DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**DSFRA/11/26**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY**
DATE OF MEETING	**7 NOVEMBER 2011**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2011/12 (TO SEPTEMBER 2011)**
LEAD OFFICER	**Treasurer**
RECOMMENDATIONS	***That the contents of the appended report be noted***
EXECUTIVE SUMMARY	The Authority's approved Treasury Management Policy provides, amongst other things, for the Authority to receive a mid-year review of its treasury management policies, practices and activities. Appended to this paper is the report as considered by the Resources Committee at its meeting on 19 October 2011 and setting out the above information.
RESOURCE IMPLICATIONS	Not applicable
EQUALITY IMPACT ASSESSMENT	Not applicable
APPENDICES	A. Report as submitted to the meeting of the Resources Committee on 19 October 2011
LIST OF BACKGROUND PAPERS	Nil.

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/11/9**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**19 OCTOBER 2011**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2011/2012 (TO SEPTEMBER 2011)**
LEAD OFFICER	**TREASURER**
RECOMMENDATIONS	That the performance in relation to the treasury management activities of the Authority for 2011/2012 (to September) be noted;
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code of Practice for Treasury Management in November 2009. The revised Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's revised Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 30 September 2011.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/11/2 – as approved at the meeting of the Devon and Somerset Fire and Rescue Authority held on the 14 February 2011.

1. INTRODUCTION

1.1 The Treasury Management Strategy for Devon and Somerset FRA had been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2001. The adoption of the Code was originally made at the meeting of the DSFRA held on the 16th March 2007. A revised Code of Practice was adopted by the authority at the budget meeting held on 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 full Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, **a Mid-year Review Report** and an Annual Report (stewardship report) covering activities during 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.

1.2 Treasury management in this context is defined as:

"The management of the local authority's 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. "

1.3 The preparation of this report demonstrates that the Authority is implementing best practice in accordance with the code.

2. ECONOMIC BACKGROUND

Global economy

2.1 The Euro zone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the £440bn bail-out fund in September has brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.

2.2 This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poors, has led to a much more difficult and uncertain outlook for the world economy.

2.3 Growth prospects in the US, UK and the Euro zone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

UK economy

2.4 Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.2% in the first quarter of 2011/12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.

2.5 Inflation remains stubbornly high, although the expectation of future falls, the external nature of the price increases (energy, oil, food etc.), and the negative impact a rate rise would have on the UK economy, is likely to stop the Monetary Policy Committee from raising the Bank Rate for some considerable time to come. An indicator of the worsening position arose from the Monetary Policy Committee minutes recently signalling a greater willingness to expand the quantitative easing programme

2.6 International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent PWLB borrowing rates to low levels.3.3

Outlook for the next six months of 2011/12

2.7 There remain huge uncertainties in economic forecasts due to the following major difficulties:

- the speed of economic recovery in the UK, US and EU;
- the likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of the Presidential elections in November 2012
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy
- the degree to which government austerity programmes will dampen economic growth;
- the potential for more quantitative easing, and the timing of this in both the UK and US
- the speed of recovery of banks' profitability and balance sheet imbalances

2.8 The overall balance of risks is weighted to the downside:

- We expect low and modest growth in the UK to continue, with a low Bank Rate to continue for at least 12 months, coupled with a possible extension of quantitative easing. This will keep investment returns depressed.
- The expected longer run trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However the current safe haven status of the UK may continue for some time, postponing any increases until 2012.

2.8 Sector's interest rate forecast

Bank Rate View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.50%
3 Month Libid	**0.82%**	0.70%	0.70%	0.70%	0.70%	0.70%	0.90%	1.10%	1.30%	1.60%	1.90%	2.40%	2.70%
6 Month Libid	**1.10%**	1.00%	1.00%	1.00%	1.20%	1.30%	1.50%	1.70%	1.90%	2.10%	2.40%	2.70%	3.00%
12 Month Libid	**1.59%**	1.50%	1.50%	1.50%	1.60%	1.80%	2.00%	2.25%	2.50%	2.75%	3.00%	3.40%	3.70%
5 yr PWLB Rate	**2.44%**	2.50%	2.70%	2.90%	3.00%	3.10%	3.20%	3.40%	3.60%	3.80%	4.00%	4.10%	4.20%
10 yr PWLB Rate	**3.52%**	3.80%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%
25 yr PWLB Rate	**4.56%**	5.00%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%	5.30%	5.40%	5.40%	5.50%	5.50%
50 yr PWLB Rate	**4.73%**	5.00%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%	5.30%	5.40%	5.40%	5.50%	5.50%

3. TREASURY MANAGEMENT STRATEGY STATEMENT

Annual Investment Strategy

3.1 The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement (TMSS) was approved by the Authority on the 14th February 2011. It 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 to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions using the Sector suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Sector.

3.3 There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

3.4 A full list of investments held as at 30 September 2011 are shown in Appendix A.

3.5 Investment rates available in the market have continued at historically low levels.

3.6 The average level of funds available for investment purposes during the quarter was £22.283m. 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	Benchmark Return	Authority Performance	Investment interest for quarter
3 Month LIBID	0.72%	0.82%	£46,387

3.7 As illustrated, the authority outperformed the benchmark by 10 bp. The Authority's budgeted investment return for 2011/12 is £0.100m, and performance so far this year indicates that this figure will be overachieved by £0.055m.

