AGENDA ITEM:

REPORT TO: **Meeting of the**	**MERSEYSIDE FIRE & RESCUE AUTHORITY** **POLICY & RESOURCES COMMITTEE**
DATE:	**15 JANUARY**
REPORT NO.	**CFO/ 010/13**
REPORTING OFFICER:	**KIERAN TIMMINS, DEPUTY CHIEF EXECUTIVE**
CONTACT OFFICER:	**IAN CUMMINS, HEAD OF FINANCE, EXTN. 4244**
OFFICERS CONSULTED:	
SUBJECT:	**TREASURY MANAGEMENT INTERIM REPORT 2012/13**

APPENDIX A TITLE "Treasury Management Interim Report 2012/13"

Purpose of Report

1. This report ensures the Authority meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Authority is required to comply with both Codes under Part 1 of the Local Government Act 2003). The Codes require the Authority to review its Treasury Management activities during the year to ensure they are consistent with its approved Treasury Management Strategy and have remained within the approved Prudential Indicators. This report meets that requirement and outlines the Treasury Management activities and performance for April to October for the financial year 2012/13. Members are asked to note this report.

Recommendation

2. That Members note the report.

Introduction & Background

3. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority and a Treasury Policy Statement incorporated in Financial Regulations in accordance with the requirements of the Code. The arrangements for reporting Treasury management activities to Members are that the Deputy Chief Executive will present a minimum of three reports: -

    - An annual Treasury Strategy Report before the start of a financial year.

- An interim report during the second half of a financial year, (other interim reports will be prepared if necessary).
- An annual outturn report by 30th September following the financial year to which it relates.

4. The original Treasury Management Strategy Statement 2012/13 was contained within the Budget and Financial Plan report CFO/033/12 approved by the Authority at its meeting on 16 February, 2012. The strategy covered the following areas:

   (a) prospects for interest rates;
   (b) capital borrowing and debt rescheduling;
   (c) annual investment strategy;
   (d) external debt prudential indicators;
   (e) treasury management prudential indicators.
   (f) performance indicators;
   (g) treasury management advisers

5. Interim Treasury Management Report; Appendix 1 to this report constitutes the interim report for 2012/13. In summary the Treasury Management activities and performance indicators are consistent with the Authority's approved Treasury Management Strategy.

Equality & Diversity Implications

6. There are no equality and diversity implications contained within this report or directly relating to this report.

Staff Implications

7. None directly related to this report.

Legal Implications

8. This report meets the requirements of Part 1 of the Local Government Act 2003 and the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

Financial Implications & Value for Money

9. The cost of borrowing and financing costs to invest in the Authority's assets, make up a significant proportion of Authority budgets (nearly 10%). It is vital that this is proactively managed alongside the investment portfolio to minimise risk

10. The DCE is reviewing the capital programme and it's financing in line with Authority instructions in order to identify savings that might assist the budget process.

Risk Management, Health & Safety, and Environmental Implications

11. None directly related to this report.

Contribution to Our Mission – To Achieve; Safer Stronger Communities – Safe Effective Firefighters”

12. Sound budgetary management and the delivery of services within the approved budget helps the Authority deliver on its corporate aim of operating efficient and effective organisational functions that will support the core functions of the Authority in a way that provides value for money for the communities of Merseyside.

BACKGROUND PAPERS

Report CFO/033/12 “MFRA Budget and Financial Plan 2012/2013-2016/2017” Authority 16th February 2012.

Report CFO/143/10 “Treasury Policy Statement & Management Practices” Audit & VFM Scrutiny Panel 2nd September 2010.

Glossary of Terms

PWLB - Public Works Loans Board rates
CLG - Department for Communities and Local Government
CIPFA – the Chartered Institute for Public Finance & Accountancy

Appendix 1

TREASURY MANAGEMENT INTERIM REPORT 2012/13

INTRODUCTION

1. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority. The Code requires that Treasury Management activities are subject to reports to Members. This report represents the interim report for 2012/13.

