

**NORTH WALES FIRE & RESCUE SERVICE**

COMMITTEE:	NORTH WALES FIRE AUTHORITY
DATE:	19 JULY 2004
REPORT OF:	TREASURER
SUBJECT:	TREASURY MANAGEMENT

1. INTRODUCTION

- 1.1 North Wales Fire Authority adopted the CIPFA Code of Practice on Treasury Management (the code) on 15 December 2003. The Code requires that a report on the activities of the previous year and changes in Treasury Management legislation be reported to the Authority.

2. TREASURY MANAGEMENT ACTIVITY 2003-2004

2.1 BORROWING

The Public Works Loan Board provides all capital funding for the Authority. The amount borrowed in 2003-2004 was £615,000, which was in accordance with the Borrowing Limit calculated for the Authority.

2.2 INVESTMENTS

Up until 15 January 2004 cash balances on the Fire Authority's bank account were pooled with the balances of Conwy County Borough Council and invested on the market by Conwy. The cash balances for the Fire Authority were reconciled on a daily basis, and interest on balances was paid at the overnight rate achieved by Conwy plus 0.25%. The amount received from Conwy for 2003-2004 was £111,130.62.

With the adoption of 'the code' in December 2003 and the growth in cash balances due to the Pension Provision it was considered prudent for the Fire Authority to invest on its own behalf. From 15 January 2004 all surplus monies were invested on the market directly by the Fire Authority. The average balance of investments for the period January to March 2004 was £4,000,000. The amount earned on direct investments for 2003-2004 was £33,139.04.

The budget for investment income for 2003-2004 was £70,000 the actual investment income achieved was £144,269.56. The reason for the substantial increase in expected income is due to a combination of higher than anticipated interest rates, larger cash balances and a prudent investment strategy.

### 3. TREASURY MANAGEMENT LEGISLATION

- 3.1 As a consequence of the introduction of the Prudential code, the regulations covering investments have been repealed and the ability of local authorities to invest is now contained explicitly in Part 1 of the new Local Government Act 2003. The Welsh Assembly had decided that there would not be any regulations covering investment but that they will publish guidance.
- 3.2 The guidance specifies that the emphasis be on security and liquidity rather than yield and suggests that local authorities approve an annual Investment Strategy which splits counterparties between "Specified Investments" and "Non-specified Investments" and approve the amount of "Non-specified" investments. Specified investments have been given a good credit rating by one or more of the credit rating agencies (Fitch, Moody's and Standard and Poor's). Non-specified investments do not have a rating but are still safe given that safeguards are in place to minimise risks. As the amounts involved are relatively small and the number of counter parties that would fall under "Specified Investments" fairly numerous it was considered prudent that all future investments should only be "Specified Investments."
- 3.3 Following the advice given to Conwy County Borough Council from their Treasury Management consultants (Butlers) a suggested approach for the Fire Authority is detailed below. This would supersede the counterparty list approved by the Fire Authority on 15<sup>th</sup> December 2003. All investments are for 364 days or less.

#### SPECIFIED INVESTMENTS

- (i) Debt Management Office – This is a government department and is AAA rated, the present limit of £5 million can continue.
- (ii) Local authorities (except those subject to limitation of council tax and precepts under part 1 of the Local Government Finance Act 1992) – although they are not rated they are safe and liquid and the present limit of £2 million can continue.
- (iii) UK and Irish Banks – all banks (and their wholly owned subsidiaries) with one or more short-term rating of F1 (Fitch, P1 Moody's or A1 (Standard and Poor) should be classified as a counterparty. This would add the following banks to the present list, all of which already have the required rating:  
Bank of Butterfield, Close Brothers, Co-operative Bank, Credit Suisse, First Boston, Egg, Merrill Lynch, Standard Life, Bank of New York Europe, Citibank, HFC Bank, Clydesdale, Standard Chartered, N.M. Rothschild, Schroders, Singer and Friedlander, Morgan Grenfell, Cheltenham and Gloucester, Ulster Bank.  
The maximum investment with the bank sector can remain at £5 million.

- (iv) Building Societies – Currently the Authority lends to societies based on the size of their net assets. It is now suggested that all the societies with a rating and over £1 billion in assets be treated as “Specified Investments” with each society having a limit of £2 million. All the other societies be deemed “Non-specified Investments” and as such removed from the counterparty list.

3.4 A comprehensive list of all the suggested counterparties is included at Appendix1 to this report.

4. RECOMMENDATIONS

4.1 It is recommended that

- (i) Members note the report on the Treasury Management activities for 2003-2004.
- (ii) Members approve the amended list of counterparties.

K W FINCH  
Treasurer

## APPENDIX 1

### **(1) BANKS**

#### **£5m Lending limit**

Barclays  
Lloyds TSB  
Cheltenham and Gloucester  
HSBC  
Northern Rock  
National Westminster  
Royal Bank of Scotland  
Abbey National  
Alliance and Leicester  
Bank of Ireland  
Hbos  
Bradford and Bingley  
Bank of Butterfield  
Close Brothers  
Co-operative Bank  
Credit Suisse  
First Boston International  
Egg  
Merrill Lynch International Bank  
Standard Life  
Bank of New York Europe  
Citibank  
HFC Bank  
Clydesdale  
Standard Chartered  
N M Rothschild  
Schroders  
Singer and Friedlander  
Morgan Grenfell  
Allied Irish (GB)  
Bristol and West  
Anglo Irish Bank Corp.  
First Active  
Irish Permanent  
Depfa Bank  
IIB Bank  
Ulster Bank

### **(2) CENTRAL GOVERNMENT**

#### **£5m Lending limit**

Debt Management Office

### **(3) LOCAL AUTHORITIES**

#### **£2m Lending limit**

All except those subject to limitation of council tax and precepts under part 1 of the Local Government Finance Act 1992

### **(4) BUILDING SOCIETIES**

#### **£2m Lending limit**

Nationwide  
Britannia  
Yorkshire  
Portman  
Coventry  
Chelsea  
Skipton  
Derbyshire  
Cheshire  
Principality  
Leeds and Holbeck  
Norwich and Peterborough  
Dunfermline