Borrowing Strategy

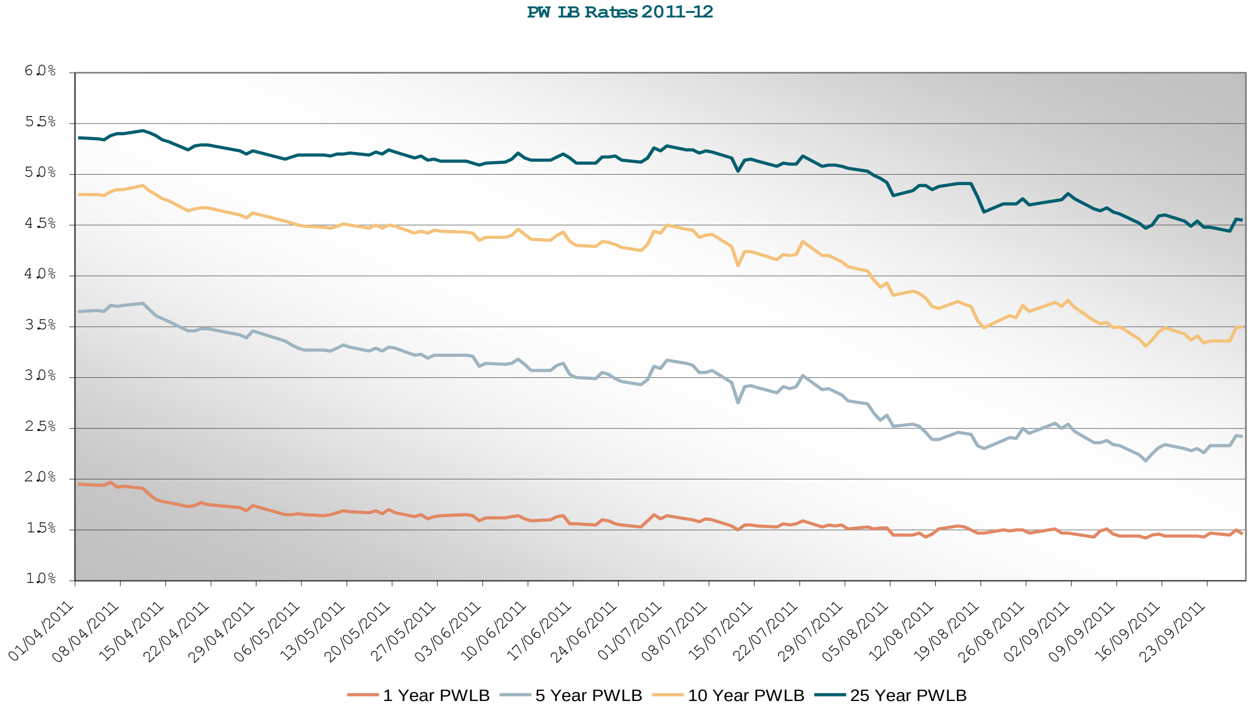
Prudential Indicators:

3.8 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.

3.9 A full list of the approved limits (as amended) are included in the Financial Performance Report 2011/2012, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to September 2011.

3.10 Total external borrowing as at 30 September 2011 is £27.909m, compared to a figure as at 30 June 2011 of £28.608m. No new external borrowing was taken during this quarter of the year, with an amount of £0.699m of debt being repaid. No debt rescheduling was undertaken during this quarter of the year.

3.11 The graph below shows the movement in PWLB rates for the first six months of the year and provide benchmarking data showing high and low points.



3.12 As was reported at the last meeting of this Committee, it is anticipated that internal borrowing and available grants will reduce the call on borrowing. However if capital spend is in line with programme levels then borrowing will be undertaken during the second half of the financial year.

4. SUMMARY

4.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides members with a mid-year summary report of the treasury management activities for 2011/2012. 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 so far, with priority being given to liquidity and security over yield. Whilst investment returns are still low as a consequence of the fall in interest rates, the authority is still achieving returns above the LIBID 3 month rate, which is the benchmark return for this type of short term investments.

KEVIN WOODWARD
Treasurer

	Investments as at 30th September 2011					
% of total investments	Counterparty	Maximum to be invested (£m)	Total amount invested (£)	Call or Term	Date if Term	Interest Rate
21.48%	Santander UK & Cater Allen	5.0	1.500	T	17/10/2011	1.32%
			1.500	T	21/12/2011	1.35%
			1.500	T	01/02/2012	1.32%
18.84%	Bank of Scotland	5.0	1.500	T	16/07/2011	2.05%
			2.445	C		0.75%
7.16%	Barclays	10.0	1.500	T	16/01/2012	1.04%
4.78%	Britannia B/S	1.5	1.000	T	21/10/2011	0.84%
7.16%	Clydesdale Bank	5.0	1.500	T	11/11/2011	0.75%
7.16%	Coventry	1.5	1.500	T	14/10/2011	0.75%
4.78%	Leeds B/S	1.5	1.000	T	05/01/2012	0.96%
7.16%	Nationwide B/S	1.5	1.500	T	14/10/2011	0.75%
7.16%	Nottingham B/S	1.5	1.500	T	30/12/2011	1.80%
7.16%	West Bromwich B/S	1.5	1.500	T	14/10/2011	0.85%
7.16%	Principality B/S	1.5	1.500	T	18/10/2011	0.82%
			20.945			