



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	RC/13/9
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	9 SEPTEMBER 2013
SUBJECT OF REPORT	TREASURY MANAGEMENT PERFORMANCE 2013-2014 – QUARTER 1
LEAD OFFICER	Treasurer
RECOMMENDATIONS	<i>That the performance in relation to the treasury management activities of the Authority for 2013-2014 (to June) 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 IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 30 June 2013.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/13/3 – as approved at the meeting of the DSFRA meeting held on the 18 February 2013.

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) 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 at the meeting of the DSFRA on the 18th February 2013. 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 Indicators suggest that the economy has accelerated during the quarter to the 30th June;

- Stronger household spending, both on and off the high street;
- Inflation remained above the Monetary Policy Committees 2% target;
- 10 year gilt yields rose above 2.5% and the FTSE 100 fell below 6100;
- The Federal Reserve discussed tapering the pace of asset purchases with a resulting rise in US Treasury yields which was replicated in the UK;
- Tension in the Eurozone eased but there remained a number of triggers for a potential flare up.

2.2 Sector's interest rate forecast

The most recent forecast received from Sector in August 2013 suggested the following anticipated rates.

	NOW	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
3 month LIBID	0.39	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.80	1.00
6 month LIBID	0.47	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.90	1.10	1.30
12 month LIBID	0.74	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.90	1.00	1.20	1.40	1.60	1.80	2.00
5 yr PWLB	2.20	2.20	2.20	2.20	2.20	2.20	2.30	2.40	2.50	2.60	2.80	2.90	3.00	3.20	3.30	3.40
10 yr PWLB	3.40	3.30	3.30	3.30	3.30	3.30	3.40	3.50	3.60	3.80	3.90	4.10	4.20	4.30	4.40	4.50
25 yr PWLB	4.30	4.20	4.20	4.30	4.30	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.00	5.10	5.10	5.20
50 yr PWLB	4.30	4.30	4.30	4.40	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.10	5.10	5.20	5.20	5.30

2.3 In Mervyn King's last Inflation Report as Governor of the Bank of England, there was a distinct shift towards optimism in terms of a marginal upgrading of growth forecasts so that the wording changed for the recovery from "remains weak by historical standards" to "modest and sustained recovery over the next three years". The overall balance of risks to economic recovery in the UK is now evenly weighted.

UK

- Mark Carney started on the 1st July as the new Governor of the Bank of England;
- Business surveys, consumer confidence, consumer borrowing and house prices are all on the up but this is still a long way from the UK getting back to strong growth;
- Consumer expenditure is likely to remain suppressed by inflation being higher than increases in average earnings i.e. disposable income will continue to be eroded;
- There is little potential for more Quantitative Easing (QE) in 2013 to stimulate economic activity;

Eurozone

- With the exception of Germany, most Eurozone countries are now battling against recession with growth prospects poor due to the need to adopt austerity programmes to bring government deficits under control;
- The European Central Bank cut its central rate from 0.75% to 0.5% but this is unlikely to significantly improve prospects for Gross Domestic Product growth.

US

- There has been a strong resurgence of confidence in US financial markets due to the "fiscal cliff" being largely averted or postponed. However with tax increases and cuts in Government expenditure leading to cuts in jobs the potential for recovery in growth rates is being dampened

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 18th February 2013. 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 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 A full list of investments held as at 30 June 2013 are shown in Appendix A.

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

3.5 The average level of funds available for investment purposes during the quarter was £25.991m. 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	0.38%	0.43%	£(44,004)

3.6 As illustrated, the authority outperformed the 3 month LIBID benchmark by 0.05 bp. The Authority's budgeted investment return for 2013-2014 is £0.100m, and performance so far this year indicates that this figure will be met by March 2014.

Borrowing Strategy

Prudential Indicators:

3.7 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.

