



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	DSFRA/12/15
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Ordinary Meeting)
DATE OF MEETING	30 MAY 2012
SUBJECT OF REPORT	ANNUAL TREASURY MANAGEMENT REPORT 2011/12
LEAD OFFICER	Treasurer
RECOMMENDATIONS	<i>That the performance in relation to the treasury management activities of the Authority for 2011/2012, 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 2011/12 financial year.</p>
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY RISK AND BENEFIT ASSESSMENT (ERBA)	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Prudential indicators 2011/2012.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/12/3

1. **INTRODUCTION**

1.1 The Treasury Management Strategy for Devon & Somerset Fire & Rescue Authority has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) 2011 Treasury Management in Public Services Code of Practice (the Code) and the CIPFA Prudential Code. 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, a mid year treasury update report 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.
- 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 The financial year 2011/12 continued the challenging investment environment of previous years, specifically low investment returns and continuing heightened levels of counterparty risk.

2.2 Gross Domestic Product (GDP) growth in the UK was disappointing during the year under the weight of the UK austerity programme with weak growth in the European Union (EU) export market. The EU sovereign debt crisis grew in intensity during the year.

2.3 Bank Rate remained unchanged at 0.5% with quantitative easing in both October 2011 and February 2012. The Consumer Price Index (CPI) inflation peaked in September 2011 at 5.2% but is expected to fall below 2% over the next two years.

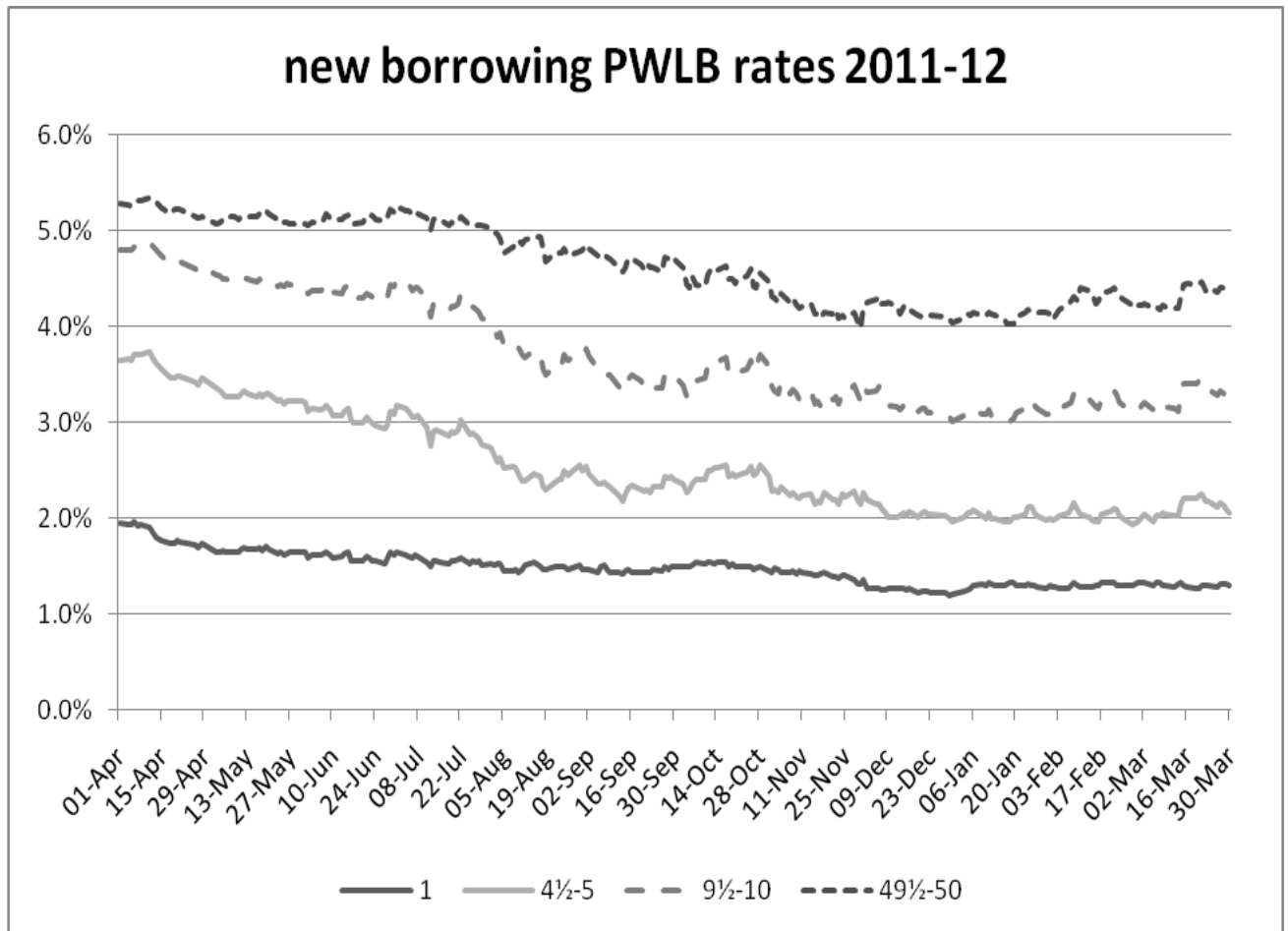
2.4 Gilt yields fell for much of the year as concerns continued to build over the EU debt crisis. Although this resulted in safe haven flows into UK gilts the EU crisis and use of quantitative easing combined to depress Public Works Loan Board (PWLB) rates to historically low levels.

