DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**DSFRA/13/12**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Ordinary Meeting)**
DATE OF MEETING	**30 MAY 2013**
SUBJECT OF REPORT	**ANNUAL TREASURY MANAGEMENT REPORT 2012-2013**
LEAD OFFICER	**Treasurer**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2012-2013, as set out in this report, be noted.***
EXECUTIVE SUMMARY	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. The report includes a performance report relating to the 2012-13 financial year.
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 2012-13.
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 AND INTEREST RATES

2.1 The financial year 2012-13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would start gently rising from quarter 4 2014. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU).

2.2 The UK coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 2016. The EU sovereign debt crisis was an on-going saga during the year with first Greece and then Cyprus experiencing crises which were met with bailouts after difficult and fraught negotiations.

2.3 **Gilt yields** oscillated during the year as events in the on-going Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically very low levels.

2.4 **Deposit rates**. The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

3. OVERALL TRESUARY POISTION AS AT 31 MARCH 2013

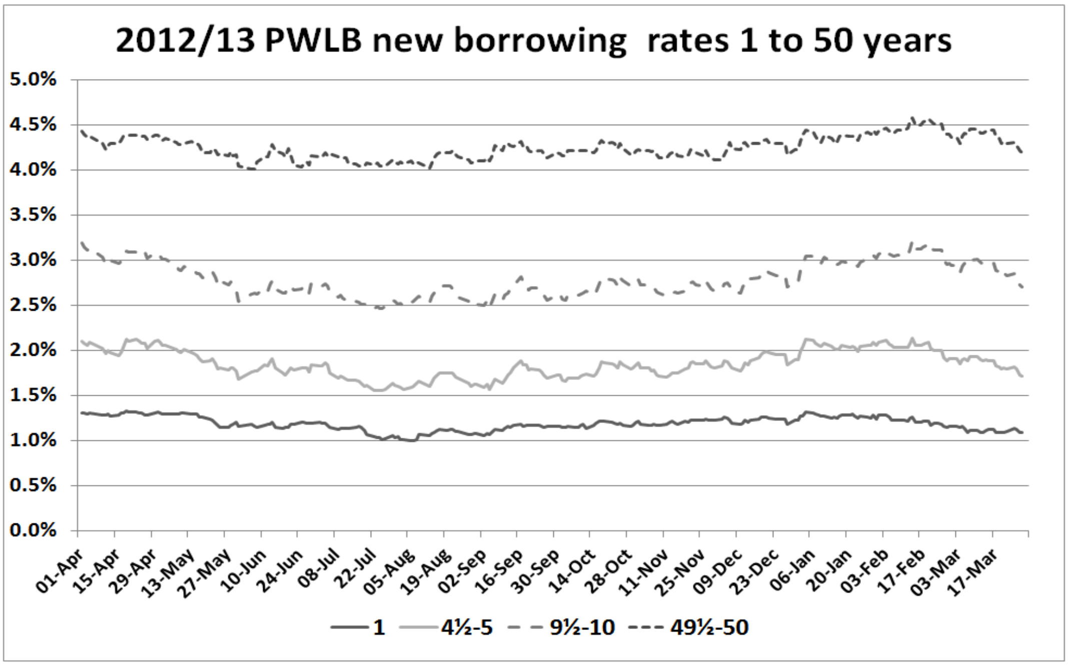
3.1 The Authority's debt and investment position at the beginning and the end of the year was as follows:

SUMMARY	31st March 2013 Principal	Rate/ Return	31st March 2012 Principal	Rate/ Return
Fixed Rate Funding:				
-PWLB	£27.167m	4.227%	£27.067m	4.298%
Total Debt	***£27.167m***	***4.227%***	***£28.608m***	***4.298%***
Investments:				
-In-House	£17.792m	0.64%	£16.338m	0.79%
Total Investments	***£17.792m***	***0.64%***	***£11.645m***	***0.79%***

4. BORROWING

Public Works Loan Board (PWLB) borrowing rates 2012-2013

4.1 The graph below shows how PWLB borrowing rates remained close to historically very low levels during the year**.**



DSFRA Borrowing Strategy

Prudential Indicators

4.2 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.

4.3 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 2012-2013

4.4 New borrowing of £2m was taken out in Quarter 1 of the financial year to support capital spending. A summary of the loan (debt) position of the Authority is given in the table below. All borrowing has been taken out at Fixed Interest Rates.

