

CHESHIRE FIRE AUTHORITY

MEETING OF: FIRE AUTHORITY
DATE: 21ST JUNE 2017
REPORT OF: HEAD OF FINANCE
AUTHOR: WENDY BEBBINGTON

SUBJECT: TREASURY MANAGEMENT ANNUAL REPORT
2016-17

Purpose of Report

1. To present a review of the Authority's treasury management activities during 2016-17.

Recommended that Members:

- [1] Note the report on treasury management activity for 2016-17.

Background

2. Treasury management is concerned with 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. This annual report provides Members with details of the treasury management activities undertaken in 2016-17. It also considers compliance with the Authority's Treasury Management Practices (TMPs) during the year.
4. This report includes details of:
 - a) the Authority's loans portfolio position at 31 March 2017;
 - b) the Authority's investment portfolio position at 31 March 2017;
 - c) a summary of performance for the year 2016-17;
 - d) the Authority's performance in 2016-17 against the key Prudential Indicators;
5. Members should be aware that all the 2016-17 figures in the report remain subject to audit.

Portfolio Position at 31 March 2017

6. A summary of the Authority's long term borrowing and investments at 31 March 2017 is shown in Table 1, including the equivalent position for 31 March 2016 for reference.

| Table 1 – Portfolio Position | | |
|-------------------------------------|--------------------------|--------------------------|
| | 31 March 2016 £000 | 31 March 2017 £000 |
| Long Term Borrowing | 1,914 | 1,903 |
| Investments | (22,800) | (18,577) |
| Net Borrowing / (Investments) | (20,886) | (16,674) |

7. Long term borrowing as at 31 March 2016 included PWLB loans totalling £1,892k and a long term balance of £22k 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 2016-17, reducing the outstanding long term balance of this loan at 31 March 2017 to £11k.
8. Investment balances have reduced during 2016-17 due to the significant capital expenditure that has been financed during the year.

Treasury Management Performance 2016-17

Investments

9. The Authority has continued to find it difficult to generate significant levels of investment income in light of continuing low interest rates throughout 2016-17. Investment income in 2016-17 is £162k, reduced from the £224k generated in 2015-16, which reflects both slightly lower interest rates and our lower cash balances during the year as a result of significant capital expenditure most notably in respect of the new station builds.
10. The Authority has continued with a cautious approach to its choice of counterparties. As at 31 March 2017, the Authority's investments are with Lloyds Bank of Scotland, Santander and Goldman Sachs. Other investment counterparties used during 2016-17 are Barclays, Nationwide, Coventry BS and Leeds BS. In addition, the Authority continues to use the Standard Life Liquidity Fund to manage day to day cashflows.
11. There have been no known instances of non compliance with TMPs during the year.

Borrowing

12. There are no plans to borrow funds or to prematurely repay debt during 2017-18, although the Finance Team continues to monitor the position on the premature repayment of debt. The latest cashflow for the Authority show that there is a limited requirement to borrow during the current version of the Medium Term Financial Plan. However, this will be kept under review in conjunction with the Reserves Strategy and any changes to the MTFP and saving proposals.

13. The actual maturity structure for borrowing falls slightly outside the agreed profile, as can be seen in Table 2. However, as the Authority has such relatively low levels of borrowing and currently has such a healthy investment position, this is not considered to be a material risk. In addition, the Authority is not currently securing additional borrowing and cannot therefore easily influence the maturity structure.

| | Upper Limit | Lower Limit | Actual | Amount |
|--------------------------------|--------------------|--------------------|---------------|---------------|
| | % | % | % | £000 |
| Under 12 months | 25 | 0 | 0.5 | 11 |
| 12 months and within 24 months | 25 | 0 | 0.5 | 11 |
| 24 months and within 5 years | 40 | 0 | 46 | 880 |
| 5 years and 10 years | 60 | 0 | 53 | 1,012 |
| 10 years and above | 100 | 5 | 0 | 0 |

Prudential Code

14. 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 2016-17 against the indicators, which were approved by the Authority in February 2016.

| Prudential Indicator | 2016-17 Indicator | 2016-17 Estimated Performance | Comments |
|--|--------------------------|--------------------------------------|---|
| Capital Expenditure | £14,999k | £13,047k | Slippage on ERP schemes and vehicle procurement. |
| Ratio of financing costs | 1.33% | 1.15% | Higher than estimated investment income. |
| Impact on Council Tax | £0.00 | £0.00 | No revenue impact. |
| Capital Financing Requirement | £7,646k | £7,646k | |
| Gross borrowing requirement | £5,693k | £5,695k | |
| Authorised limit for external debt. | £3,953k | £1,951k | No temporary borrowing required. |
| Operational boundary for external debt | £1,992k | £1,951k | |
| Fixed interest rate exposure | 100% | 100% | |
| Variable interest rate exposure | 40% | 0% | |
| Investment periods | £5m only over 364 days | Nil | No investments in 2016-17 for more than 364 days. |

15. The above data shows that the organisation remained within both the authorised limit and operational boundary for external debt. These are limits on the amount of external debt permitted and include both loans and financial leases.
16. Capital expenditure was broadly in line with anticipated spending levels due to the successful completion of new station builds at Penketh and Powey Lane together with Lymm which is also now nearing completion. The associated Safety Centre fit out and a number of operational vehicles currently being procured account for the slippage into 2017-18.

Conclusion

17. Interest rates have remained low throughout the year and are forecast to do so for the upcoming financial year. Opportunities for seeking improved returns will continue to be pursued within the approved confines of the Investment Strategy.
18. Borrowing levels remain sustainable and no new borrowing is forecast in 2017-18.

Financial Implications

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

Legal implications

20. 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).

Equality and Diversity and Environmental Implications

21. There are none.

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BACKGROUND PAPERS : NONE