

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	RC/13/2
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	4 FEBRUARY 2013
SUBJECT OF REPORT	TREASURY MANAGEMENT PERFORMANCE 2012-2013 – QUARTER 3
LEAD OFFICER	TREASURER TO THE AUTHORITY
RECOMMENDATIONS	<i>That the performance in relation to the treasury management activities of the Authority for 2012-2013 (to December), as set out in this report, be noted.</i>
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The 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 Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY BENEFITS AND RISKS ANALYSIS	Not applicable.
APPENDICES	A. Investments held as at 31 December 2012.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/12/3 – as approved at the meeting of the DSFRA meeting held on the 17 February 2012.

1. **INTRODUCTION**

1.1 The Treasury Management Strategy for the Authority is underpinned by 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 most recent revision of the Code was adopted by the Authority at its meeting on 17 February 2012. 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**

Economic performance to date

2.1 During the quarter ended 31st December, in the UK, the Chancellors Autumn Statement extended austerity for a further year to 2017/18 and in light of the deterioration in the borrowing forecasts, the Chancellor chose to disregard one of his fiscal targets, to get debt as a share of GDP falling by 2015/16. Whilst he did announce a number of growth friendly measures, including a cut in corporation tax, it was largely a case of give with one hand and take away with the other. Equity prices in the UK and overseas largely continued to rise over the course of the fourth quarter, with the FTSE 100 picking up from 5,820 to 5,898.

2.2 In the Eurozone, market sentiment continued to be steadied by the ECB's pledge to buy "unlimited" quantities of peripheral government's sovereign debt. Activity indicators, however, point to a deepening recession in the region.

2.3 Internationally, the US economy's recovery has remained soft although the agreement reached on 1st January to avert some of the "fiscal cliff" scheduled for the start of 2013 reduces the risk of a new recession.

UK economy

- 2.4 The Chancellor's Autumn Statement recognised that the Government is not going to achieve its original timetable for reducing the budget deficit and total debt; the timescale has accordingly been extended. The housing market looks as if it will continue to be weak for a long time yet and the construction industry is contracting.
- 2.5 The main rating agencies have all made it clear they are reviewing the UK's "AAA" status in early 2013. There is a material chance of the current ratings being downgraded. Although the UK will retain its "safe haven" status, a change in rating may place some upside pressure on gilt yields
- 2.6 Consumers are likely to remain focused on paying down debt. Weak consumer sentiment and job fears will all act to keep consumer expenditure suppressed; this will be compounded by inflation being higher than increases in average earnings i.e. disposable income will still be eroded.
- 2.7 There is little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth and if negative gross domestic product growth continues into the first quarter of 2013 it would be the first triple dip recession since records began in 1955.
- 2.8 The overall balance of risks to economic recovery in the UK remains weighted to the downside.

Sector's interest rate forecast

- 2.9 Sector undertook a review of its interest rate forecasts following the issue of the latest Bank of England Inflation Report for November 2012. The Bank is now only forecasting growth at around 1% in 2013 and 2% in 2014.

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%
10yr PWLB rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%
25yr PWLB rate	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%
50yr PWLB rate	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%

3. TREASURY MANAGEMENT STRATEGY STATEMENT

Annual Investment Strategy

- 3.1 The Authority approved its Annual Investment Strategy, incorporating the Treasury Management Strategy Statement (TMSS), at its meeting on 17 February 2012. This Strategy 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 a significant proportion of 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 31 December 2012 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 £25.449m (£25.048m in previous quarter). 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 to end of December
3 Month LIBID	0.40%	0.49%	£97,245

