



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	DSFRA/10/17
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (ORDINARY MEETING)
DATE OF MEETING	28 MAY 2010
SUBJECT OF REPORT	TREASURY MANAGEMENT PERFORMANCE 2009/2010 (TO MARCH 2010)
LEAD OFFICER	TREASURER
RECOMMENDATIONS	<i>That the performance in relation to Authority treasury management activities for 2009/2010 to March 2010, as set out in this report, be noted.</i>
EXECUTIVE SUMMARY	<p>The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, requires that the Authority receives a report in respect of borrowing and investment activities during the year, and compares this performance against the Treasury Management Strategy adopted.</p> <p>The report includes a performance report relating to the 2009/10 financial year.</p>
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Prudential indicators 2009/2010.
LIST OF BACKGROUND PAPERS	Treasury Management Policy initially approved at the meeting of the Shadow DSFRA meeting held on the 16 March 2007 and subsequently revised in March 2009.

1. INTRODUCTION

1.1 The Treasury Management Strategy for the Devon & Somerset Fire & Rescue Authority (DSFRA) had been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2001 and its subsequent amendments (the latest being November 2009). The adoption of the Code was originally made at the meeting of the Shadow DSFRA held on 16 March 2007, with the most recent revision being agreed at the meeting of the DSFRA on the 19 February 2010. The Authority fully complies with the primary requirements of the Code, which includes:

- the creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities;
- 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;
- the receipt by the Authority of an annual strategy report for the year ahead and an annual review report of the previous year;
- the 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; and
- the delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Authority is the Resources Committee.

1.2 Treasury management in this context 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.”

2. THE ECONOMY

2.1 During 2009/10 the Monetary Policy Committee (MPC) was focused on helping the economy to turn around from plunging into the deepest and longest recession the UK economy had experienced for many years.

2.2 Despite keeping Bank Rate at an unprecedented historical low of 0.5% all year, the MPC also had to resort to extreme measures in terms of pumping liquidity into the economy through quantitative easing by purchasing £200bn gilts and corporate bonds. This had the effect of boosting prices for gilts and corporate bonds and therefore bringing down yields, so also reducing borrowing costs for both the corporate and public sector.

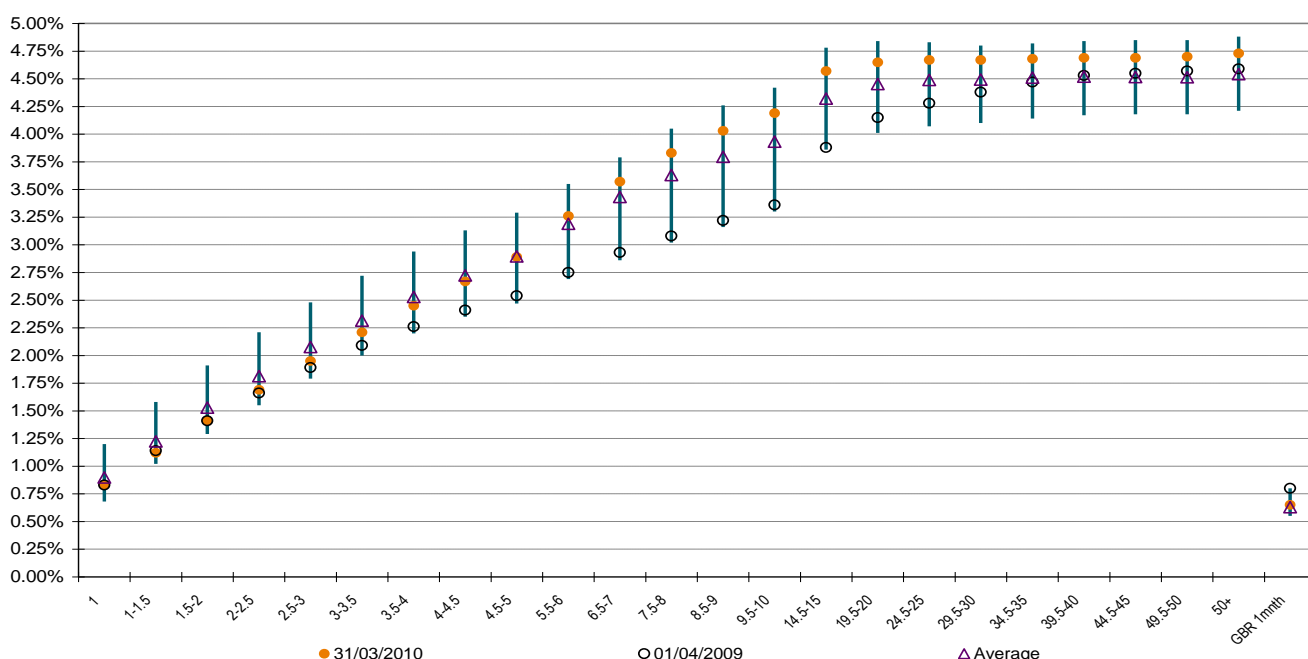
2.3 It was notable that the increase in money supply in the economy generated by this programme brought the credit crunch induced spread between Bank Rate and 3 month LIBID (investment rate that depositors could earn) down from 0.95% at the beginning of the financial year to zero during August 2009.

