



Dorset Fire Authority

MEETING	Dorset Fire Authority
DATE OF MEETING	5 December 2014
OFFICER	Treasurer
SUBJECT OF THE REPORT	Treasury Management Update
EXECUTIVE SUMMARY	At the meeting of the Fire Authority on 12 February 2014/ Members received and approved the Treasury Management Strategy Statement and Prudential Indicators for 2014/15. This report provides an update on the current position.
RISK ASSESSMENT	No risk issues arise directly from this report.
COMMUNITY IMPACT ASSESSMENT <i>Note: If the matrix indicates negative impacts on the community or staff, an equality impact assessment (EIA) will need to be completed.</i>	N/A
BUDGET IMPLICATIONS	All treasury and budget implications are reported as part of the revenue and capital monitoring reports presented to Dorset Fire Authority.
RECOMMENDATIONS	It is recommended that Members note and comment on the updated Treasury Management position.
BACKGROUND PAPERS	Treasury Management Strategy Statement and Prudential Indicators for 2014/15
APPENDICES	A: Loans outstanding with analysis of current limits B: Current Borrowing
REPORT ORIGINATOR AND CONTACT	Richard Bates, Treasurer Tel: (01305) 228548; Fax: (01305) 224114

1. Background

- 1.1 This report summarises the latest position for Treasury Management. A further oral update, if appropriate, will be given at the meeting.
- 1.2 The Treasury Management Strategy for 2014/15 was agreed by the Fire Authority on 12 February 2014.

2. Icelandic Banks

- 2.1 Members will be aware that in September 2008 Dorset Fire Authority made a temporary loan to Heritable Bank, totalling £1m. This was a fixed term loan at an interest rate of 5.88% repayable on 30 January 2009. At the time that this loan was made, Heritable Bank met the criteria set by the Treasury Management Policy.
- 2.2 To date we have received 14 separate repayments totalling £944k, or 94% of our claim of £1.004m.
- 2.3 We anticipate that some further small repayments may be received, but the debt has been fully written off in the Authority's accounts.

3. Investments Outstanding

- 3.1 A schedule of loans outstanding at 17 November 2014 is attached at Appendix A.

4. External Borrowing

- 4.1 At the start of the year the Authority had outstanding external borrowing totalling £9.159m. No loans have been repaid or new borrowing agreed to date in the 2014/15 financial year.
- 4.2 The level of external borrowing required, as measured by the Capital Financing Requirement is currently £18.433m, meaning that DFA is partly financing its borrowing needs from £9.274m of internal resources, or cash balances. Officers regularly consider options around repaying external borrowing prematurely and Appendix B illustrates the current cost of doing so. The total cost of premiums payable for early repayment of borrowing currently totals £2.331m, compared to £1.542m at this time last year, due to decreases in Gilt Yields. At present, because of the costs of repaying debt early, and the relatively high level of internal financing, it would not be an appropriate time to repay any borrowings.
- 4.3 Officers regularly review the external borrowing and consider all potential debt restructures in order to reduce the overall cost of borrowing to the Fire Authority.

RICHARD BATES

Treasurer to the Fire Authority

November 2014

Appendix A

Portfolio of Loans and Investments outstanding as at 17 November 2014

	Amount £'000	Rate %	Start Date	End Date	Long Term Rating at Date of Loan*	Current Counterparty Rating**	Sovereign
Fixed Term Deposits							
Loans							
Lloyds Banking Group Plc	1,000	0.70	19/08/2014	19/11/2014	A	A	UK
Lloyds Banking Group Plc	2,000	0.70	27/05/2014	27/11/2014	A	A	UK
Royal Bank of Scotland	2,000	1.01	15/07/2014	15/07/2015	A	A	UK
Standard Chartered Bank Plc	1,500	0.64	16/07/2014	16/01/2015	AA-	AA-	UK
DBS Bank Limited	1,000	0.58	15/07/2014	31/12/2014	AA-	AA-	Singapore
Icelandic Banks							
Heritable Bank	56	5.88	10/09/2008	30/01/2009	A	BBB-	Iceland (BBB)***
Call Accounts							
Nat West Bank Siba Account	109	0.25	17/11/2014	18/11/2014	A	A	UK
Barclays Bank FIBCA	1,500	0.50	17/11/2014	18/11/2014	A	A	UK
Svenska Handelsbanken	700	0.50	17/11/2014	18/11/2014	AA-	AA-	Sweden
Total							
Total Cash	9,865						
Weighted Average Yield	0.73%						