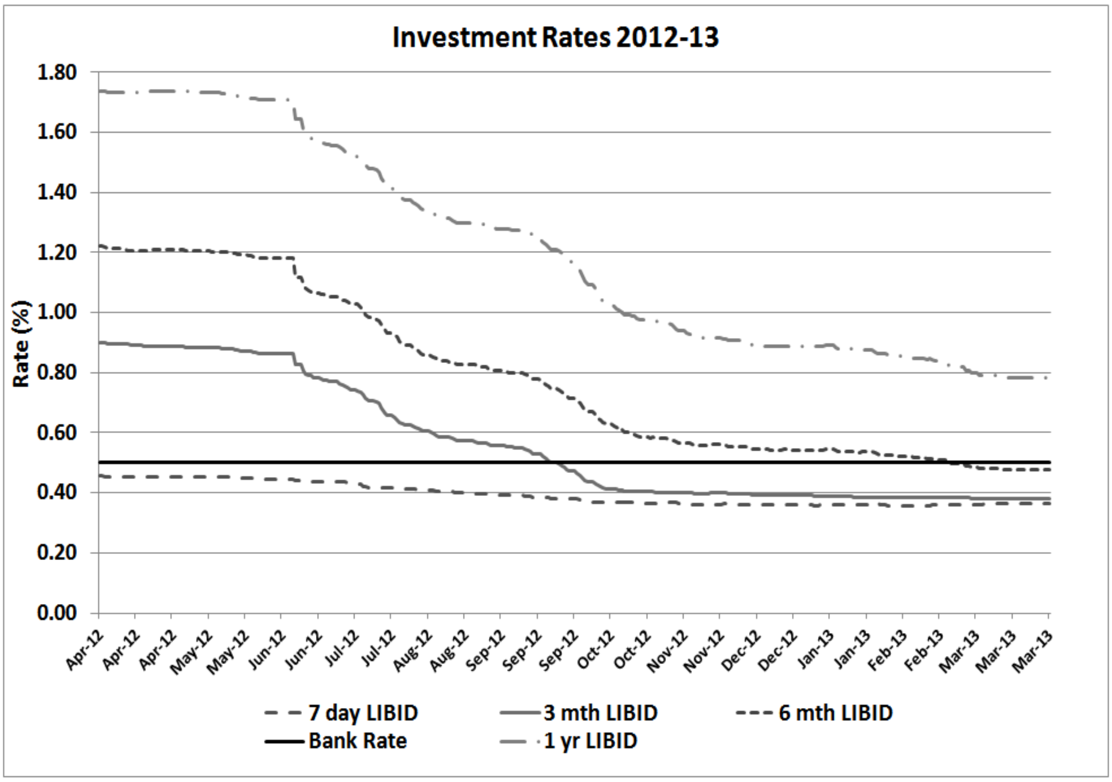
	Summary of loan movements during 2012-13			
		Amount £m		
	Value of loans outstanding as at 1/4/12	**27.066**		
	Loans taken during 2012-2013			
Date of Loan	**Type of loan**		**Life (Years)**	**Interest Rate**
12/6/2012	PWLB Fixed rate	2.000	15 years	3.28%
	Loans repaid upon maturity during 2012-13	(1.899)		
	Loans rescheduled during 2012-13	0		
	Total value of loans outstanding as at 31/3/2013	**27.167**		

5. INVESTMENTS

Investment rates in 2012-13

5.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening were pushed back during the year to early 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.

5.2 The table overleaf indicates movement in investment rates during 2012-13



DSFRA Investment Strategy

5.3 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

5.4 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 2012-2013

5.5 No institutions in which investments were made during 2012-2013 had any difficulty in repaying investments and interest in full during the year and the Authority had no liquidity difficulties.

5.6 A full list of investments held as at 31 March 2013 are shown in the table overleaf.

Investments as at 31 March 2013					
Counterparty	Maximum to be invested	Total amount invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Bank of Scotland	5.000	1.500	T	1 yr	3.00%
		1.500	T	1 yr	3.00%
		2.000	T	3 mths	0.70%
Barclays	10.000	2.000	T	3 mths	0.45%
		2.000	T	3 mths	0.45%
National Westminster Bank	5.000	5.000	T	3 mths	1.25%
Local Authority	5.000	2.000	T	1 yr	0.34%
Nationwide B/S	1.500	1.000	T	3 mths	0.45%
Ignis Money Market Fund	5.000	0.792	C	Instant access	Variable
Total invested as at 31st March 2013		**17.792m**			

5.7 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	£22.877m	0.56%	0.64%	£0.231m

5.8 The amount of investment income earned of £0.231m has exceeded the target by £0.131m as a result of levels of fund available for investment during the year being higher than anticipated.

6. SUMMARY

6.1 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 2012-2103. 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. Even so, the Authority is able to report that its returns are above the LIBID 3 month rate, the benchmark return for this type of short term investments.

KEVIN WOODWARD
Treasurer

PRUDENTIAL INDICATOR	2011-12 £m actual	2012-13 £m approved	2012-13 £m actual
Capital Expenditure			
Non - HRA	3.363	10.647	4.662
HRA (applies only to housing authorities)	0	0	0
TOTAL	3.363	10.647	4.662
Ratio of financing costs to net revenue stream			
Non - HRA	4.11%	3.98%	3.66%
HRA (applies only to housing authorities)	0%	0%	0%
Capital Financing Requirement as at 31 March (borrowing only)			
Non – HRA	26.142	28.403	26.307
HRA (applies only to housing authorities)	0	0	0
TOTAL	26.142	28.403	26.307
Annual change in Cap. Financing Requirement			
Non – HRA	(2.162)	2.001	0.164
HRA (applies only to housing authorities)	0	0	0
TOTAL	(2.162)	2.001	0.164
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	33.302	34.159	29.211
other long term liabilities	1.626	1.587	1.587
TOTAL	34.928	35.746	30.798
Operational Boundary for external debt -			
borrowing	31.744	32.739	27.791
other long term liabilities	1.532	1.509	1.509
TOTAL	33.276	34.248	29.300

	Actual 31st March 2013	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 2012-13			
Under 12 months	3.51%	30%	0%
12 months and within 24 months	0.99%	30%	0%
24 months and within 5 years	1.15%	50%	0%
5 years and within 10 years	5.03%	75%	0%
10 years and above	89.31%	100%	50%