For Publication

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

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

SUBJECT: **TREASURY MANAGEMENT – MID-YEAR REVIEW REPORT TO 30 SEPTEMBER 2015**

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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		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 2015.

RECOMMENDATION:

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

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1. <u>Introduction</u>

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 2015/16 to 30 September 2015.

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 2015/16;
- A review of the Authority's borrowing strategy for 2015/16;
- A review of any debt rescheduling undertaken (if applicable) during 2015/16;
- A review of compliance with Treasury and Prudential Limits for 2015/16; and
- An economic update for the first six months of 2015/16.

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 last provided to Members by our Treasury Advisor's, Capita on 27 June 2013 as part of the Members Training Day. Further training will take place on 4 November 2015.

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 2015/16

5.1 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. As at the 30 September 2015 the SIBA account is paying a rate of 0.25%.

5.2 The Authority's call-account with Barclays Bank has been used during 2015/16 at a rate of 0.15% per month plus an extra 0.30% annual bonus, to be paid in December, irrespective of balance.

5.3 This Authority had also placed surplus funds into a 95-Day Interest account with Santander. This is through Capita Agency Treasury Services and is at a rate of 0.60% for a minimum of £2M. However, 95 day notice has been given and the £2M is expected back in January 2016.

5.4 Santander are offering an attractive rate for a 95-Day Interest account direct with them (not via Capital Agency Treasury Services). During October we have set up an Account with Santander and will be placing funds at a rate of 0.90%.

5.5 Although we had not anticipated at the start of the year, during the first half of 2015/16 one Investment was made to a foreign bank, Qatar National Bank, for a fixed term of one month. This was due to reaching our maximum investment limits with other counterparties. This was through Capita Agency Treasury Services and adhered to our Treasury Management Practices.

5.6 During the second half of 2015/16 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 2015/16 to finance the Capital Programme. The funding for the 2015/16 Capital Programme was through Grant and revenue contributions.

6. <u>Interest Rate Movements During 2015/16</u>

6.1 Bank base rate was 0.50% at the beginning of the year and as at 30 September 2015 remained the same. There is still some uncertainty as to whether the Bank of England will raise rates, although most analysts suspect it will be mid-late 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 2015/16, three investments have been re-invested, upon maturity, one in April of £1.8M, one in May for £1.4M and another in August for £1M. Additionally another three new investments were placed, one in May of £1.5M, one in July of £2.5M and one in August of £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.

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 £10M at the start of 2015/16 to £11M as at 30 September 2015. In the year 2015/16 to 30 September 2015, £14,855 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 £196,732 as at 30 September 2015.

7.2 The FRA’s budgeted investment return (interest receivable) for 2015/16 is £99,400.

7.3 **Long-Term Borrowing:**

No debt rescheduling was undertaken during the first six months of 2015/16.

7.4 **Borrowing and Investments Outstanding:**

	Temporary Investments £000s	Long-Term Borrowing £000s
Outstanding at 1 April 2015	10,000	10,087
Raised	9,200	0
Repaid	(8,200)	0
Outstanding at 30 September 2015	**11,000**	**10,087**

8. Prudential Indicators

8.1 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

8.2 Neither the authorised limit nor the operational boundary has been exceeded during the year compared to the limits as at 1 April 2015. Actual interest rate exposure was as below:

Fixed interest rate exposure	£39,346
Variable interest rate exposure	£39,346

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 2015, the average interest rate achieved from temporary investments, the SIBA Account, Barclays Account and Santander 95 Day Account was 0.73%, higher than the average Local Authority 7 Day Rate over the same period of 0.36%.

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 remain at a constant level of 0.5%.

- Inflation – Target Inflation (CPI) was at 0.00% on 1 April 2015 and at 0.00% by 30 September 2015 (0.00% change). Headline Inflation (RPI) was at 1.0% on 1 April 2015 and at 1.1% by 30 September 2015 (0.10% change).

10.2 **Economic Performance to Date:**

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation 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, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter.

Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August. The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

11. Economic Forecast – (September CityWatch)

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

	End Q4 2015	**End Q1 2016**	**End Q2 2016**	**End Q3 2016**	**End Q4 2016**	**End Q1 2017**	**End Q2 2017**	**End Q3 2017**
Bank Rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%

PAUL M FULLER
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GAVIN CHAMBERS
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APPENDIX A

Prudential Indicator	2015/16 Indicator £000	Up to 30 September 2015 Actual £000
Capital Financing Requirement (CFR)	10,393	N/A at mid year
Gross borrowing	10,087	10,087
Investments as at 1/4/15 and 31/09/15	10,000	11,000
Net borrowing	87	-913*
Authorised limit for external debt	12,200	12,179
Operational boundary for external debt	10,300	10,279
Limit of fixed interest rates based on net debt	289	177
Limit of variable interest rates based on net debt	96	59
Principal sums invested > 365 days	0	0
Maturity structure of borrowing limits:		
Under 12 months	0%	0%
12 months to 2 years	0%	1%
2 years to 5 years	1%	0%
5 years to 10 years	0%	0%
10 years and above	99%	99%

*Note:

This negative figure is a result of cashflow timing. We are not expecting to have a Net Borrowing surplus as at 31st March 2016.