* This is the Fitch Long-Term Rating at the Start Date of the Loan

** This is the minimum current Long-Term Rating across the three ratings agencies

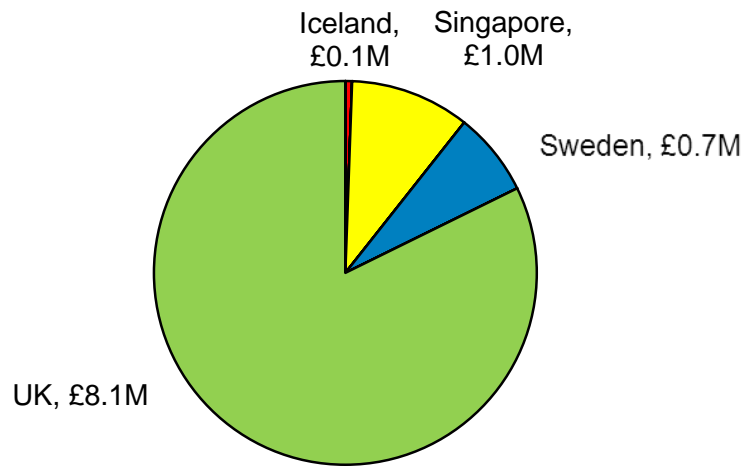
*** Fitch Long-Term Sovereign rating of Iceland

Compliance with Sovereign Limits

The following charts show the Authority's compliance with the limits set out below.

- The Authority will only lend to counterparties in countries with a Sovereign Credit Rating of AAA
- The maximum that can be deposited with banks in any one sovereign is £2 Million, with the exception of the United Kingdom

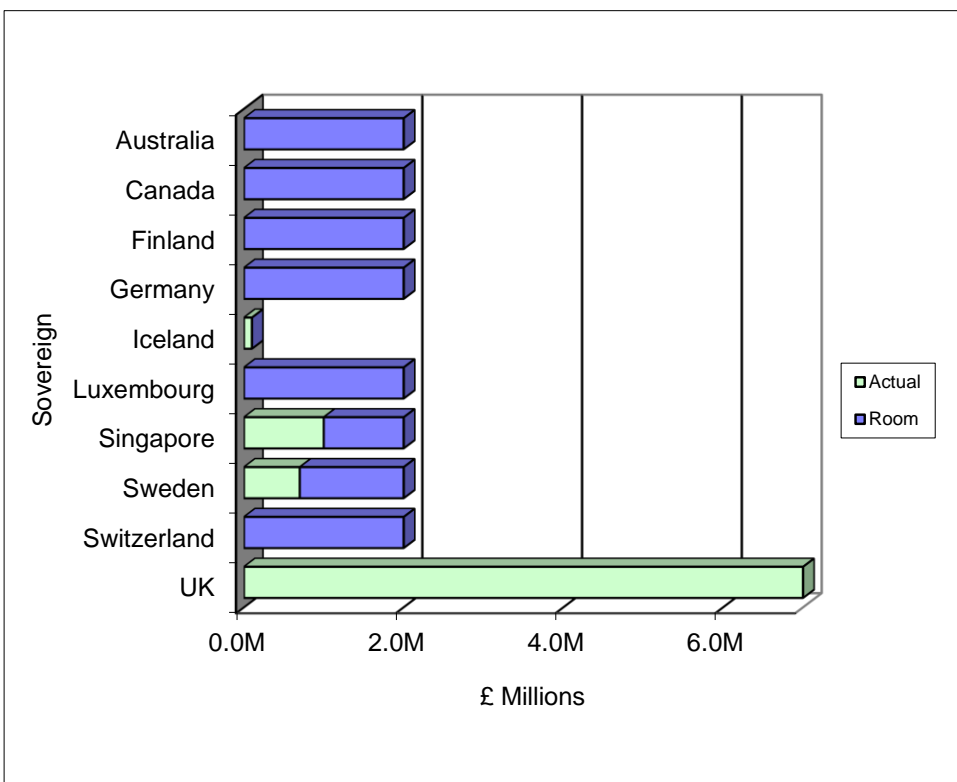
Analysis of Loans by Sovereign



All loans are with counterparties from AAA rated countries with the exception of the Icelandic Bank Loans which were made prior to this policy being introduced.