2.5 Risk premiums were also a constant factor in raising money market deposit rates in periods longer than a month. Widespread and multiple downgrades of the ratings of many banks and country sovereign status brought difficulties in finding suitable counterparties for investment periods.

3. **BORROWING**

Public Works Loan Board (PWLB) borrowing rates 2011/2012

3.1 The graph below shows how PWLB borrowing rates fell during the year.



DSFRA Borrowing Strategy

Prudential Indicators

3.2 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 Treasury Management Strategy.

3.3 During the financial year DSFRA operated within the treasury limits and Prudential Indicators set out in the Authority’s annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix A.

DSFRA Borrowing during and at the end of 2011/2012

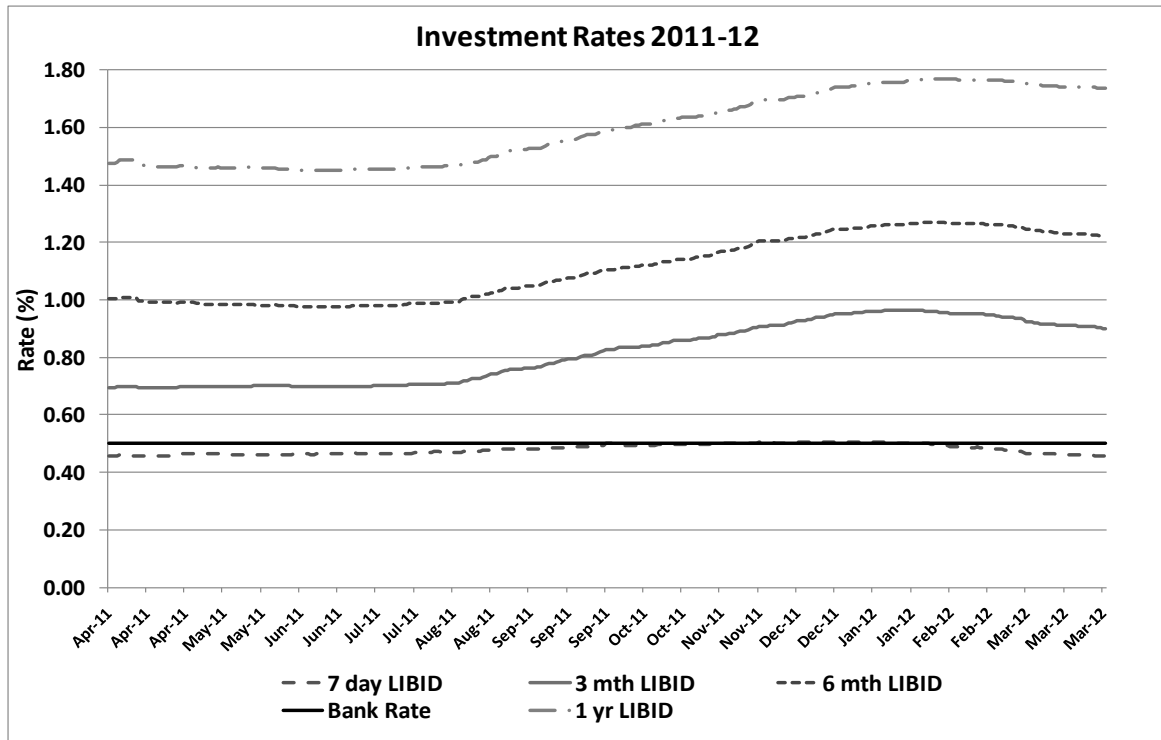
3.4 As at the end of March 2012, due to the overall financial position and support from the revenue programme there was no need to borrow for capital purposes (the Capital Financing Requirement - CFR). A summary of the loan (debt) position of the Authority is given in the table overleaf.

