For Publication

Bedfordshire Fire and Rescue Authority
Corporate Service Policy and Challenge Group
6 December 2016
Item No. 8

REPORT AUTHORS: **CHIEF FIRE OFFICER AND TREASURER**

SUBJECT: **TREASURY MANAGEMENT – MID-YEAR REVIEW REPORT TO 30 SEPTEMBER 2016**

For further information on this Report contact:
Mr G Chambers
Head of Finance and Treasurer
Tel No: 01234 845016

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		CORE BRIEF	
		OTHER (please specify)	

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

PURPOSE:

To provide an update on the Authority's Treasury Management to 30 September 2016.

RECOMMENDATION:

That the Corporate Services Policy and Challenge Group consider the report.

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1. Introduction

1.1 Since 1 April 2006, the management of the Fire and Rescue Authority's (FRA) 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 FRA's banking facilities are also arranged and monitored by the Finance staff.

1.3 The FRA 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 mid-year Review Report for 2016/17 to 30 September 2016.

1.4 The Policy and Challenge Group is asked to note the report, as there are no changes requested to the Prudential Indicators, approval is not required by the FRA.

2. Treasury Management Reports

2.1 This mid-year review report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Authority's capital expenditure (prudential indicators);
- A review of the Authority's investment portfolio for 2016/17;
- A review of the Authority's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken (if applicable) during 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17; and
- An economic update for the first six months of 2016/17.

3. Treasury Management Training

3.1 The Responsible Officer (the Section 151 Officer) must ensure that Group/FRA Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

3.2 Training was again provided to Members by our Treasury Advisor's, Capita on 4 November 2015 as part of the Members Training Day.

4. Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy Update

There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5. Borrowing/Investment Strategy for 2016/17

5.1 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. As at the 30th September 2016 the SIBA account is paying a rate of 0.01%.

5.2 The Authority's call-account with Barclays Bank has been used during 2016/17 at a rate of 0.20% per month plus an extra 0.20% annual bonus, to be paid in December, irrespective of balance. However, the daily rate decreased from 0.20% to 0% as of 4 August, but the 0.20% bonus remains the same.

5.3 This Authority had also placed surplus funds into a 95-Day Interest account with Santander at a rate of 0.90%. However, this rate decreased to 0.65% as of 1 September. Funds were then withdrawn 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.

5.4 This Authority had also placed surplus funds into a 180-Day Interest account with Santander at a rate of 1.15%. However, this rate decreased to 0.90% as of 1 September.

5.5 The Authority has re-invested funds with one foreign bank, Qatar National Bank, during the first half of 2016/17, still via our Treasury Agents, Capita. This investment is a fixed term investment for one year at a rate of 1.02%.

5.6 During the second half of 2016/17 this Authority will be considering using Money Market Funds for short-term investments. Operators use the credit ratings agencies which lay down investment restrictions to enable the funds to maintain its AAA status. Money Market Funds may also be governed by the Institutional Money Market Fund Association (IMMFA) which is a voluntary code of practice issued in 1992 by a trade body for Money Market Funds. This ensures all members offer a consistently high quality product by promoting best practice, transparency of fund values and a standardised format for published data.

5.7 Borrowing has not been undertaken in 2016/17 to finance the Capital Programme. The funding for the 2016/17 Capital Programme was through Grant and revenue contributions.

6. Interest Rate Movements During 2016/17

6.1 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 30 September 2016.

6.2 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 the first six months of 2016/17, three investments reached maturity, new investments were then placed, one in April of £2.5M, one in May for £2.5M and another in July for £2.5M. Additionally, one new investment was placed, in August of £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.

7. Investment/Borrowing Operations

7.1 **Investments:**

Surplus cash is invested on a temporary basis through the money market. Levels of investment have varied from £6.7M at the start of 2016/17 to £11M as at 30th September 2016. In the year 2016/17 to 30 September 2016, £33,488 interest has been generated through these investments and through the local SIBA account, Santander and Barclays Accounts. Interest on PWLB borrowings totals of £211,587 was paid on 30 September, this will give a net interest paid position of £178,099 as at 30 September 2016.

7.2 The FRA’s budgeted investment return (interest receivable) for 2016/17 is £99,400.

7.3 **Long-Term Borrowing:**

No debt rescheduling was undertaken during the first six months of 2016/17.

7.4 **Borrowing and Investments Outstanding:**

	Temporary Investments £000s	Long-Term Borrowing £000s
Outstanding at 1 April 2016	6,700	10,087
Raised	9,500	0
Repaid	(5,200)	0
Outstanding at 30 September 2016	**11,000**	**10,087**

8. Prudential Indicators

8.1 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

8.2 Neither the authorised limit nor the operational boundary has been exceeded during the year compared to the limits as at 1 April 2016. Actual interest rate exposure was as below:

Fixed interest rate exposure	£35,620
Variable interest rate exposure	£35,620

8.3 All the Prudential Indicators have been summarised for Members benefit in Appendix ‘A’.

9. Performance Measurement

9.1 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.

9.2 For the period ending 30 September 2016, the average interest rate achieved from temporary investments, the SIBA Account, Barclays Account and all Santander Accounts was 0.78%, higher than the average Local Authority 7 Day Rate over the same period of 0.32%.

9.3 At a recent meeting with our Treasury Consultants, Capita, it was commented that our Treasury Team had produced a very good average investment rate despite the current economic climate, resulting in limited counterparty flexibility.

10. General Economic Conditions

10.1 In brief, the first six months of this financial year has seen:

- Interest rates drop to 0.25%.

- Inflation – Target Inflation (CPI) was at 0.30% on 1 April 2016 and at 0.60% by 30 September 2016 (0.30% change). Headline Inflation (RPI) was at 1.3% on 1 April 2016 and at 1.8% by 30 September 2016 (0.50% change).

10.2 **Economic Update:**

10.2.1 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

10.2.2 The Bank of England meeting on 4 August addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (ie without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on 23 November.

10.2.3 The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

10.2.4 The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

10.2.5 In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

10.2.6 Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

11. Economic Forecast – (September CityWatch)

The Authority's Treasury Advisers, Capita Asset Services, have provided the following forecast:

	End Q4 2016	**End Q1 2017**	**End Q2 2017**	**End Q3 2017**	**End Q4 2017**	**End Q1 2018**	**End Q2 2018**	**End Q3 2018**
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%
25yr PWLB rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%
50yr PWLB rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%

PAUL M FULLER
CHIEF FIRE OFFICER CBE QFSM

GAVIN CHAMBERS
TREASURER

APPENDIX A

Prudential Indicator	2016/17 Indicator £000	Up to 30 September 2016 Actual £000
Capital Financing Requirement (CFR)	10,393	N/A at mid year
Gross borrowing	10,087	10,087
Investments as at 1/4/16 and 30/09/16	6,700	11,000
Net borrowing	87	178*
Authorised limit for external debt	12,100	12,101
Operational boundary for external debt	10,100	10,201
Limit of fixed interest rates based on net debt	289	160
Limit of variable interest rates based on net debt	96	53
Principal sums invested > 365 days	0	0
Maturity structure of borrowing limits:		
Under 12 months	0%	0%
12 months to 2 years	1%	1%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and above	99%	99%

*Note:

This figure is a result of cashflow timing. We are not expecting to have a Net Borrowing surplus as at 31 March 2017.