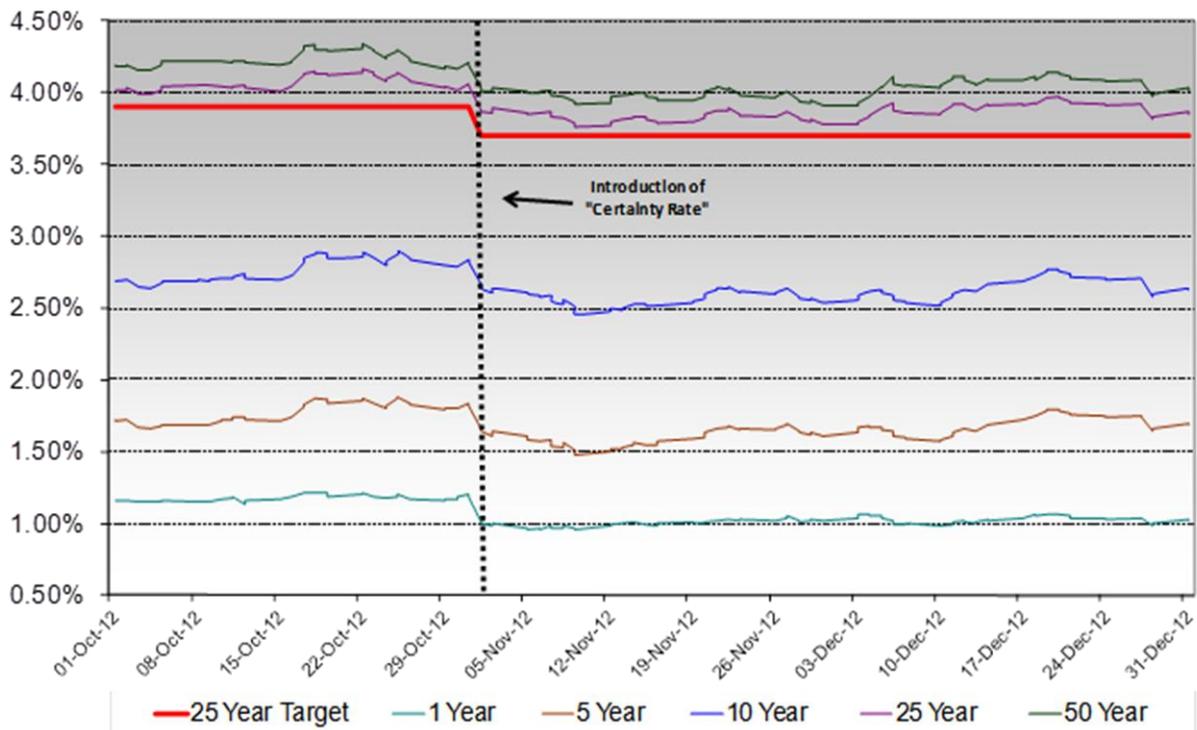
- 3.7 As illustrated above, the authority has outperformed the 3 month LIBID benchmark by 0.09 bp. It is anticipated that the budgeted investment return for the year of £0.100m will be overachieved. Authority performance so far indicates that the figure will be overachieved by £0.140m.

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 2012-2013, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to December 2012 and that there are no concerns that they will be breached during the financial year.
- 3.10 Total external borrowing as at 31 December 2012 stood at £28.367m the same figure as at 30 September. No new borrowing was taken out during the quarter and nothing was repaid. No debt rescheduling was taken out during the quarter.
- 3.11 The graph below shows the movement in PWLB rates for the last quarter (to 31.12.12). It is anticipated that internal borrowing and available grants will reduce the call on any further borrowing and therefore it is unlikely that any further borrowing will be undertaken this financial year.

PWLB Rates October to December 2012



4. SUMMARY

4.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides members with a third quarter report of the treasury management activities for 2012-2013. 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 anticipating that the investment returns will be greater than originally budgeted.

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT RC/13/2

Investments as at 31st December 2012						
% of total investments	Counterparty	Maximum to be invested (£m)	Total amount invested (£m)	Call or Term	Date if Term	Interest Rate
23.02%	Bank of Scotland	5.0	1.500	T	04/07/2013	3.00%
			1.500	T	04/07/2013	3.00%
			2.000	T	01/02/2013	2.00%
16.11%	Barclays	10.0	1.500	T	12/03/2013	0.46%
			2.000	T	07/03/2013	0.46%
23.02%	National Westminster Bank	5.0	5.000	T	21/01/2013	1.25%
11.74%	Ignis Money Market Fund	5.0	2.550	C		Variable
0.78%	Black Rock	5.0	0.171	C		Variable
6.91%	Nationwide B/S	1.5	1.500	T	28/02/2013	0.44%
9.21%	Local Authority	1.5	2.000	T	15/07/2013	0.34%
9.21%	Treasury Bills	2.0	2.000	T	18/02/2013	0.19%
			21.721			