Summary of loan movements during 2011/2012				
		Amount £m		
Value of loans outstanding as at 1/4/11		28.608		
Loans taken during 2011/2012				
Date of Loan	Type of loan		Life (Years)	Interest Rate
	None	0		
Loans repaid upon maturity during 2011/2012				
		(1.542)		
Loans rescheduled during 2011/2012				
		0		
Total value of loans outstanding as at 31/3/2012				
		27.066		

4. **INVESTMENTS**

Investment rates in 2011/2012

- 4.1 The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However longer rates rose significantly in the second half of the year as the Euro zone crisis grew. Bank Rate remained at its historical low of 0.5% throughout the year.
- 4.2 Overlaying the relatively poor investment returns were the continued counterparty concerns generated by the Euro zone sovereign debt crisis. This emphasised the ongoing need for caution in treasury investment activity and resulted in a fall off of investment return as security of capital was paramount at cost of higher but more risky longer term financial return.
- 4.3 The table overleaf indicates investment rates during 2011/12. During 2011/12 the Authority moved from monitoring against the 7 day LIBID rate to the 3 month LIBID rate.



DSFRA Investment Strategy

- 4.4 The Authority’s Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Authority’s investment priorities as follows:
- Security of Capital
 - Liquidity

4.5 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. In addition to this approach the Authority has the ability to use building societies under specified and non-specified investments.

DSFRA Investments during and at the end of 2011/2012

- 4.6 No institutions in which investments were made during 2011/12 had any difficulty in repaying investments and interest in full during the year and the Authority had no liquidity difficulties.
- 4.7 A full list of investments held as at 31 March 2012 are shown in the table overleaf.

Investments as at 31 March 2012					
Counterparty	Maximum to be invested	Total amount invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Bank of Scotland	5.0	1.5	T	1 yr	2.05%
		1.5	T	3 mths	1.40%
Barclays	8.0	1.5	T	3 mths	0.90%
		2.5	T	1 yr	1.20%
		1.5	T	3 mths	0.95%
		1.0	T	2 mths	0.78%
		1.0	T	2 mths	0.78%
Cater Allen	5.0	1.5	T	6 mths	1.59%
		1.0	T	1½ mths	1.10%
Ignis Money Market Fund	5.0	1.838	C	Instant access	0.80%
Nationwide B/S	1.5	1.5	T	3 mths	1.00%
Total invested as at 31st March 2012		16.338m			

- 4.8 Funds available for investment are on a temporary basis, the level of which are 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
3 month	£19.693m	0.82%	0.79%	£0.213m

- 4.9 Whilst the Authority under-performed the benchmark by 3 bp, the actual amount of investment income achieved exceeded the target by £0.113m, £0.213m against a target of £0.100m as a result of levels of fund available for investment during the year being higher than anticipated.

5. **SUMMARY**

- 5.1 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 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 during the year, with priority being given to liquidity and security over yield. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments continued to be dominated by risk considerations resulting in relatively low returns compared to borrowing rates. As a result of this cautious approach the Authority achieved returns slightly below the LIBID 3month rate, which is the benchmark return for this type of short term investments.

5.2

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

SUMMARY	31st March 2012 Principal	Rate/ Return	31st March 2011 Principal	Rate/ Return
Fixed Rate Funding:				
-PWLB	£27.066m	4.298%	£28.608m	4.219%
Total Debt	£27.066m	4.298%	£28.608m	4.219%
Investments:				
-In-House	£16.338m	0.79%	£11.645m	0.80%
Total Investments	£16.338m	0.79%	£11.645m	0.80%

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT DSFRA/12/15

PRUDENTIAL INDICATOR	2010/11 £m actual	2011/12 £m approved	2011/12 £m actual
Capital Expenditure			
Non - HRA	3.466	7.580	3.363
HRA (applies only to housing authorities)	0	0	0
TOTAL	3.466	7.580	3.363
Ratio of financing costs to net revenue stream			
Non - HRA	4.01%	4.35%	4.11%
HRA (applies only to housing authorities)	0%	0%	0%
Capital Financing Requirement as at 31 March (borrowing only)			
Non - HRA	29.917	33.039	27.755
HRA (applies only to housing authorities)	0	0	0
TOTAL	29.917	33.039	27.755
Annual change in Cap. Financing Requirement			
Non - HRA	0.041	3.122	(2.162)
HRA (applies only to housing authorities)	0	0	0
TOTAL	0.041	3.122	(2.162)
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	(£0.25)	(£0.47)	£(0.55)
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£m	£m	£m
Authorised Limit for external debt - borrowing	29.620	36.229	36.229
other long term liabilities	1.641	1.930	1.930
TOTAL	29.917	38.159	38.159
Operational Boundary for external debt - borrowing	28.207	34.671	34.671
other long term liabilities	1.558	1.836	1.836
TOTAL	29.765	36.507	36.507

	Actual 31 st March 2012	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 borrowings during 2011/12			
Under 12 months	5.39%	30%	0%
12 months and within 24 months	6.64%	30%	0%
24 months and within 5 years	4.28%	50%	0%
5 years and within 10 years	1.75%	75%	0%
10 years and above	81.95%	100%	50%