REPORT REFERENCE NO.	**DSFRA/15/13**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Ordinary Meeting)**
DATE OF MEETING	**28 MAY 2015**
SUBJECT OF REPORT	**ANNUAL TREASURY MANAGEMENT REPORT 2014-2015**
LEAD OFFICER	**Treasurer**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2014-2015, 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 2014-15 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 2014-15.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report to budget meeting held on the 24 February 2014 DSFRA/14/3

1. INTRODUCTION

1.1 The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014-15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 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.

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 The Treasury Management Strategy for the 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.

1.5 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 original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was heavily dependent on buoyant consumer demand. In mid-October inflation in the UK was going to head towards zero in 2015 and possibly even turn negative.

2.2 In turn, this made it clear that the Monetary Policy Committee would have great difficulty in starting to raise Bank Rate in 2015 started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the European Central Bank was going to do too little too late to ward off the threat of deflation and recession in the Eurozone.. By the end of 2014, it was clear that inflation was around zero and so market expectations for the first increase receded back to around Quarter 3 of 2016.

2.3 Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the Eurozone had been disproved.

2.4 Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election [then] due in May 2015.

3. OVERALL TREASURY POSITION AS AT 31 MARCH 2015

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

SUMMARY	31st March 2014 Principal	Rate/ Return	31st March 2015 Principal	Rate/ Return
Total Debt - PWLB	*£26.214m*	*4.231%*	*£25.944m*	*4.231%*
CFR	*£24.382m*		*£22.582m*	
Over/(under) borrowing	*£1.832m*		*£3.362m*	
Total Investments	*£25.107m*	*0.61%*	*£30.956m*	*0.49%*
NET DEBT	*£1.107m*		*£(5.012)m*	

4. STRATEGY FOR 2014-15

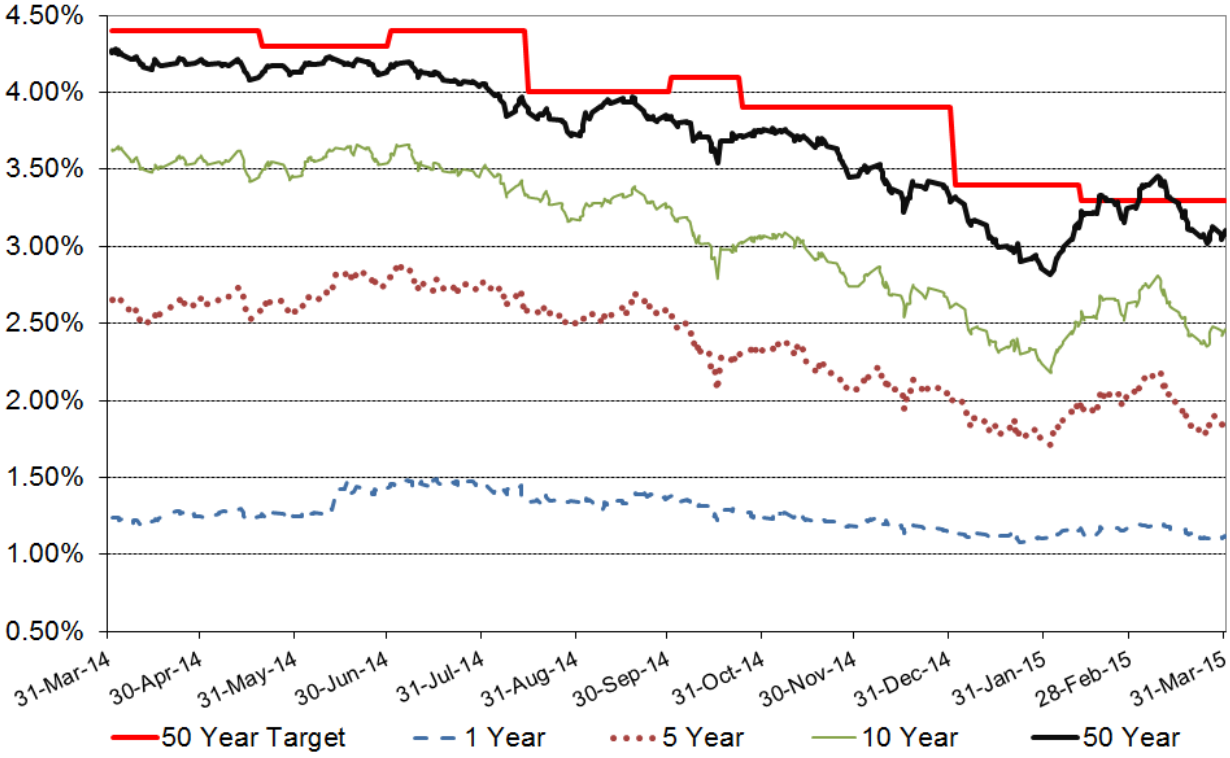
4.1 The expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

