note the investment situation at 31 March 2009;
b) Confirm the current approach to lending; and
c) Task its Audit and Performance Management Committee to review Treasury Management Practices (paragraphs 5 and 6ii).

3 Background

One aspect of the final accounts that Members examine each year is the level of investments, cash and borrowing. This is given added impetus this year by reports from the Audit Commission, “Risk and Return”, and from Chartered Institute of Public Finance and Accountancy (CIPFA) “Treasury Management in Local Authorities – Post Icelandic Banks Collapse”. These were issued in March 2009 in the wake of the Icelandic Bank Crisis.

Further reports are expected from the Communities and Local Government (CLG) Select Committee on a review of Local Government Investments. CIPFA will also be issuing a revised Treasury Management Code and Guidance Notes in the light of the lessons to be learnt.

This report sets out the key balances in the Authority’s accounts and its current approach. It then relates that to the Audit Commission’s recommendations and the interim advice being offered by CIPFA.

4 The Authority's Position

The Investment Strategy was agreed by the Fire Authority in February 2009 and stated:

"The Fire Authority's Investment Priorities are:

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

The Fire Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity."

The Strategy and Resources Committee has been keeping the situation under review. In March 2009 it was reported that most of the available investment was with the Debt Management Office, i.e. the Government, which was secure but giving a very low and diminishing return. It was reported that the Treasurer would consider placing up to £2.0 million with other borrowers, but only if their credit rating was sufficiently high or they were no longer an institution in their own right due to the UK Government's taking a majority ownership. There is also a cautious approach to lending periods, as events can move quickly.

The balance sheet position is as follows:

Investments	**£000**
Lloyds TSB	2,000
Abbey	1,635
Debt Management Office	1,170
	4,805

The position for borrowing is £5.810 million. This compares with a capital financing requirement (i.e. need to borrow to fund assets) of £6.158 million. This demonstrates that borrowing to fund the capital programme has been kept to prudent levels.

The gross borrowing at 31 March 2009 of £5.810 million compares with a net borrowing position of £1.005 million. The difference is explained by the holding of provisions and reserves of £3.375 million together with other cash in hand, i.e. net underspends and the surplus of creditors over debtors. The benefits of our policy on reserves are currently offset by the risks of holding cash in the present environment. However the Authority has a cautious approach to investment and also plans to use surplus funds to finance capital assets on a temporary basis.

The Committee also reviewed the Authority's Treasury Management Policies, and noted that these would be revisited when Shropshire Council, as provider of Treasury Management Services, reviewed its Policies later this year.

5 Audit Commission Recommendations

The recommendations made by the Audit Commission in their report "Risk and Return" are set out in the Appendix to this report. Of these recommendations 8 to 16 are directed at local authorities.

In general, Shropshire and Wrekin Fire Authority (SWFA) has recognised that it cannot directly provide the staff and expertise to manage its Treasury functions in-house. It, therefore, employs Shropshire Council to act as Provider of Treasury Management Services. Your Treasurer monitors their Strategy and Practices, and their staffing practices, and maintains those of this Authority within the limits adopted by them.

In this overall context, therefore, some of the recommendations are being addressed.

The main question for the Authority is captured in Recommendation 8, which poses a direct question as to whether the Authority would rather avoid all risk and place its funds with the Debt Management Office. Members' views are sought as to whether the current cautious approach, which probably generates about £30,000 extra income at current interest rate differentials, is acceptable. After the recent upheavals in the financial markets reports have been made on a regular basis to Members, and clearly this will continue. The Audit and Performance Management Committee has not scrutinised Treasury Management Practices, nor has there been specialist Member training to date, although Treasury Management is one of the topics on the Committee's schedule of training issues.

Finally, it should be noted that the Audit Commission will be focusing on these issues during future Use of Resources audits (recommendation 17).

6 CIPFA Guidance Note March 2009

The main issues highlighted in this advisory guidance note are:-

Treasury Management Objectives

- These should adequately reflect risk and, in particular, security, liquidity and yield risk – in that order of importance.
- Diversification should be a key consideration in setting objectives, i.e. not only between different lenders but also different countries, sectors and instruments. In our case we also limit our exposure to individual lenders, but at present the other categories are not relevant.

Treasury Management Governance Arrangements

- In order to strengthen further Members' involvement investment authorities should think how best to involve Members in determining Treasury Management Strategies and whether the Audit Committee should be given an explicit responsibility to keep Treasury Management Arrangements under review. CIPFA will be looking to develop training for Members in this role.
- The Treasurer is responsible for ensuring Treasury Management Policies and Practices are in place and adhered to. The role of Internal Audit in providing these assurances should be reviewed regularly.