2. The strategy for the year was identified in the Treasury Management Strategy Statement 2012/13 as part of the Budget Proposals 2012/13 submitted to Members in February 2012. The strategy covered the following areas:

   (a) prospects for interest rates;
   (b) capital borrowing and debt rescheduling;
   (c) annual investment strategy;
   (d) external debt prudential indicators;
   (e) treasury management prudential indicators.
   (f) performance indicators;
   (g) treasury management advisers

PROSPECTS FOR INTEREST RATES

3. Short-term rates have remained at 0.5% in line with the forecast for them to remain on hold for the rest of the financial year. Growth in the UK economy is expected to be weak in the next two years and there is a risk of a double-dip recession. The crisis in the euro-zone, the prospects of tight economic policies at home and weak consumer confidence means that any recovery in the economy is set to be weak and protracted.

4. Longer term rates have fallen by 0.25% during the year. They have been suppressed by investor concerns over Eurozone sovereign debt, decelerating activity, demand for safe haven instruments and the Bank of England's operations in the market. However, a very heavy programme of gilt issuance is required to fund the government deficit and, ultimately, the increased supply could push gilt yields higher. The effect would be upward pressure on longer-term Public Works Loans Board (PWLB) rates though this may not now happen in 2012/13.

5. The strategy indicated that the overall structure of interest rates, whereby short term rates are lower than long term rates, was expected to remain the same throughout 2012/13. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

6. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2012/13.

7. Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. A significant rise in long term interest rates is required before rescheduling of debt is viable. However, interest rate structures are continually monitored for opportunities to generate savings from debt rescheduling. Any rescheduling that takes place will be reported to Members in monitoring reports.

ANNUAL INVESTMENT STRATEGY

8. The investment strategy for 2012/13 set out the priorities as the **security** of capital and **liquidity** of investments. Investments are made in accordance with CLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.

9. The diversity of investments has been expanded by the use of deposits with the larger Building Societies. These deposits combined with investments with the “nationalised” banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1st April to 31st October 2012 the average rate of return achieved on average principal available was 1.43%. This compares with an average seven day deposit (7 day libid) rate of 0.42%.

10. The Authority had investments of £27.4m as at 31 October, (most of which is due to the receipt of firefighter pension grant payment of £21.471m in July 2012.):

ANALYSIS OF INVESTMENTS END OF OCTOBER 2012

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society
		£	£	£
Deutsche Global Liquidity Series (Fund)	**AAA**	1,300,000		
Goldman Sachs - SLRF	**AAA**	2,500,000		
Ignis liquidity Fund	**AAA**	3,000,000		
Morgan Stanley	**AAA**	2,600,000		
Prime Rate	**AAA**	3,000,000		
HBOS Corporate A/c.	**A**		2,000,000	
HBOS Masters Deposit	**A**		2,000,000	
Close Brother	**A**		2,000,000	
Nat West	**A**		4,000,000	
Leeds BS	**A**			1,000,000
Principality BS	**BBB**			1,000,000
Nationwide	**A**			2,000,000
West Brom BS	**Unrated**			1,000,000
Totals		12,400,000	10,000,000	5,000,000
Total Current Investments				**27,400,000**

EXTERNAL DEBT PRUDENTIAL INDICATORS

11. The external debt indicators of prudence for 2012/13 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £82 million
Operational boundary for external debt: £50million

Against these limits, the maximum amount of debt that was reached in the period April to October 2012 was £46 million.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

12. The treasury management indicators of prudence for 2012/13 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures
Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 50%

The maximum that was reached in the period April to October 2012 was as follows:

Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 0%

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period April to October 2012 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	80%	0%	5%	2%
12 months and within 24 months	50%	0%	3%	0%
24 months and within 5 years	50%	0%	12%	9%
5 years and within 10 years	50%	0%	11%	9%
10 years and above	80%	0%	75%	74%

c) Total principal sums invested for periods longer than 364 days

The limit for investments of longer than 364 days was set at £2 million for 2012/13. No such investments have been placed in 2012/13.

PERFORMANCE INDICATORS

13. Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

14. The indicators for the treasury function are:

Borrowing – the indicator is the average rate of actual borrowing compared to the average available for the period of borrowing. However, there has been no borrowing in the period April to October 2012.

Investments – Internal returns compared to the 7 day LIBID rate. The return in the period April to October 2012 was 1.01% above the benchmark.

TREASURY MANAGEMENT ADVISORS

15. The treasury management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level Agreement. The Council employs treasury management advisors appointed under a competitive procurement exercise who provide a range of services which include: -

- Technical support on treasury matters, capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

16. Whilst Liverpool City Council and its advisors provide the treasury function, ultimate responsibility for any decision on treasury matters remains with the Authority.

CONCLUSION

17. Treasury Management activity in 2012/13 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.