

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	RC/14/1
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	3 FEBRUARY 2014
SUBJECT OF REPORT	TREASURY MANAGEMENT PERFORMANCE 2013-2014: QUARTER 3
LEAD OFFICER	TREASURER
RECOMMENDATIONS	<i>That the performance in relation to the treasury management activities of the Authority for 2013-2014 (to December) 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 AND RISKS BENEFIT ANALYSIS	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 31 December 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**

Economic performance

2.1 The fourth quarter of 2013 saw:

- Signs that Gross Domestic Product (GDP) may have accelerated;
- Inflation falling to its lowest level (2.1%) since November 2009;
- Unemployment approaching the Monetary Policy Committee's (MPC) 7% forward guidance threshold;

2.2 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However growth has rebounded during 2013 to surpass all expectations. Forward surveys are currently very positive in indicating the growth prospects are also strong for 2014, not only in the UK economy as a whole but in all three main sectors (services/manufacturing/construction).

- 2.3 Eurozone concerns have subsided considerably in 2013. However sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, lack of competitiveness and the need for overdue reforms of the economy. This could mean that the sovereign debt concerns have not disappeared but rather have only been postponed.
- 2.4 In the USA, the economy has managed to return to robust growth, in spite of the fiscal cliff induced sharp cuts in federal expenditure and increases in taxation. Many house owners have been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets.

Capita Interest Rate Forecasts

- 2.5 Capita Asset Services undertook a review of its interest rate forecasts in late November, after the Bank of England's latest quarterly inflation report. This latest forecast now includes a first increase in bank rate in quarter 2 of 2016 (previously quarter 3) and reflects greater caution as to the speed with which the MPC will start increasing bank rate than the current expectations of financial markets.

	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%	0.75%	1.00%	1.00%	1.25%
5yr PWLB rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%

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 Capita suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Capita.

- 3.3 A full list of investments held as at 31 December 2013 are shown in Appendix A.
- 3.4 Investment rates available in the market have continued at historically low levels and have fallen further during the quarter.
- 3.5 The average level of funds available for investment purposes during the quarter was £28.447m (£32.818m 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 quarter 3
3 Month LIBID	0.40%	0.43%	£125,512

- 3.6 As illustrated, the authority outperformed the 3 month LIBID benchmark by 0.03 bp. The Authority's budgeted investment target for 2013-2014 of £0.100m will also be overachieved.

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 December 2013 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

- 3.9 External borrowing as at 31 December 2013 was £26.368m (unchanged from previous quarter). All of this debt was at fixed rate with the remaining principal having an average rate/life of 4.231%/31.08 years.