2.4 The dominant focus in 2009/10 was on quarterly GDP growth figures. The recession bottomed out in quarter 1 of 2009. There was then major disappointment that the end of the recession failed to materialise in quarter 3 2009 but the fourth quarter of 2009 did then see economic growth return at +0.4%.

2.5 Inflation has not been a major concern of the MPC as it fell back below the 2% target level from June to November. However, it did spike upwards to reach 3.5% on the back of the unwinding of the temporary cut in VAT to 15% on 1 January 2010. This was not seen as a cause for alarm as this spike was expected to fall out of the inflation index and inflation was forecast by the Bank of England to fall back under target by the end of 2010.

2.6 **Borrowing rates in 2009/10**

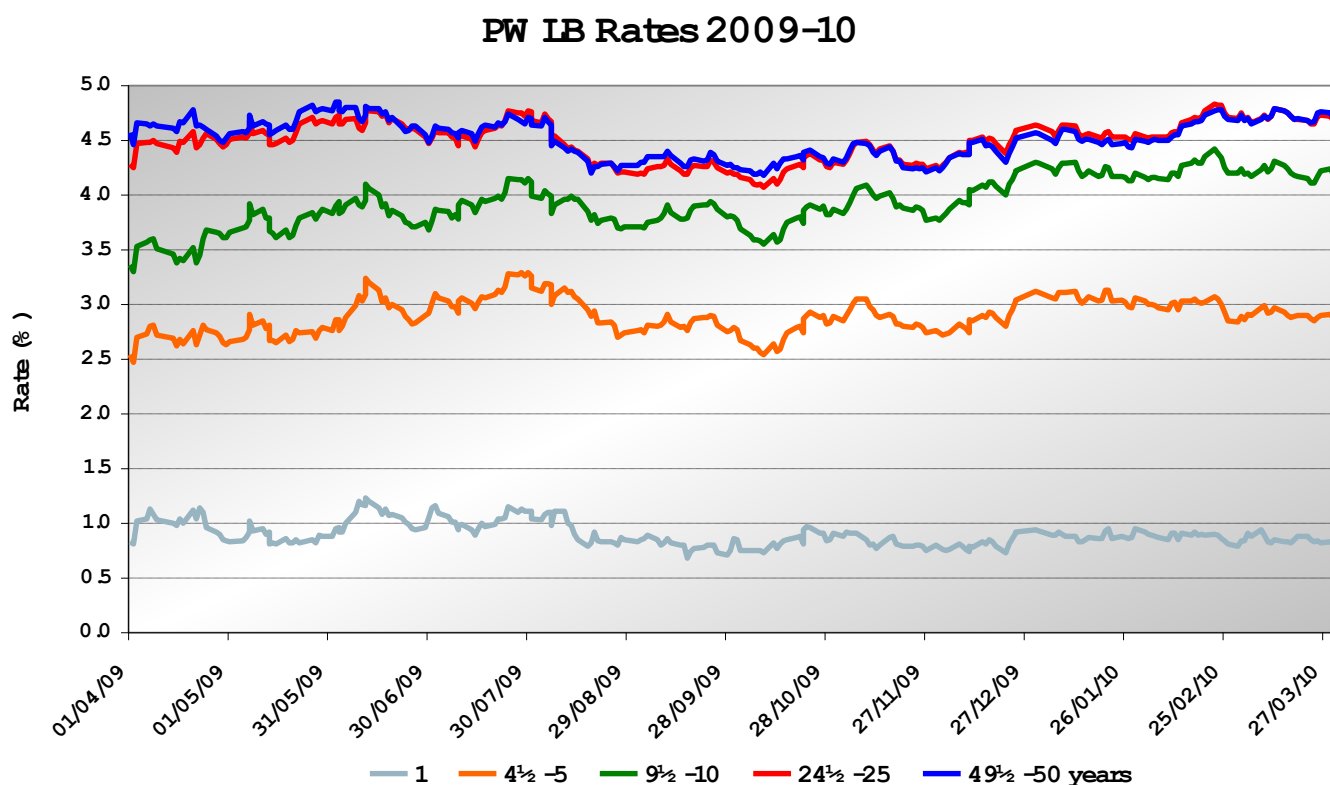
- **Public Works Loan Board (PWLB) borrowing rates:** the graph and table below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year. Variations in most PWLB rates this year have been within a fairly limited band compared to previous years with the largest spread being 1.12% in the 10 year in the table below