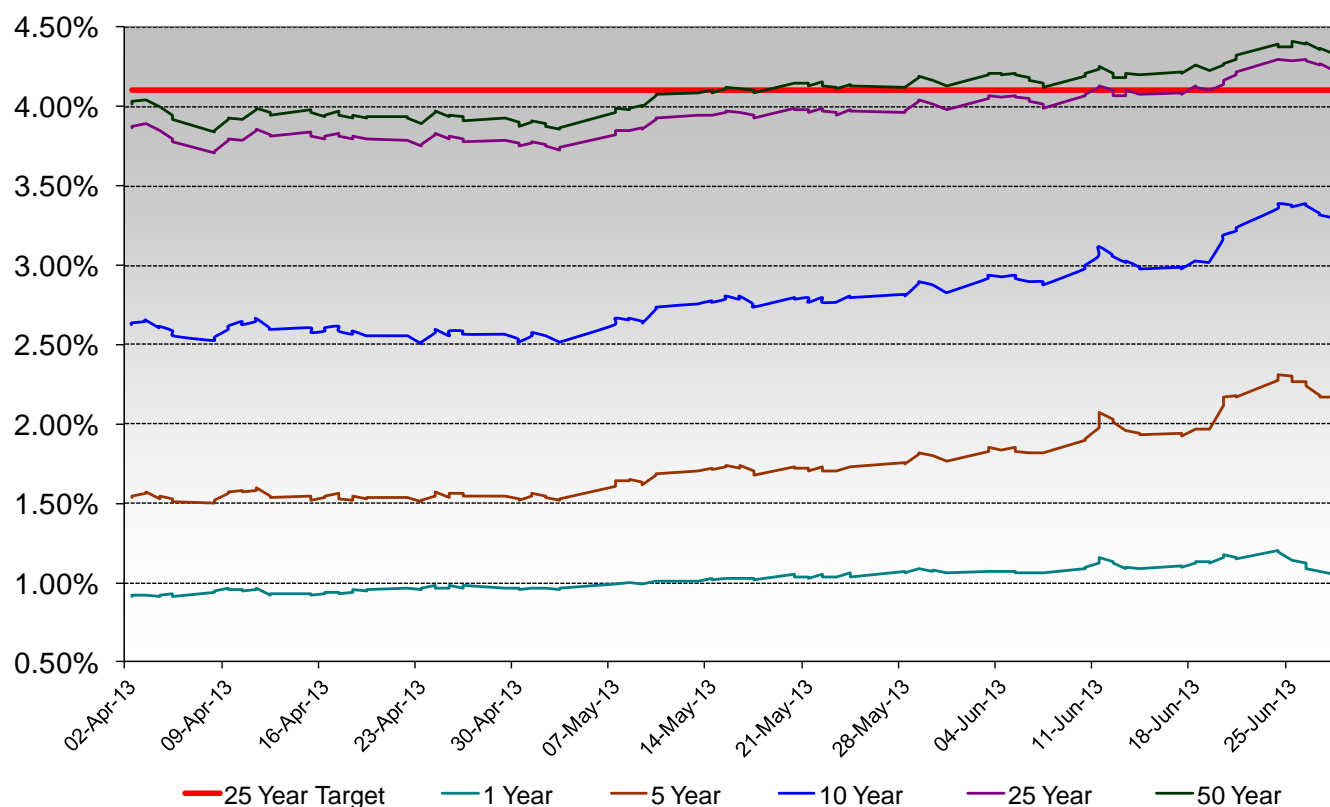
3.8 A full list of the approved limits (as amended) are included in the Financial Performance Report 2013-2014, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to June 2013 and that there are no concerns that they will be breached during the financial year.

New Borrowing

- 3.9 Sector's 25 year PWLB target rate for new long term borrowing for the quarter remained at 4.10%.
- 3.10 No new borrowing was undertaken during the quarter and external borrowing as at 30 June 2013 was £27.167m. No debt rescheduling was undertaken during this quarter of the year
- 3.11 PWLB certainty rates for the quarter ended 30 June 2013 are shown below. DSFRA is eligible to borrow at certainty rates.

PWLB rates quarter ended 30.6.2013

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.91%	1.50%	2.51%	3.71%	3.84%
Date	02/04/2013	08/04/2013	23/04/2013	08/04/2013	08/04/2013
High	1.20%	2.31%	3.39%	4.30%	4.41%
Date	24/06/2013	24/06/2013	24/06/2013	24/06/2013	25/06/2013
Average	1.02%	1.75%	2.81%	3.95%	4.09%



3.12 It is anticipated that internal borrowing and available grants will reduce the need to borrow from the PWLB although a small amount of borrowing may be necessary. This will be subject to certainty rates on offer and the delivery of the capital programme.

4. SUMMARY

4.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides members with a first quarter report of the treasury management activities for 2013-2014. 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 anticipating that investment returns will meet those originally budgeted.

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT RC/13/9

Investments as at 30th June 2013							
% of total investments	Counterparty	Maximum to be invested (£m)	Total amount invested (£m)	Call or Term	Date if Term	Period Invested	Interest Rate
20.32%	Bank of Scotland	5.0	1.500	T	04/07/2013	1 yr	3.00%
			1.500	T	04/07/2013	1 yr	3.00%
			2.000	T	08/11/2013	6mths	0.80%
24.40%	Barclays	10.0	2.000	T	07/07/2013	3mths	0.44%
			2.000	T	20/08/2013	3mths	0.45%
			2.000	T	29/11/2013	6mths	0.53%
2.90%	Black Rock	5.0	0.714	C			Variable
19.87%	Ignis Money Market Fund	5.0	4.888	C			Variable
8.13%	Local Authority	1.5	2.000	T	15/07/2013	1 yr	0.34%
4.06%	Nationwide B/S	1.5	1.000	T	19/12/2013	6mths	0.39%
20.32%	National Westminster	1.5	5.000	T	02/08/2013	3mths	0.90%
			24.602				