CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 6TH DECEMBER 2017
REPORT OF: HEAD OF FINANCE
AUTHOR: WENDY BEBBINGTON

SUBJECT: TREASURY MANAGEMENT – MID YEAR REPORT 2017-18

Purpose of Report

1. To update Members on performance against the Authority's Treasury Management Strategy (TMS).

Recommended That:

[1] the report be noted; and

[2] approval be given to revised limits to borrowing activity as detailed in paragraphs 14 to 18.

Background

2. Treasury Management involves the management of the Authority's cash flows, banking, money market and capital market transactions, together with the effective control of the risks associated with those activities.

3. The Authority agreed its annual TMS for 2017-18 at its meeting on 14th February 2017.

4. The table below shows the Authority's treasury portfolio at the end of September 2017:

Treasury Portfolio	Balance 31 March 2017 £'000	Balance 30 Sept 2017 £'000	Movement during the year £'000
Long term borrowing	(1,903)	(1,903)	0
Investments	18,577	22,050	3,473
Net position	16,674	20,147	3,473

Information

Investments

5. The Authority continues to maintain high levels of cash which are suitably invested.

Funding of Programmes

6. Over recent years, the Authority has funded the capital (and revenue) costs of its Emergency Response Programme and other Integrated Risk Management Plan related programmes from reserves and capital grant.

7. Looking ahead, it seems almost certain that there will be no further capital grant funding for fire authorities. As a result, the ongoing requirement to fund an annual capital programme for essential vehicle and equipment replacement and funding required for the recently approved Training Centre project, would see available reserves being completely exhausted by March 2022.

8. The increase in investments in the first half of 2017 is due to the temporary positive cash flow implications of receiving annual Firefighters Pension Government Grant in July each year.

9. The Authority continues to invest prudently in line with its agreed investment policy. At 30th September 2017 the Authority had the following investments:

Investments	£000
Lloyds	7,050
Goldman Sachs	10,000
Santander UK	5,000
Total	**22,050**

Borrowing

10. The Authority's overall long term borrowing position at 30th September 2017 is a total of £1,903k. The Authority has Public Works Loan Board loans of £1,892k. The Authority also has an interest free loan with Salix of £22k, but £11k of the Salix loan will be repaid in the current financial year and so is treated as short term borrowing, leaving £11k to be included as long term borrowing.

11. The 2017-18 TMS states that whilst interest rates for investments remain low, the Authority will finance its capital programme from its cash reserves as far as possible. However, as mentioned above, continuation of this approach would result in available reserves being completely exhausted by March 2022.

12. In view of this and in light of the recent rise in interest rates and potential for further increases, it is clear that consideration now needs

to be given to taking out new borrowing. Borrowing to finance the Training Centre project would enable the Authority to take advantage of current low borrowing rates and to maintain sufficient cash resources to finance its existing ongoing capital expenditure commitments along with new and emerging capital expenditure needs.

13. A separate report to this meeting therefore considers the issue of borrowing to finance the Training Centre project in further detail.

Treasury Prudential Indicators – Limits to Borrowing Activity

14. The Authority is required to set approved limits for its external borrowing as part of its TMS each year. For 2017-18 these were set in line with the approach that no new borrowing would be required as all planned capital expenditure would be financed from reserves.

15. As discussed above, consideration is now being given to financing the recently approved Training Centre project from new borrowing rather than from cash reserves. In view of this it is recommended that Members amend the currently approved 2017-18 borrowing limits as per the table in paragraph 16 to enable new borrowing of up to £9m.

Operational Boundary for External Debt

16. External debt is not expected to exceed this limit.

Operational Boundary	**2017-18 Original £m**	**2017-18 Revised £m**
Borrowing	2,032	11,032
Other long term liabilities	60	60
Total	**2,092**	**11,092**

Authorised Limit for External Debt

17. This indicator demonstrates a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Fire Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Authorised Limit	**2017-18 Original £m**	**2017-18 Revised £m**
Borrowing	4,032	13,032
Other long term liabilities	100	100
Total	**4,132**	**13,132**

18. In agreeing these revised limits, it should be noted that the Authorised Limit for 2017-18 will be the statutory limit determined under Section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all authorities' plans, or those of a specific authority, although this power has not yet been exercised.

Compliance with Prudential Indicators.

19. The following table compares the estimated performance on key Prudential Indicators in 2017-18 against those which are currently approved. The estimated performance figures below all reflect the current strategy of funding all capital expenditure from reserves. In the event that Members decide to take out new borrowing during 2017-18 the indicators below will be restated and reported to the Authority in the Treasury Management Strategy 2018-19 which will be presented to Fire Authority in February 2018.

Prudential Indicator	**2017-18 Indicator**	**2017-18 Estimated Performance**
Capital Expenditure	£3,605k	£3,845
Every effort is made to avoid slippage so these two numbers should be as near to each other as possible. Higher estimated expenditure results from the addition of some initial Training Centre project expenditure in 2017-18 following approval in September 2017, partly offset by some forecast variances from the approved 2017-18 programme.		
Ratio of financing costs (borrowing costs to revenue streams)	1.22%	1.22%
This measures the impact on Council Tax of the increase in borrowing cost has on precept as a ratio. At this stage, there is no estimated change, however should the authority decide to take out new borrowing in 2017-18 then this ratio will increase.		
Capital Financing Requirement (CFR)(underlying need to borrow)	£7,133	£7,134k
This reflects the current strategy of the Authority in fully funding capital from reserves.		

Gross borrowing requirement (compares CFR to actual debt)	£5,205k	£5,206k
This shows the CFR less outstanding debt. The Authority’s current strategy of fully funding from reserves means that this would remain fairly low for the life of the MTFP.		
Authorised limit for external debt.	£4,132k	£1,928k
This is the limit of debt which the Authority has approved. This report recommends that £9m is added to the current limit to facilitate potential borrowing towards the Operational Training Centre project. If approved this 2017-18 indicator will be revised to £13,132k.		
Operational boundary for external debt	£2,092k	£1,928k
This is the estimated likely level of debt given the current capital programme. This report recommends that £9m is added to the current limit to facilitate potential borrowing towards the Operational Training Centre project. If approved this 2017-18 indicator will be revised to £11,092k.		
Fixed interest rate exposure	100%	100%
This reflects the current debt position, as all debt is at a fixed interest rate. This offers certainty and protects the Authority from interest rate volatility. The debt the Authority has was all taken out before the financial crisis, and the subsequent significant lowering of interest rates.		
Variable interest rate exposure	40%	0%
The estimate reflects the current debt position of the Authority. Should further borrowing be approved, having this prudential indicator set at 40% will allow room to be flexible whilst determining the most cost effective borrowing solution.		
Investment periods	£5,000k only for more than 364 days	Nil
This protects against a lack of flexibility in the Authority’s investments and is being adhered to.		

Financial Implications

20. The subject of this report is financial.

Legal Implications

21. The TMS is required in order to comply with the Local Government Act 2003, the 2009 CIPFA Treasury Management Code of Practice and the latest investment guidance from Central Government which came into effect in April 2010.

Equality & Diversity Implications

22. There are no known equality and diversity issues arising from this report.

Environmental Implications

23. There are no known environmental issues arising from this report.

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BACKGROUND PAPERS: None