PWLB BORROWING RATES 2009/10 for 1 to 50 years									
	1	2	3	4	5	10	25	50	1 month variable
1. 4.2009	0.83%	1.41%	1.89%	2.26%	2.54%	3.36%	4.28%	4.57%	0.80%
31.3.2010	0.83%	1.41%	1.95%	2.45%	2.89%	4.19%	4.67%	4.70%	0.65%
HIGH	1.20%	1.91%	2.48%	2.94%	3.29%	4.42%	4.83%	4.85%	0.80%
LOW	0.68%	1.29%	1.79%	2.20%	2.47%	3.30%	4.07%	4.18%	0.55%
spread	0.52%	0.62%	0.69%	0.74%	0.82%	1.12%	0.76%	0.67%	0.25%
average	0.90%	1.53%	2.08%	2.53%	2.90%	3.93%	4.49%	4.51%	0.63%
high date	09/06/2009	12/06/2009	12/06/2009	24/07/2009	28/07/2009	22/02/2010	22/02/2010	02/06/2009	01/04/2009
low date	16/09/2009	09/10/2009	09/10/2009	02/04/2009	02/04/2009	02/04/2009	09/10/2009	09/10/2009	17/07/2009

- **5 year PWLB rate.** This started the year at 2.54% and then fell to a low for the year of 2.47% on the following day before then rising sharply to hit a peak of 3.29% in July. From there it fell till until reaching 2.54% in October and then rose back up to a peak of 3.13% in January. It finished the year at 2.89%
- **10 year PWLB rate.** This started the year at 3.36% and then fell to a low for the year of 3.30% on the following day before then rising sharply and rose to hit a peak of 4.15% in July. From there it fell until reaching 3.55% in October and then rose back up to a peak of 4.42% in February. It finished the year at 4.19%.
- **25 year PWLB rate.** This started the year at 4.28% and then peaked in the 4.70s during June – August before falling back to a bottom of 4.07% in October. From there it rose again towards the end of the year to return to the 4.70s and peaked at 4.83% in February. It finished the year at 4.67%.
- **50 year PWLB rate.** This started the year at 4.57% and then peaked at 4.85% in June before falling back to a bottom of 4.18% in October. From there it rose again towards the end of the year and peaked at 4.79% in March. It finished the year at 4.70%.

This information is shown in graphical format below:



2.7 Investment rates in 2009/10

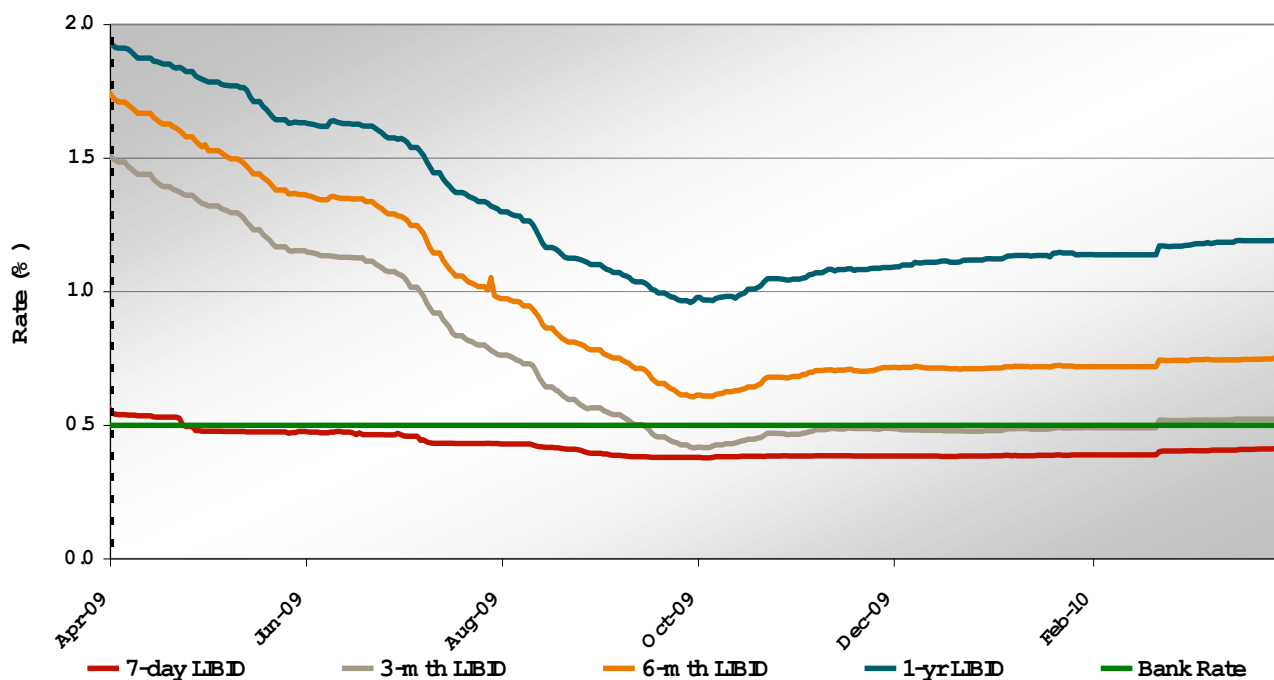
At the start of 2009-10, investment rates were enhanced by a substantial credit crunch induced margin. However, the Bank of England's quantitative easing operations had the desired effect of improving the supply of credit in the economy and so these margins were eliminated by half way through the year. Consequently, investment rates fell markedly during the first half of the year.

- **3 month rate:** from a high point for the year of 1.50% on 1.4.09, the rate fell gradually to reach a low of 0.42% in September before finishing the year at 0.52%

- **12-month rate:** this started the year at a credit crunch enhanced rate of 1.85% and fell steadily until reaching 0.85% in September. Since then it has risen to finish the year at 1.15% as the market looked ahead to when the MPC would have to start raising Bank Rate from its then current rate of 0.50%.

INVESTMENT RATES 2009-10						
	Overnight	7 Day LIBID	1 Month	3 Month	6 Month	1 Year
01-Apr-09	0.49%	0.55%	0.89%	1.50%	1.73%	1.93%
31-Mar-10	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
High	0.49%	0.55%	0.89%	1.50%	1.73%	1.93%
Low	0.38%	0.38%	0.38%	0.42%	0.61%	0.96%
Average	0.40%	0.42%	0.47%	0.73%	0.94%	1.29%
Spread	0.12%	0.17%	0.51%	1.09%	1.13%	0.97%
high date	01/04/2009	01/04/2009	01/04/2009	01/04/2009	01/04/2009	01/04/2009
low date	09/09/2009	02/10/2009	18/09/2009	29/09/2009	29/09/2009	28/09/2009

Investment Rates 2009-10



3. TREASURY MANAGEMENT STRATEGY STATEMENT

Annual Investment Strategy

3.1 The Authority's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity

3.2 The Authority will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions using the Sector suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Sector.

3.3 A full list of investments held as at 31 March 2010 are shown in the table below:

Investments as at 31 st March 2010				
Counterparty	Maximum to be invested (£m)	Total amount invested (£m)	Call or Term	Interest rate(s)
Santander (Abbey)	5.0	0.295	C	0.80%
Bank of Scotland	5.0	0.015	C	0.51%
Stroud & Swindon B/S	1.5	1.5	T	1.00%
West Bromwich B/S	1.5	1.0	T	0.82%
Total invested as at 31st March 2010		2.810m		

3.4 No institutions in which investments were made during 2009/10 had any difficulty in repaying investments and interest in full during the year.

3.5 As illustrated in the economic background section above, investment rates available in the market are at an historical low point. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark	Average level of funds available for Investment	Benchmark Return	Authority Performance	Investment Interest Earned
7 day	£10.710m	0.42%	0.86%	£92,289

3.6 As illustrated, the Authority outperformed the benchmark by 44 bp. The Authority's budgeted investment return for 2009/10 was £0.105m and, as a consequence of the fall in interest rates since the budget was originally set, this target was not met.

