For Publication

Bedfordshire Fire and Rescue Authority
Corporate Services Policy and Challenge Group
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Item No. 10

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

SUBJECT: **TREASURY MANAGEMENT – ANNUAL REPORT FOR 2017/18**

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Background Papers:

Treasury Management Strategy 2017/18, as detailed in the Budget Book 2017/18.

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 2017/18.

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 Link Asset Services (formerly Capita) 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 2017/18.

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 2017/18

2.1 It was anticipated at the beginning of 2017/18 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 2017/18 the SIBA account was paying a rate of 0.01%, this then increased to 0.05% up to £1M and 0.15% over £1M, as from 6 November 2017.

2.2 The Authority's call-account with Barclays Bank has been used during Quarter 4 of 2017/18. As at the beginning of 2017/18 the Barclays account was paying a rate of 0%, this then increased to 0.30% as from 1 January 2018.

2.3 This Authority had also placed surplus funds into its 120-Day and 180-Day Interest accounts with Santander at a rate of 0.80% and 0.90%. However, these rates decreased to 0.70% and 0.80% as of 1 June.

2.4 The Authority has re-invested funds with two foreign banks, Qatar National Bank and Goldman Sachs, during 2017/18, still via our Treasury Agents, Link. Qatar National Bank investment was a fixed term investment for one year at a rate of 1.02%, and matured on 12 April 2018. The re-investment with Goldman Sachs, was also a fixed term investment for six months at 0.58%, and matured on 19 January 2018. Two new investments were placed with Goldman Sachs during 2017/18 for six months, again via Link, at rates of 0.73% and 0.79% and maturity dates of 19 July 2018 and 17 August 2018.

3. Interest Rate Movements during 2017/18

3.1 Bank base rate was 0.25% at the beginning of the year but increased to 0.50% as of 2 November 2017 and still remained the same as of 31 March 2018.

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 2017/18, five investments reached maturity, and were re-invested. There were also another two new investments placed during 2017/18, one in January for £3M, and one in February for £2M.

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 £8.5m at the start of 2017/18 to £10m and then down to £8.5m as at 31 March 2018. Investment interest of £0.068m was generated in the year. In addition, £0.001m was received through the local SIBA account, £0.001m through the Barclays account, £0.018m through the Santander 120-Day Account, £0.020m through the Santander 180-Day account. However, interest on PWLB borrowings totals £0.422m, giving a net interest paid of £0.314m.

4.2 The Fire Authority's budgeted investment return (interest receivable) for 2017/18 was £75,400, and actual performance £107,639. Therefore, performance was £32,239 above budget. The budgeted investment return set for 2018/19 is £90,400.

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 2017/18 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 2017	8,500	9,987
Raised	14,000	0
Repaid	(14,000)	0
Outstanding at 31 March 2018	**8,500**	**9,987**

5. Prudential Indicators

5.1 Under the prudential code the following Treasury Management indicators were set for 2017/18:

Authorised Limit for external debt	£12.0m
Operational Boundary	£10.1m
Limits for fixed interest rate exposure:	
Upper limit	£(312,000)
Limits for variable interest rate exposure:	
Upper limit	£(104,200)

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	£62,799
Variable interest rate exposure	£62,799

5.3 All the Prudential Indicators have been summarised for Members benefit in Appendix A attached, which has been updated in accordance with the 2017/18 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 2018, the average interest rate achieved from temporary investments was 0.73%, higher than the average Local Authority 7 Day Rate over the same period of 0.201%.

7. General Economic Conditions

7.1 In brief, this financial year has seen:

- Interest rate was at 0.25% in April 2017 and at 0.50% by March 2017 (+0.25% change).
- Inflation – Target Inflation (CPI) was at 2.30% in April 2017 and at 2.70% by March 2018 (0.4% change). Headline Inflation (RPI) was at 3.10% in April 2017 and at 3.60% by March 2018 (0.5% change).

7.2 See Appendix B for a copy of Link's report on the Economy and Interest Rates throughout 2017/18.

8. Economic Forecast – (Link Updated Interest Rate Forecast – 11th May 2018)

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

	End Q2 2018	**End Q3 2018**	**End Q4 2018**	**End Q1 2019**	**End Q2 2019**	**End Q3 2019**	**End Q4 2019**	**End Q1 2020**
Bank Rate	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%
5yr PWLB rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%
10yr PWLB rate	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%	2.90%
25yr PWLB rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%

9. Conclusion

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

G CHAMBERS
HEAD OF FINANCE AND TREASURER

APPENDIX A

Prudential Indicator	2017/18 Indicator £000	As at 31 March 2018 Actual £000
Capital Financing Requirement (CFR)	9,385	8,891
Gross borrowing as at 1/04/17 and 31/3/18	9,987	9,987
Investments as at 1/04/17 and 31/03/17	8,500	8,500
Authorised limit for external debt	11,957	11,905
Operational boundary for external debt	10,057	10,005
Limit of fixed interest rates based on net debt	312	283
Limit of variable interest rates based on net debt	104	94
Principal sums invested > 365 days	0	0
Maturity structure of borrowing limits:	**Forecast**	**Actual**
Under 12 months	0%	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	100%	100%

The Economy and Interest Rates

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.

Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in **investment rates** from 3 – 12 months increasing sharply during the spring quarter.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to **US treasuries**. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

The major UK landmark event of the year was the inconclusive result of the **general election** on 8 June. However, this had relatively little impact on financial markets.