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 2015/16**

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Background Papers:

Treasury Management Strategy 2015/16, as detailed in the Budget Book 2015/16.

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 2015/16.

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 2015/16.

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. <u>Borrowing/Investment Strategy for 2015/16</u>

2.1 It was anticipated at the beginning of 2015/16 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 2015/16 the SIBA account was paying a rate of 0.25%, and remained at this rate through the remainder of the year.

2.2 During 2013/14 this Authority set up a Call account with Barclays Bank. This account has been continually used during 2015/16. At the beginning of 2015/16 the Barclays account was paying a rate of 0.15% with a bonus of 0.30% paid on 31st December 2015. As of 31st December 2015 the rate increased to 0.20% but with a reduced bonus rate of 0.20%.

2.3 During 15/16 we placed £2M in to our 95 day account with Santander, via our Treasury Advisors, Capita at a rate of 0.60%. However we then liaised with Santander direct and opened up two new accounts. One being a 95-day account at a rate of 0.90% and a 180-day account at a rate of 1.15%. As at the end of March 2016 we have £2.5M in the 95 day account and £2.4M in the 180 day account. All monies in the 95 day account placed via Capita have since been withdrawn.

3. Interest Rate Movements during 2015/16

3.1 Bank base rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years.

3.2 Interest rates applicable to temporary investments were short-term money market rates. These investments were fixed for a set period (usually one year), at a greater interest rate than bank base rate. In April, May, June, July 2015, and January and March 2016, the Authority re-invested £10.2m that had reached maturity. There were also additional investments of £3.5m in May, August, September, October, November 2015 and February 2016 ranging between fixed periods of one month to one year.

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 £10m at the start of 2015/16 down to £5.3m during the year and then up again to £6.7m as at 31 March 2016. Investment interest of £0.080m was generated in the year. In addition, £0.005m was received through the local SIBA account, £0.009m through the Barclays account, £0.006 throught the Santander 95-Day Account (via Capita), £0.008m through the Direct Santander 180-Day account and £0.006m through the Direct Santander 95-Day account. However, interest on PWLB borrowings totals £0.423m, giving a net interest paid of £0.307m.

4.2 The Fire Authority's budgeted investment return (interest receivable) for 2015/16 was £99,400, and actual performance £115,694. Therefore, performance was £16,294 above budget. The budgeted investment return set for 2016/17 is £99,400.

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 2015/16 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 2015	10,000	10,087
Raised	12,700	0
Repaid	(16,000)	0
Outstanding at 31 March 2016	**6,700**	**10,087**

5. Prudential Indicators

5.1 Under the prudential code the following Treasury Management indicators were set for 2015/16:

Authorised Limit for external debt	£12.2m
Operational Boundary	£10.3m
Limits for fixed interest rate exposure:	
Upper limit	£(292,000)
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	£61,496
Variable interest rate exposure	£61,496

5.3 All the Prudential Indicators have been summarised for Members benefit in Appendix A attached, which has been updated in accordance with the 2015/16 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 2016, the average interest rate achieved from temporary investments was 0.84%, higher than the average Local Authority 7 Day Rate over the same period of 0.363%.

7. General Economic Conditions

7.1 In brief, this financial year has seen:

- Interest rates remain at a constant level of 0.5%.
- Inflation – Target Inflation (CPI) was at 0% in April 2015 and at 0.30% by March 2016 (0.30% change). Headline Inflation (RPI) was at 1.0% in April 2015 and at 1.30% by March 2016 (0.30% change).

7.2 See Appendix B for a copy of Sector's report on the Economy and Interest Rates throughout 2015/16.

8. Economic Forecast – (April CityWatch 2016)

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

	End Q2 2016	**End Q3 2016**	**End Q4 2016**	**End Q1 2017**	**End Q2 2017**	**End Q3 2017**	**End Q4 2017**	**End Q1 2018**
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%
5yr PWLB rate	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.60%	2.70%
10yr PWLB rate	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%
25yr PWLB rate	3.20%	3.30%	3.30%	3.50%	3.50%	3.60%	3.60%	3.70%
50yr PWLB rate	3.00%	3.10%	3.10%	3.30%	3.30%	3.40%	3.40%	3.50%

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	2015/16 Indicator £000	As at 31 March 2016 Actual £000
Capital Financing Requirement (CFR)	9,885	9,391
Gross borrowing	10,087	10,087
Investments as at 1/04/15 and 31/03/16	10,000	6,700
Authorised limit for external debt	12,200	12,030
Operational boundary for external debt	10,300	10,130
Limit of fixed interest rates based on net debt	292	277
Limit of variable interest rates based on net debt	97	92
Principal sums invested > 365 days	0	0
Maturity structure of borrowing limits:		
Under 12 months	0%	1%
12 months to 2 years	1%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and above	99%	99%

APPENDIX B

The Economy and Interest Rates

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.