Borrowing Strategy

Prudential Indicators

3.7 It is a statutory duty for the Authority to determine and keep under review the "Affordable Borrowing Limits". The Authority's approved Prudential Indicators (affordability limits) are outlined in the approved TMSS.

3.8 During the financial year the Authority operated within the treasury limits and Prudential Indicators set out in its annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in appendix A.

3.9 As at the end of March 2010, due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement - CFR), external borrowing for the Authority of £8.365m was undertaken throughout the year at the rates indicated in the table overleaf

Date of Loan	Type of loan	Amount £m	Life (Years)	Interest Rate
9/4/2009	Maturity	0.500	12.0	3.83%
12/5/2009	Maturity	0.400	15.0	4.32%
12/5/2009	Maturity	0.400	14.0	4.25%
12/5/2009	Maturity	0.200	16.0	4.37%
12/5/2009	Maturity	0.165	16.0	4.37%
19/08/2009	Maturity	0.500	38.5	4.36%
19/08/2009	Maturity	0.500	39.5	4.36%
19/08/2009	Maturity	0.500	41.5	4.36%
30/09/2009	Equal instalments of principal	0.500	20.0	3.82%
30/09/2009	Equal instalments of principal	0.500	21.0	3.87%
30/09/2009	Equal instalments of principal	0.500	22.0	3.91%
30/09/2009	Equal instalments of principal	0.500	23.0	3.95%
13/10/2009	Maturity	0.700	29.5	4.09%
13/10/2009	Maturity	0.500	30.5	4.13%
13/10/2009	Maturity	0.500	31.5	4.13%
13/10/2009	Maturity	0.500	48.5	4.19%
13/10/2009	Maturity	0.500	49.5	4.18%
19/3/2010	Maturity	0.500	2.0	1.40%
		8.365		

4. SUMMARY

4.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides Members with a summary report of the treasury management activities during 2009/2010. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken during the year, with priority being given to liquidity and security over yield. Whilst investment returns have reduced from the previous year, as a consequence of the fall in interest rates, the authority achieved returns above the LIBID 7 day rate, which is the benchmark return for this type of short term investments. In addition, the Authority borrowed at below average PWLB rates in 2009/10 and lowered the average rate on the debt portfolio from 4.212% to 4.177%, as indicated in the summary table below.

4.2 The Council's debt and investment position at the beginning and the end of the year was as follows:

SUMMARY	31st March 2010 Principal	Rate/ Return	31st March 2009 Principal	Rate/ Return
Fixed Rate Funding:				
-PWLB	£26.651m	4.177%	£19.281m	4.212%
Total Debt	£26.651m	4.177%	£19.281m	4.212%
Investments:				
-In-House	£2.810m	0.91%	£3.010m	3.06%
Total Investments	£2.810m	0.91%	£3.010m	3.06%

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT DSFRA/10/17

PRUDENTIAL INDICATOR	2008/09 £m Actual	2009/10 £m Sept 2009	2009/10 £m Actual
Capital Expenditure			
Non - HRA	5.840	10.121	9.707
HRA (applies only to housing authorities)	0	0	0
TOTAL	5.840	8.738	9.707
Ratio of financing costs to net revenue stream			
Non - HRA	2.32%	3.42%	3.21%
HRA (applies only to housing authorities)	0%	0%	0%
Capital Financing Requirement as at 31 March			
Non – HRA	21.277	28.673	28.148
HRA (applies only to housing authorities)	0	0	0
TOTAL	21.277	28.673	28.148
Annual change in Cap. Financing Requirement			
Non – HRA	4.185	2.860	6.871
HRA (applies only to housing authorities)	0	0	0
TOTAL	4.185	2.860	6.871
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	(£0.57)	(£0.36)	(£1.02)
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£000	£000	£000
Authorised Limit for external debt - borrowing	29.214	36.628	36.628
other long term liabilities	0	0	0
TOTAL	29.214	36.628	40.205
Operational Boundary for external debt - borrowing	27.923	33.761	33.761
other long term liabilities	0	0	0
TOTAL	27.923	33.761	33.761

	Actual 31st March 2010	upper limit %	lower limit %
Limits on borrowing at fixed interest rates	100%	100%	70%
Limits on borrowing at variable interest rates	0%	30%	0%
Maturity structure of fixed rate borrowing during 2009/10			
Under 12 months	3.60%	10%	0%
12 months and within 24 months	3.77%	15%	0%
24 months and within 5 years	12.45%	30%	0%
5 years and within 10 years	5.56%	50%	0%
10 years and above	74.62%	100%	50%