For Publication

Bedfordshire Fire and Rescue Authority
Corporate Services Policy and Challenge Group
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Item No. 11

REPORT AUTHOR: **HEAD OF FINANCE AND TREASURER**

SUBJECT: **TREASURY MANAGEMENT – ANNUAL REPORT FOR 2016/17**

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Background Papers:

Treasury Management Strategy 2016/17, as detailed in the Budget Book 2016/17.

Implications (tick ✓):

LEGAL		FINANCIAL	✓
HUMAN RESOURCES		EQUALITY IMPACT	
ENVIRONMENTAL		POLICY	
ORGANISATIONAL RISK	✓	OTHER (please specify)	
		CORE BRIEF	

Any implications affecting this report are noted at the end of the report.

PURPOSE:

To consider the Authority's Annual Report for Treasury Management for 2016/17.

RECOMMENDATION:

That Members consider the report.

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1. Introduction

1.1 Since 1 April 2006, the management of the Fire Authority's Treasury operations has been undertaken by the Authority's Finance staff. Treasury management activities are undertaken with the objective of maximising return/minimising cost, consistent with minimising risk. When investing, the over-riding principle is the maintenance of the capital sum.

In order to support this function, the Authority also employs Capita Asset Services to provide independent, professional treasury advice.

1.2 The Fire Authority's banking facilities are also arranged and monitored by the Finance staff.

1.3 The Fire Authority adopted the Code of Practice for Treasury Management in the Public Services published by the Chartered Institute of Public Finance and Accountancy (CIPFA), introduced in April 2004 and revised in November 2011. One of the requirements of the CIPFA Code is for there to be regular reports on Treasury Management to be presented to the appropriate 'committee'. This is the annual report for 2016/17.

Recent changes in the regulatory environment, place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously agreed by Members.

This Authority also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Corporate Services Policy and Challenge Group before they were reported to the full Authority.

2. Borrowing/Investment Strategy for 2016/17

2.1 It was anticipated at the beginning of 2016/17 that the Authority would have surplus funds available for short-term investment either within its Special Interest Bearing Account (SIBA), at its bankers or through the money market. At the beginning of 2016/17 the SIBA account was paying a rate of 0.25%, this then decreased to 0.01% as from 5 August 2016.

2.2 The Authority's call-account with Barclays Bank has been used during 2016/17 at a daily rate of 0.20% plus an extra 0.20% annual bonus. The daily rate decreased from 0.20% to 0% as from 4 August and therefore, once the bonus had been received in December, all funds were removed on the 6 January 2017.

2.3 This Authority had also placed surplus funds into its 95-Day and 180-Day Interest accounts with Santander at a rate of 0.90% and 1.15%. However, these rates decreased to 0.65% and 0.90% as of 1 September. Funds were then withdrawn from the 95-Day account and placed in to a 120-Day Interest account with Santander, at a rate of 0.80%. No penalties were suffered for the instant withdrawal, as agreed with Santander. As of 31 March 2017 funds with Santander were £2.5M in the 120-Day account and just under £2.5M in the 180-Day account.

2.4 The Authority has re-invested funds with one foreign bank, Qatar National Bank, during 2016/17, still via our Treasury Agents, Capita. This investment was a fixed term investment for one year at a rate of 1.02%, and matured on 13 April 2017. We also invested with another foreign bank, Goldman Sachs, via Capita during 2016/17. This investment is a fixed term investment for six months at 0.76%, due to mature in August 2017.

3. Interest Rate Movements during 2016/17

3.1 Bank base rate was 0.50% at the beginning of the year but decreased to 0.25% as of 4 August 2016 and still remained the same as of 31 March 2017.

3.2 Interest rates applicable to temporary investments were short-term money market rates. These investments were fixed for a set period (between one month and one year), at a greater interest rate than bank base rate. During 2016/17, four investments reached maturity, and were re-invested. There were also another six new investments placed during 2016/17, one in August for £2M, one in November for £0.5M two in January for £1.5M and £1M, one in February for £2M and finally one in March for £1M.

When placing these, a number of factors were considered, including cashflow, security, return etc in order to meet our Policies and at the same time get the best return.