Monitoring

- It is suggested that authorities report publicly and formally on Treasury Management activities at least twice a year and preferably quarterly. The frequency of reports has been increased by the Authority.

Gross and Net Borrowing

- Authorities should satisfy themselves that, where gross and net debt levels vary substantially, they have taken account of all the risks associated with it, and the reasons underpinning it are sound.
- It is suggested that the reasons for any significant differences between gross and net debt, and the risks and benefits are clearly reported to Members as part of their agreement of the annual strategy (see paragraph 4).

Skills and Training

- Local Authorities should recognise the importance of their treasury management functions and ensure that they are adequately resourced. Training of staff is highlighted. CIPFA, who will be launching a treasury management qualification in June 2009, has launched a risk management consultation paper and will look to develop practical guidance and toolkits for local authorities for management of treasury risk.

Counterparty (Borrowers) Lists

- Credit ratings are key information. However decisions should be made on the basis of the lowest ratings of the various agencies. Ratings should be reviewed regularly and ratings watch notices acted upon.
- Other sources of information should be systematically reviewed, e.g. financial press, market data and information on government support.
- It is recommended that in addition to applying limits to individual institutions, authorities also apply clear country and sector limits (of limited current relevance to SWFA).

Use of Treasury Management Advisors

- Authorities should be clear on the status of the service they are receiving, and satisfy themselves of its appropriateness.

Benchmarking

- These are useful but should not be limited to yield, but also reflect the risk inherent in Treasury Management Activities. At a minimum they should include information on security, liquidity and yield.

7 Financial Implications

The financial implications are as outlined in the main body of the report.

8 Legal Comment

Acceptance of the recommendations will ensure conformity with the constitution and best practice.

9 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

10 Appendix

Schedule of Audit Commission Recommendations in Response to the Icelandic Banks Crisis

11 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Balanced Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	*
Capacity		Member Involvement	*
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Efficiency Savings		Retained	
Environmental		Risk and Insurance	*
Financial	*	Staff	
Fire Control/Fire Link		Strategic Planning	
Information Communications and Technology		West Midlands Regional Management Board	
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*

Recommendations

Central government should:

1. Review and revise the weaker aspects of the national framework highlighted in this report, especially the weight given to credit rating;

2. Enable and require the Debt Management Office (DMO) to provide deposit accounts to public bodies, if those bodies cannot achieve the security they require in the market; and

3. Review the cost of early repayment of debt to the Public Works Loans Board to ensure that the structure introduced in November 2007 is not acting against the wider public interest by encouraging authorities to hold unnecessarily large deposits.

CIPFA should:

4. Revise and tighten its code of practice for treasury management to take account of the findings in this report;

5. Make more explicit the element of the prudential code that allows loans to be drawn down ahead of actually spending the money. Loans should be drawn down only after risks are fully assessed;

6. Continue to work with the Association of Corporate Treasurers to develop appropriate training and qualification for those working in treasury management in local authorities; and

7. Co-ordinate information sharing between local authorities to enable them to learn from one another. Any benchmarking activities should, as a minimum, highlight measures of security and liquidity of funds as well as yield.

Local authorities should:

8. Set the treasury management framework so that the organisation is explicit about the level of risk it accepts and the balance between security and liquidity and the yield to be achieved. At the highest level, the organisation should decide whether it has:

   – appetite and capability to be able to manage risk by placing funds with financial institutions; or

   – no appetite and/or insufficient capability to manage the risk of placing funds in the market, and should instead place funds with the UK Government's Debt Management Office;

9. Ensure that treasury management policies:

   - Follow the revised CIPFA code of practice;
   - are scrutinised in detail by a specialist committee, usually the audit committee, before being accepted by the authority; and
   - are monitored regularly;

10. Ensure elected members receive regular updates on the full range of risks being run;

11. Ensure that the treasury management function is appropriately resourced, commensurate with the risks involved. Staff should have the right skills and have access to information and external advice;

12. Train those elected members of authorities, who have accountability for the stewardship of public money so that they are able to scrutinise effectively and be accountable for the treasury management function;

13. Ensure that the full range of options for managing funds is considered, and note that early repayment of loans, or not borrowing money ahead of need, may reduce risks;

14. Use the fullest range of information before deciding where to deposit funds;

15. Be clear about the role of external advisers, and recognise that local authorities remain accountable for decisions made; and

16. Look for economies of scale by sharing resources between authorities or with pension funds, while maintaining separation of those funds.

The Audit Commission will:

17. Ask auditors to follow up this report as part of their use of resources work for 2008/09 and future years;

18. Work with CIPFA to ensure that the lessons in this report and the research on which they are based are included in the revised treasury management guidance; and

19. Work with others to produce guidance and tools for those in councils with a need to understand the treasury management function.