Use of Sovereign Limits

With the exception of the UK, and Iceland where loans were made before this policy was introduced, a maximum of £3m can be invested with institutions in any one AAA rated Sovereign.



Compliance with Counterparty Rating Limits

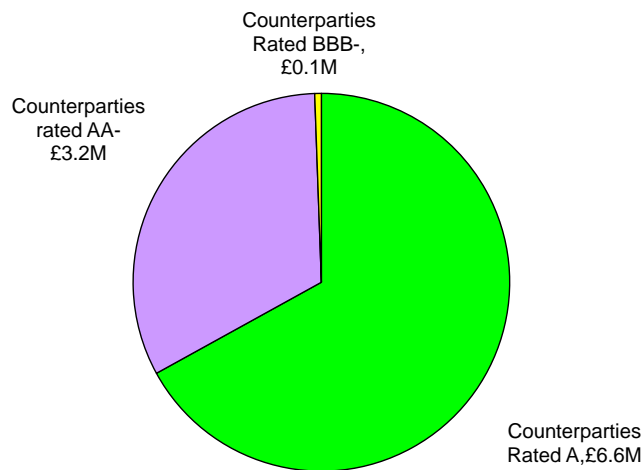
The following charts show the Authority’s compliance with the limits set out below.

- A lowest common denominator method is used to select counterparties, which involves applying the lowest rating given by the ratings agencies to a counterparty
- Minimum credit ratings for counterparties set out below are complied with.

Category	Credit Rating	Limit £m
Any local authority	N/A	1.5
Four Major UK High Street Banks	N/A	3.0
Banks and Building Societies	Short F1, Long A	1.5
Money Market Funds (individual)	AAA	1.5
Money Market Funds (in total)	AAA	4.0

A breakdown of current investments by Counterparty Limit is shown below. All investments with the exception of Icelandic Bank loans are with Counterparties rated A and above.

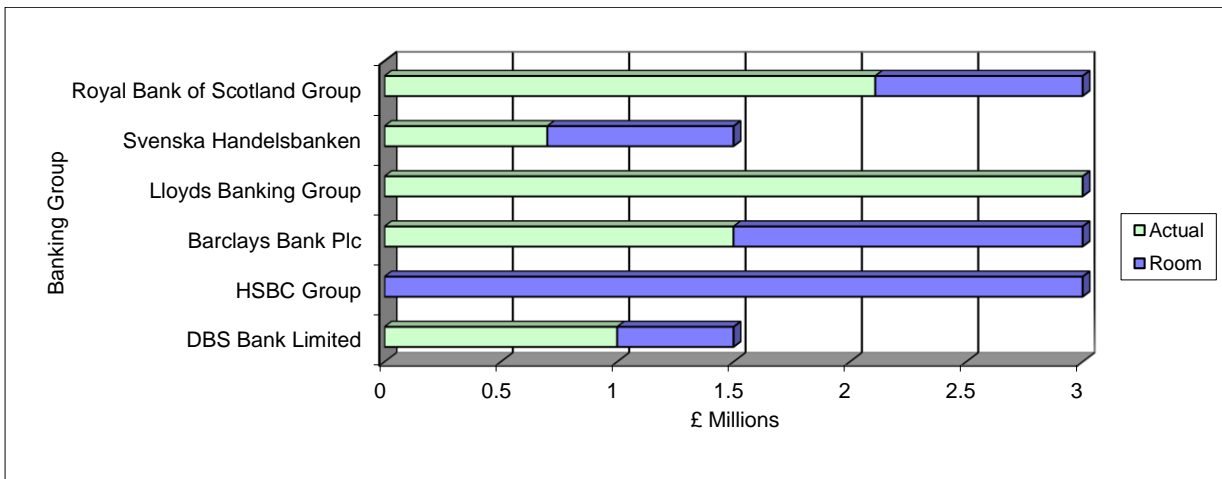
Breakdown by Counterparty Limit



Compliance with Group Limits

The following charts show the Authority’s compliance with the limits set out below.