Loan Rescheduling

- 3.10 No debt rescheduling was undertaken during this quarter of the year

New Borrowing

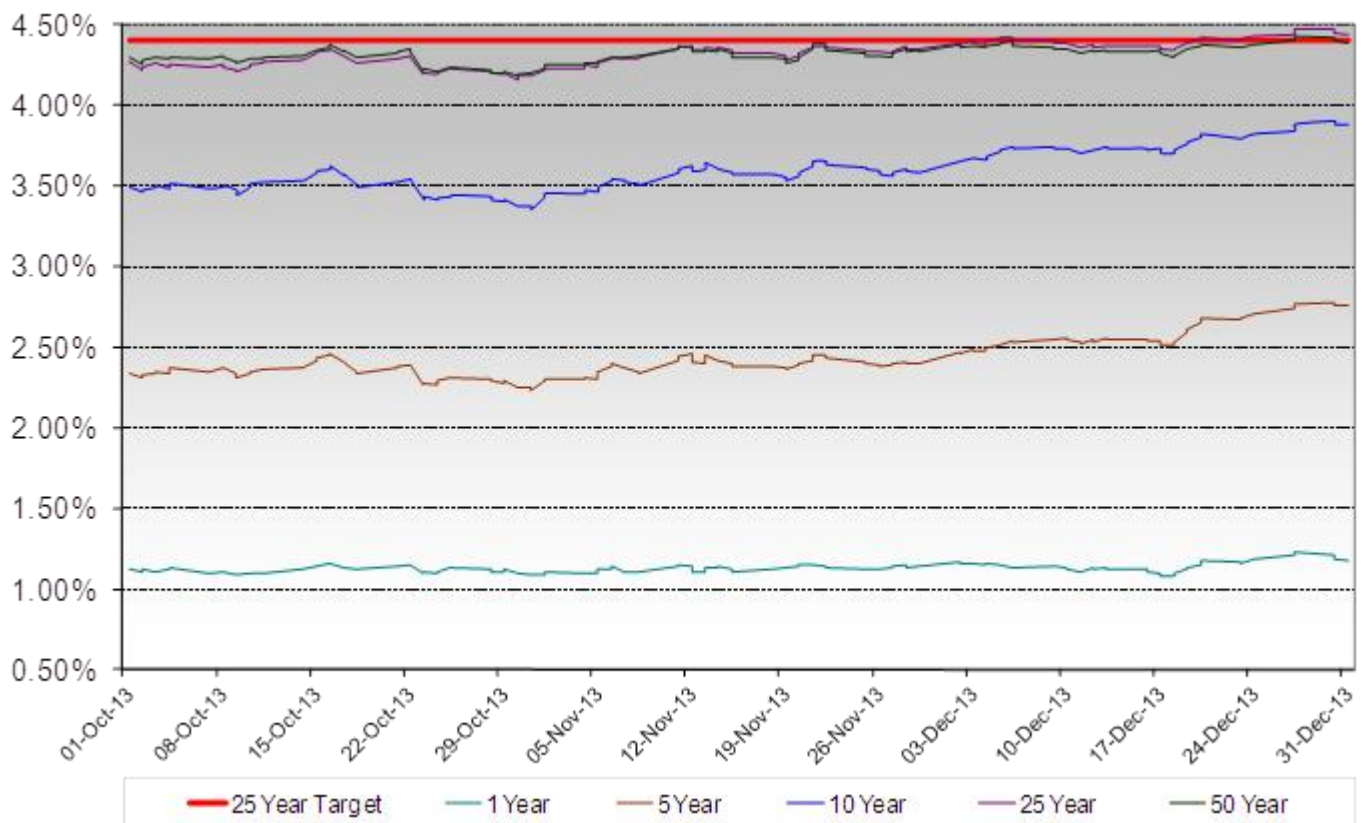
- 3.11 Capita's 25 year PWLB target rate for new long term borrowing for the quarter remains at 4.40%. Due to the overall financing position of the capital programme no new borrowing was undertaken during the quarter.

3.12 PWLB certainty rates for the quarter ended 31 December 2013 are shown below. DSFRA is eligible to borrow at certainty rates.

PWLB rates quarter ended 31.12.2013

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.08%	2.23%	3.35%	4.16%	4.18%
Date	17/12/2013	31/10/2013	31/10/2013	30/10/2013	30/10/2013
High	1.23%	2.78%	3.90%	4.47%	4.43%
Date	27/12/2013	30/12/2013	30/12/2013	27/12/2013	27/12/2013
Average	1.13%	2.43%	3.59%	4.32%	4.31%

3.13 Borrowing rates for this quarter are shown below.



3.14 It is anticipated that use of internal borrowing and available grants will avoid the need to borrow from the PWLB in year; however 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 the third 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 overachieve the budgeted target.

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT RC/14/1

Investments as at 31st December 2013							
% of total investments	Counterparty	Maximum to be invested (£m)	Total amount invested (£m)	Call or Term	Date if Term	Period Invested	Interest Rate
20.91%	Bank of Scotland	5.0	1.500	T	02/01/2014	6mths	0.75%
			1.500	T	10/01/2014	3mths	0.70%
			2.000	T	08/08/2014	9mths	0.83%
25.10%	Barclays	10.0	2.000	T	21/01/2014	3mths	0.46%
			1.000	T	23/01/2014	3mths	0.46%
			2.000	T	20/05/2014	6mths	0.54%
			1.000	T	26/02/2014	3mths	0.45%
11.10%	Black Rock	5.0	2.651	C			Variable
1.07%	Ignis Money Market Fund	5.0	0.256	C			Variable
20.91%	Federated Prime Rate	5.0	5.000	C			Variable
20.91%	National Westminster	5.0	5.000	T	10/03/2014	3mths	0.60%
			23.907				