4. Investment/Borrowing Operations

4.1 **Investments:**

Surplus cash is invested on a temporary basis through the money market. Levels of investment have fluctuated from £6.7m at the start of 2016/17 to £11m and then down to £8.5m as at 31 March 2017. Investment interest of £0.080m was generated in the year. In addition, £0.001m was received through the local SIBA account, £0.001m through the Barclays account, £0.009m through the Santander 95-Day Account, £0.012m through the Santander 120-Day account and £0.025m through the Santander 180-Day account. However, interest on PWLB borrowings totals £0.423m, giving a net interest paid of £0.294m.

4.2 The Fire Authority's budgeted investment return (interest receivable) for 2016/17 was £99,400, and actual performance £129,436. Therefore, performance was £30,036 above budget. The budgeted investment return set for 2017/18 is £75,400.

4.3 **Long-Term Borrowing:**

No debt rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

The Capital Programme for 2016/17 was financed by revenue contributions and Capital Grants.

4.4 **Borrowing and Investments Outstanding:**

	Temporary Investments £000s	Long-Term Borrowing £000s
As at 1 April 2016	6,700	10,087
Raised	15,500	0
Repaid	(13,700)	(100)
Outstanding at 31 March 2017	**8,500**	**9,987**

5. Prudential Indicators

5.1 Under the prudential code the following Treasury Management indicators were set for 2016/17:

Authorised Limit for external debt	£12.1m
Operational Boundary	£10.1m
Limits for fixed interest rate exposure:	
Upper limit	£(293,000)
Limits for variable interest rate exposure:	
Upper limit	£(97,000)

5.2 Neither the authorised limit nor the operational boundary have been exceeded during the year. Actual interest rate exposure was as below:

Fixed interest rate exposure	£58,748
Variable interest rate exposure	£58,748

5.3 All the Prudential Indicators have been summarised for Members benefit in Appendix A attached, which has been updated in accordance with the 2016/17 Budget Book.

6. Performance Measurement

6.1 The success of cash flow management and hence the Fire Authority's temporary investment and borrowing activity is measured by comparing the actual rates of interest achieved and borne against a benchmark of the average Local Authority 7 Day Rate.

6.2 For the period ending 31 March 2017, the average interest rate achieved from temporary investments was 0.86%, higher than the average Local Authority 7 Day Rate over the same period of 0.1128%.

7. General Economic Conditions

7.1 In brief, this financial year has seen:

- Interest rate was at 0.50% in April 2016 and at 0.25% by March 2017 (-0.25% change).
- Inflation – Target Inflation (CPI) was at 0.30% in April 2016 and at 2.30% by March 2017 (2.00% change). Headline Inflation (RPI) was at 1.30% in April 2016 and at 3.20% by March 2017 (1.90% change).

7.2 See Appendix B for a copy of Sector's report on the Economy and Interest Rates throughout 2016/17.

8. Economic Forecast – (April CityWatch 2017 and Capita's revised Interest Rate Report May 17)

The Fire and Rescue Authority's Treasury Advisers, Capita Asset Services, provided the following forecast:

	End Q2 2017	**End Q3 2017**	**End Q4 2017**	**End Q1 2018**	**End Q2 2018**	**End Q3 2018**	**End Q4 2018**	**End Q1 2019**
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%
10yr PWLB rate	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%
25yr PWLB rate	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
50yr PWLB rate	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%

9. Conclusion

9.1 The Fire and Rescue Authority is requested to note the report.

G CHAMBERS
HEAD OF FINANCE AND TREASURER

Prudential Indicator	2016/17 Indicator £000	As at 31 March 2017 Actual £000
Capital Financing Requirement (CFR)	9,899	9,385
Gross borrowing as at 1/04/16 and 31/3/16	10,087	9,987
Investments as at 1/04/16 and 31/03/16	6,700	8,500
Authorised limit for external debt	12,100	11,920
Operational boundary for external debt	10,100	10,020
Limit of fixed interest rates based on net debt	293	264
Limit of variable interest rates based on net debt	97	88
Principal sums invested > 365 days	0	0
Maturity structure of borrowing limits:		
Under 12 months	1%	0%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and above	99%	100%

The Economy and Interest Rates

The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23rd June and the election of President Trump in the USA on 9th November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4th August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.