4.2 In this scenario the strategy was to postpone borrowing to avoid the cost of holding higher levels of investment and to reduce counterparty risk.

5. BORROWING

Public Works Loan Board (PWLB) borrowing rates 2013-2014

5.1 The graph below shows how PWLB certainty rates have fallen to historically very low levels during the year**.**



DSFRA Borrowing Strategy

Prudential Indicators

5.2 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.

5.3 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.

Authority borrowing during and at the end of 2014-2015

5.4 No new borrowing was taken out in 2014-15 to support capital spending and therefore, because repayments of £0.270m loan principal have been made in year, the value of loans outstanding has decreased since the end of 2013-14. A summary of the loan (debt) position of the Authority is given in the table overleaf. All existing borrowing has been taken out at Fixed Interest Rates.

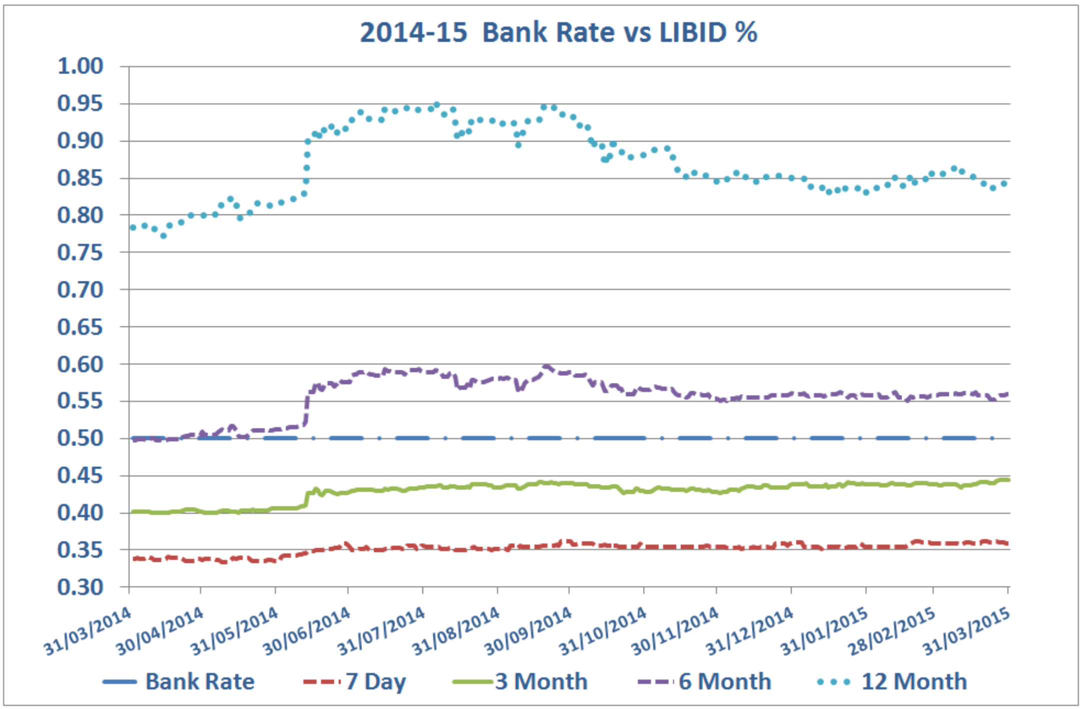
5.5 It is noted that external borrowing was above the CFR at end of March 2015 but the Authority will increase the Capital Financing Requirement over the next three financial years. Consideration has been given to whether it would be advantageous for the Authority to repay some of its debt early. The effect of early repayment penalties would negate any immediate savings to the revenue budget and therefore would not represent best value for money at this time. Officers will continue to consult with Capita Treasury Management Services regarding the efficient use of cash and loan balances in order to be able to advise members of changes to rates which may make debt repayment beneficial.

