

CHESHIRE FIRE AUTHORITY

MEETING OF : POLICY COMMITTEE ITEM: 2
DATE : 22nd JUNE 2016
REPORT OF : HEAD OF FINANCE
AUTHOR : PAUL VAUGHAN

**SUBJECT: TREASURY MANAGEMENT ANNUAL REPORT
2015-16**

Purpose of Report

1. This report provides a review of the Authority's treasury management activities during the year 2015-16.

Recommended:

- [1] That the report on treasury management activities for the year 2015-16 be received.

Background

- 2 Treasury management is the management of the Authority's cash flows, banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of the optimum performance consistent with those risks.
3. The purpose of this annual report is to provide Members with details of the treasury management activities undertaken in the year. The report also considers compliance with the Authority's Treasury Management Practices (TMPs) during the year.
4. This report provides Members with a summary of:
 - a) the Authority's loans portfolio position at 31st March 2016;
 - b) the Authority's investment portfolio position at 31st March 2016;
 - c) a summary of performance for the year 2015-16; and
 - d) the Authority's performance in 2015-16 against the key Prudential Indicators;
5. Members should be aware that all the 2015-16 outturn figures in the report remain subject to audit.

Portfolio Position at 31 March 2016

6. A summary of the Authority's long term borrowing and investments at 31st March 2016 is shown in Table 1, including the corresponding position for 31st March 2015 for reference.

Table 1 – Portfolio Position 31st March 2016		
	31 March 2015 £000	31 March 2016 £000
Long Term Borrowing	2,247	1,914
Investments	(21,252)	(22,800)
Net Borrowing / (Investments)	(19,005)	(20,886)

There are two reasons for the reduction in long term borrowing in 2015-16. A loan of £322k is due to be repaid to the Public Works Loan Board (PWLB) in September 2016, and this is therefore no longer termed as long term debt. In addition the total balance as at 31st March 2015 included a long term balance of £33k due to SALIX, a not for profit organisation which lends to fund carbon reduction schemes. £11k of the balance of this loan was repaid in 2015-16, leaving an outstanding long term balance at 31st March 2016 of £22k.

Treasury Management Performance 2015-16

Investments

7. The Authority has continued to find it difficult to generate significant levels of investment income because of the difficult market conditions and the continued downward pressure on interest rates. Investment income in 2015-16 is £224k, slightly higher than the £186k generated in 2014-15, due to slightly higher cash balances during the year.
8. The Authority has continued with its cautious approach to its choice of counterparties (organisations it will invest money with). As at 31 March 2016, the Authority's investments are with Lloyds Bank of Scotland, Nationwide, Barclays, Coventry Building Society and Leeds Building Society. These have been the principal counterparties during the year.
9. There have been no known instances of non compliance with TMPs during the year.

Borrowing

10. There are no plans to borrow funds or to prematurely repay debt in the short term, although the Finance Team continues to monitor the position on the premature repayment of debt. As mentioned in paragraph 6 above the Authority is due to repay a loan of £322k to PWLB in September 2016. The latest cash flows for the Authority show that it is unlikely to require borrowing during the current Medium Term Financial Plan.
11. Table 2 compares the actual percentage of borrowing which matures within the future time frames indicated compared with the agreed limits. However, the Authority has such relatively low levels of borrowing, and currently has such a healthy investment position against its borrowing,

that this is not seen as a risk. In addition, the Authority is not currently borrowing and cannot therefore easily influence the maturity structure. As can be seen in Table 1 in the period between 5 and 10 years when maturing loans peak, the amount of borrowing due to be repaid is only £893k.

	Upper Limit %	Lower Limit %	Actual %	Amount £000
Under 12 months	25	0	15	333
12 months and within 24 months	25	0	0	11
24 months and within 5 years	35	0	40	891
5 years and 10 years	60	0	40	893
10 years and above	100	30	5	119

Prudential Code

12. Under the Prudential System introduced in April 2004, the Authority must approve Prudential Indicators annually, to reflect the impact of the capital programme on the Authority's financial position. Table 3 below shows performance in 2015-16 against the indicators, which were approved by the Authority in February 2015.

Prudential Indicator	2015-16 Indicator	2015-16 Estimated Performance	Comments
Capital Expenditure	£17,500k	£6,058k	Slippage on Emergency Response Programme (ERP) schemes and vehicle procurement.
Ratio of financing costs	1.62%	1.10%	Higher than estimated investment income
Impact on Council Tax	£0.03	£0.00	No revenue impact.
Capital Financing Requirement	£10,982	£8,195	Slippage on ERP schemes and vehicle procurement

Prudential Indicator	2015-16 Indicator	2015-16 Estimated Performance	Comments
Gross borrowing requirement	£8,529k	£5,897	Slippage on ERP schemes and vehicle procurement
Operational boundary for external debt	£2,363k	£2,247k	
Fixed interest rate exposure	100%	100%	100%
Variable interest rate exposure	40%	0	0
Investment periods	£5,000k only for more than 364 days	No more than £5,000k at any time	No more than £5,000k at any time

13. Key points are:

- i. Spend on the capital programme in 2015-16 is considerably less than anticipated. This is mainly due to slippage on the ERP and also on the purchasing of new appliances.
- ii. The Capital Financing Requirement, which represents the Authority's underlying need to borrow is less than anticipated because of the reduced levels of capital spend.
- iii. The Authority continues to borrow at levels substantially below its prudential limits.

Financial Implications

14. The report is in its nature financial and the implications are covered in the body of the report.

Legal implications

15. All transactions between the Authority and counterparties are governed by the agreements between the two parties, and overseen by our Treasury Management partner (Warrington Borough Council).

Impact Assessments

16. Environmental and Equality and Diversity impact assessments have been considered and no impacts have been identified in relation to the proposals within this report.