- Where a counterparty is part of a larger group, the authority’s overall exposure to the group will be limited to the individual limit of the highest rated body in that group



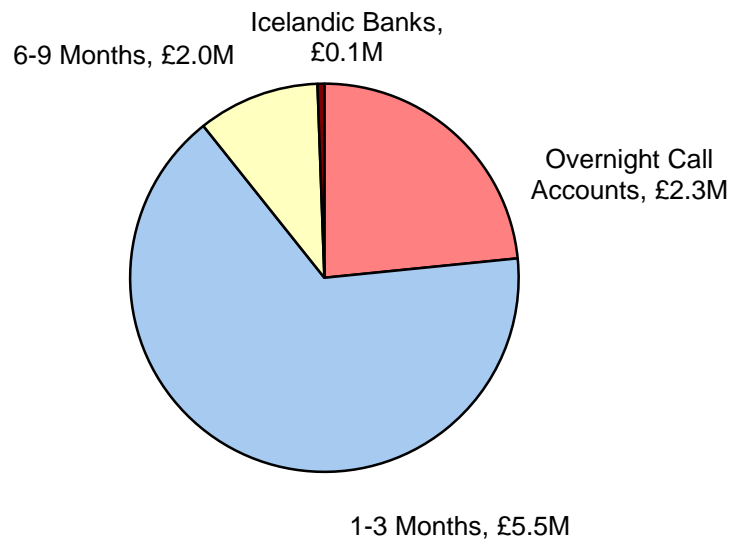
There is currently £3m deposited with the Lloyds Banking Group, £2m deposited with Royal Bank of Scotland plc, £1.5m with Standard Chartered plc, £1m with Development Bank of Singapore, £0.1m with NatWest Siba Account, part of the Royal Bank of Scotland Group, £1.5m with Barclays FIBCA Account and £0.7m with Svenska Handelsbanken.

Compliance with Term Limits

The following chart shows the Authority’s compliance with the limit that a minimum of 10% of total investments will be kept as notice money (short-term) at all times.

23.4% of the Authority’s investments are currently held in call accounts and Money Market Funds. 55.8% are currently held in short term investments. The remaining investment is invested in a loan for £2.0m (Royal Bank of Scotland) which matures in July 2015 (20.3%). 0.5% of the Authority’s investments are currently held in Icelandic Banks.

Following the global financial crisis, the majority of the Authority’s investments had been short-term to increase the liquidity and security of the funds. More normality is now returning to the portfolio, and this has previously been reflected in the return to investments of periods over three months. There is currently a benefit to be achieved by investing with part-nationalised banks for periods of longer than three months as advised by Capita, our Treasury management advisers. For this reason, an investment of £2.0m with Royal Bank of Scotland was undertaken in July 2014 for 364 days, achieving an interest rate of 1.01%.



Appendix B**Portfolio of Borrowing outstanding as at 17 November 2014**

Borrowed Date	Borrowed Amount	Amount Outstanding	Maturity Date	Interest Rate	Premium on Early Repayment
22/03/2000	£ 272,000	£ 91,596	11/03/2019	5.50%	£10,662
29/03/2001	£ 373,000	£ 50,897	11/03/2016	5.00%	£2,076
25/03/2002	£ 517,000	£ 75,937	11/03/2016	5.50%	£3,432
24/03/2003	£ 619,500	£ 255,215	11/03/2020	4.65%	£28,462
25/03/2004	£ 590,000	£ 397,374	11/03/2027	4.80%	£80,724
21/12/2004	£ 200,000	£ 200,000	11/03/2030	4.55%	£52,335
15/02/2005	£ 200,000	£ 200,000	11/03/2030	4.50%	£51,065
01/03/2006	£1,307,000	£1,307,000	11/03/2031	4.05%	£262,916
23/08/2007	£1,000,000	£1,000,000	11/09/2052	4.45%	£380,740
04/01/2008	£1,000,000	£1,000,000	11/03/2042	4.43%	£305,599
09/01/2008	£ 500,000	£ 500,000	11/09/2042	4.39%	£150,802
08/09/2008	£2,000,000	£2,000,000	11/03/2058	4.38%	£790,618
03/11/2011	£2,000,000	£2,000,000	11/09/2021	3.30%	£211,996
Total	£10,578,500	9,078,019			£2,331,427

Please note that all borrowing has been undertaken with the Public Works Loan Board.