	Summary of loan movements during 2014-15		
		Amount £m	
	Value of loans outstanding as at 1/4/2014	**26.214**	
	Loans taken during 2014-2015	0.00	
	Loans repaid upon maturity during 2014-15	(0.270)	
	Loans rescheduled during 2014-15	0	
	Total value of loans outstanding as at 31/3/2015	**25.944**	

6. INVESTMENTS

Investment rates in 2014-15

6.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at Quarter 1 2015 but then moved back to around Quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year primarily due to the effects of the Funding for Lending Scheme.



Authority Investment Strategy

6.2 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

6.3 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 our Treasury Management Advisors (Capita) suggested creditworthiness matrices, including Credit Default Swap 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.

Authority Investments during and at the end of 2014-2015

6.4 No institutions in which investments were made during 2014-2015 had any difficulty in repaying investments and interest in full during the year and the Authority had no liquidity difficulties.

6.5 A full list of investments held as at 31 March 2015 are shown in the table below:

		Investments as at 31 March 2015			
Counterparty	Maximum to be invested	Total amount invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Bank of Scotland	5.000	2.100	T	1 yr	1.000%
		1.400	T	1 yr	1.000%
		1.500	T	6 mths	0.700%
Goldman Sachs	5.000	5.000	T	3 mths	0.475%
Barclays	8.000	3.000	T	6 mths	0.610%
		2.500	T	6 mths	0.600%
		2.000	T	6 mths	0.600%
Clydesdale Bank	2.000	1.000	T	3 mths	0.510%
		1.000	T	3 mths	0.510%
Leeds Building Society	2.000	2.000	T	3 mths	0.500%
Nationwide Building Society	2.000	2.000	T	6 mths	0.660%
Svenska Handelsbanken	5.000	0.010	C	Instant Access	Variable
Black Rock Money Market Funds	5.000	0.446	C	Instant Access	Variable
Barclays - FIBCA	2.000	2.000	C	Instant Access	Variable
Ignis Sterling Liquidity Money Market Fund	5.000	5.000	C	Instant Access	Variable
Total invested as at 31st March 2015		**30.956m**			

6.6 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	£34.488m	0.42%	0.49%	£0.186m

6.7 The amount of investment income earned of £0.186m has exceeded the target by £0.086m as a result of levels of fund available for investment during the year being higher than anticipated.

7. SUMMARY

7.1 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 2014-2015. 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.

7.2 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 London Inter Bank Bid Rate 3 month rate, the benchmark return for this type of short term investments.

KEVIN WOODWARD
Treasurer

PRUDENTIAL INDICATOR	**2013-14 £m actual**	**2014-15 £m approved**	**2014-15 £m actual**
Capital Expenditure			
Non - HRA	3.853	7.614	2.797
HRA (applies only to housing authorities)	0	0	0
TOTAL	3.853	7.614	2.797
Ratio of financing costs to net revenue stream			
Non - HRA	3.75%	3.85%	3.62%
HRA (applies only to housing authorities)	0%	0%	0%
Capital Financing Requirement as at 31 March (borrowing only)			
Non – HRA	24.382	23.430	22.582
HRA (applies only to housing authorities)	0	0	0
TOTAL	24.382	23.430	22.582
Annual change in Cap. Financing Requirement			
Non – HRA	(1.952)	(0.975)	(1.823)
HRA (applies only to housing authorities)	0	0	0
TOTAL	(1.952)	(0.975)	(1.823)
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase/(decrease) in council tax (band D) per annum	(£0.34)	(£0.42)	£(0.49)
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£m	**£m**	**£m**
Authorised Limit for external debt -			
borrowing	32.770	31.021	31.021
other long term liabilities	1.520	1.509	1.509
TOTAL	34.290	32.530	32.530
Operational Boundary for external debt -			
borrowing	32.739	29.948	29.948
other long term liabilities	1.509	1.374	1.374
TOTAL	34.248	31.322	31.322

	Actual 31st March 2015	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 2014-15			
Under 12 months	0.49%	30%	0%
12 months and within 24 months	0.36%	30%	0%
24 months and within 5 years	1.08%	50%	0%
5 years and within 10 years	8.22%	75%	0%
10 years and above	89.86%	100%	50%