

**AGENDA ITEM:**

<b>REPORT TO:</b> Meeting of the	<b>MERSEYSIDE FIRE &amp; RESCUE AUTHORITY POLICY &amp; RESOURCES COMMITTEE</b>
<b>DATE:</b>	<b>19 NOVEMBER 2013</b>
<b>REPORT NO.</b>	<b>CFO/128/13</b>
<b>REPORTING OFFICER:</b>	<b>DEPUTY CHIEF EXECUTIVE</b>
<b>CONTACT OFFICER:</b>	<b>IAN CUMMINS, HEAD OF FINANCE, EXTN. 4244</b>
<b>OFFICERS CONSULTED:</b>	
<b>SUBJECT:</b>	<b>TREASURY MANAGEMENT INTERIM REPORT 2013/14</b>

**APPENDIX A:      TITLE            “Treasury Management Interim Report 2013/14”**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 through regulations issued under 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 September for the financial year 2013/14.

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 (DCE) 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 2013/14 was contained within the Budget and Financial Plan report CFO/025/13 approved by the Authority at its meeting on 26 February, 2013. 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 A to this report constitutes the interim report for 2013/14. In summary the treasury management activity 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. Performance indicators are consistent with the Authority's approved Treasury Management Strategy.

#### Equality & Diversity Implications

6. There are no equal opportunity implications in this report.

#### Staff Implications

7. None directly related to this report.

#### Legal Implications

8. This report meets the requirements of the relevant regulations issued under 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. Borrowing and financing costs 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.

#### Risk Management, Health & Safety, and Environmental Implications

10. None directly related to this report.

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

11. Sound budgetary management and the delivery of services within the approved budget contribute to the core value of providing an excellent and affordable response.

### **BACKGROUND PAPERS**

Report CFO/025/13 "MFRA Budget and Financial Plan 2013/2014-2017/2018"  
Authority 26th February 2013.

Report CFO/143/10 "Treasury Policy Statement & Management Practices" Audit &  
VFM Scrutiny Panel 2<sup>nd</sup> 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

## TREASURY MANAGEMENT INTERIM REPORT 2013/14

### 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 2013/14.
2. The strategy for the year was identified in the Treasury Management Strategy Statement 2013/14 as part of the Budget Proposals 2013/14 submitted to Members in February 2013. 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. Optimism in growth forecasts has continued and a modest and sustained recovery over the next three years is indicated by the Bank of England. Inflation forecasts are also still benign. However, there is still a relatively weak outlook for economic growth and the prospects for any increase in Bank Rate before 2015 are low. 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.
4. It was expected that there would be upward pressure on longer term rates due to a high volume of debt issuance and improved prospects of a return to economic growth. Long term PWLB rates rose by 0.25% during the first quarter then remained flat in the second quarter. Forecasts are for higher PWLB rates later in the year as a result of an improved economic recovery.
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 2013/14. 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 2013/14.
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 2013/14 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 30 September 2013 the average rate of return achieved on average principal available was 0.75%. This compares with an average seven day deposit (7 day libid) rate of 0.36%.

The Authority had investments of £29.1m as at 30 September 2013, (most of which is due to the carry forward of £17.4m of investments from 2012/13 and the receipt of £19m firefighter pension grant in July 2013):

<b>ANALYSIS OF INVESTMENTS END OF September 2013</b>				
<b>Institution</b>	<b>Credit Rating</b>	<b>MM Fund*</b>	<b>Bank / Other</b>	<b>Building Society</b>
		£	£	£
Ignis Liquidity Fund	AAA	3,000,000		
Prime Rate	AAA	3,000,000		
Morgan Stanley	AAA	3,000,000		
Goldman Sachs	AAA	3,000,000		
Deutsche/DGLS/State Street	AAA	1,100,000		
Natwest Instant Access	A		4,000,000	
Natwest Term Deposit	A			
Close Brothers	A		2,000,000	
West Bromwich B Soc	Unrated			1,000,000
HBOS 12 Month FTD	A		4,000,000	
Nationwide BS	A			2,000,000
Skipton Building Society	Unrated			1,000,000
Newcastle Building Society	Unrated			1,000,000
Nottingham Building Soc	Unrated			1,000,000
<b>Totals</b>		<b>13,100,000</b>	<b>10,000,000</b>	<b>6,000,000</b>
<b>Total Current Investments</b>				<b>29,100,000</b>
<i>*MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.</i>				

### EXTERNAL DEBT PRUDENTIAL INDICATORS

10. The external debt indicators of prudence for 2013/14 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 September 2013 was £45.1 million.

### **TREASURY MANAGEMENT PRUDENTIAL INDICATORS**

11. The treasury management indicators of prudence for 2013/14 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 September 2013 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 September 2013 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	80%	0%	3%	0%
12 months and within 24 months	50%	0%	3%	2%
24 months and within 5 years	50%	0%	9%	9%
5 years and within 10 years	50%	0%	10%	10%
10 years and above	80%	0%	77%	75%

#### **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 2013/14. No such investments have been placed in 2013/14.

### **PERFORMANCE INDICATORS**

12. The Code of Practice on Treasury Management requires the Authority to set performance indicators 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.
13. 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 September 2013.

**Investments** – Internal returns compared to the 7 day LIBID rate. The return in the period April to September 2013 was 0.39% above the benchmark.

#### **TREASURY MANAGEMENT ADVISORS**

14. 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.
  
15. Whilst Liverpool City Council and its advisors provide the treasury function, ultimate responsibility for any decision on treasury matters remains with the Authority.

#### **CONCLUSION**

16. Treasury Management activity in 2013/14 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.