CHESHIRE FIRE AUTHORITY

MEETING OF:	**CHESHIRE FIRE AUTHORITY**
DATE:	**20TH JUNE 2018**
REPORT OF:	**HEAD OF FINANCE**
AUTHOR:	**WENDY BEBBINGTON**

SUBJECT: TREASURY MANAGEMENT REPORT 2017-18

Purpose of Report

1. To present a review of the Authority's treasury management activities during 2017-18.

Recommended that Members:

[1] Note the report on treasury management activity for 2017-18; and

[2] The prudential and treasury management outturn indicators as detailed in the report be noted.

Background

2. The Chartered Institute of Public Finance and Accountancy (CIPFA) define Treasury Management as 'the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3. The associated Code of Practice for Treasury Management recommends that those charged with governance are updated on treasury management activities regularly by way of a strategy at the start of the year, a mid-year review and an outturn report.

4. This annual report provides Members with details of the treasury management activities undertaken in 2017-18. It also considers compliance with the Authority's Treasury Management Practices (TMPs) during the year.

5. This report includes details of:

a) the Authority's loans portfolio position at 31 March 2018;
b) the Authority's investment portfolio position at 31 March 2018;
c) a summary of performance for the year 2017-18;
d) the Authority's performance in 2017-18 against the key Prudential and Treasury Indicators;

6. Members should be aware that all the 2017-18 figures in the report remain subject to audit.

The Economy and Interest Rates

7. During 2017, there was a major shift in expectations in terms of how soon the Bank Rate would start on a rising trend. After the UK economy surprised markets on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017-18.

8. Consequently, market expectations during the autumn rose significantly that the Monetary Policy Committee (MPC) would be imminently raising the Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise the Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%. The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in the Bank Rate than had previously been expected. Market expectations for increases in the Bank Rate, therefore, shifted considerably during the second half of 2017-18. The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.

9. The table below provides a summary of PWLB borrowing rates comparing the start of the year and the end of the year and provides a picture of how the rates moved throughout the year.

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/17	0.85%	1.25%	1.93%	2.62%	2.37%
31/3/18	1.47%	1.85%	2.23%	2.57%	2.29%
Low	0.80%	1.14%	1.78%	2.52%	2.25%
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.51%	2.01%	2.53%	2.93%	2.64%
Date	21/03/2018	15/02/2018	15/02/2018	15/02/2018	15/02/2018
Average	1.11%	1.50%	2.08%	2.69%	2.41%

Outlook for 2018/19

10. Financial markets had priced in a 90% probability of a rise in the Bank Rate of 0.25% (to 0.75%) during May 2018, as global economic activity had increased and concerns mounted around possible future inflationary pressures. In recent weeks, economic data has been more

subdued, particularly from a UK perspective, and this led to the Bank of England deferring any rise in bank rate at its May meeting.

11. Expectations currently indicate a 50% probability of an increase in rates in either August or November 2018 but this will be driven by the economic data releases between now and the relevant Bank of England meetings. The Bank of England is then expected to keep rates on hold at 0.75% until mid/late-2019 and further clarity being available on Brexit negotiations.

Portfolio Position at 31 March 2018

12. A summary of the Authority's long term borrowing and investments at 31 March 2018 is shown in Table 1, including the equivalent position for 31 March 2017 for reference.

Table 1 – Portfolio Position		
	31 March 2017 £000	31 March 2018 £000
Long Term Borrowing	1,914	1,903
Investments	(21,800)	(23,980)
Net Borrowing / (Investments)	(19,886)	(22,077)

13. Long term borrowing as at 31 March 2017 included PWLB loans totalling £1,892k and a 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 2017-18, reducing the outstanding balance of this loan at 31 March 2018 to £11k.

14. Investment balances (including cash on deposit in Money Market Funds) have increased during 2017-18 due mainly to the Authority holding £3.1m of Emergency Services Network project funding received from Home Office (as regional finance lead on behalf of north west regional fire authorities) at 31/3/3018 (increased from £1.6m at 31/3/17).

Treasury Management Performance 2017-18

Investments

15. The Authority has continued to find it difficult to generate significant levels of investment income in light of continuing low interest rates throughout 2017-18. Investment income in 2017-18 is £125k, reduced from the £162k generated in 2016-17. This reflects reduced cash balances available for investment as a result of significant capital expenditure during 2016-17, most notably in respect of the new station builds.

16. The Authority has continued with a cautious approach to its choice of counterparties. As at 31 March 2018, the Authority's investments are with Lloyds Bank of Scotland, Goldman Sachs UK and Standard Life Money Market Liquidity Fund, which the Authority continues to use regularly to manage day to day cashflows. The only other investment counterparty used during 2017-18 was Santander.

17. There have been no known instances of non compliance with TMPs during the year.

Borrowing

18. The amount of borrowing as at 31st March 2018 is £1.903m. During 2017/18 interest rates have been monitored and current loan terms held remain competitive, as such no loan re-scheduling took place.

19. The Authority has approved up to £9m of new borrowing to finance the Training Centre project in order to maintain sufficient cash resources to finance its existing ongoing capital expenditure commitments along with new and emerging capital expenditure needs, as detailed in the annual Treasury Management Strategy. The timing of this need to borrow, balanced carefully against prevailing and forecast market rates, will therefore be kept under close review throughout 2018-19.

20. The Authority currently remains in an under-borrowed position, which means that historically decisions have been made to internally finance expenditure as opposed to borrowing. The current position is c£5m under-borrowed which has not changed significantly for a number of years. This position may need to be reduced with new external borrowing should it begin to place pressure on day to day available cash balances however this is not an issue at the present time due to current reserve levels.

21. 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. Over recent years, the Authority has not required any new additional borrowing and has not therefore been easily able to influence the maturity structure.

Table 2 Maturity Structure of Borrowing				
	Upper Limit %	**Lower Limit %**	**Actual %**	**Amount £000**
Under 12 months	25	0	1	11
12 months and within 24 months	25	0	46	880
24 months and within 5 years	40	0	22	426
5 years and 10 years	60	0	31	586
10 years and above	100	5	0	0

Prudential and Treasury Indicators

22. The Authority must approve Prudential and Treasury Indicators annually, to reflect the impact of the capital programme on the Authority's financial position. Table 3 below shows performance in 2017-18 against the indicators, which were approved by the Authority in February 2017.

Table 3: Prudential and Treasury Indicators			
Prudential Indicators	2017/18 Indicator £000	2017/18 Outturn £000	Comment
Capital expenditure	3,605	2,994	Chester FS Scheme did not proceed until 2018-19 + various vehicle underspends offset by initial Training Centre project spend.
Capital financing requirement Annual change in capital financing requirement	7,133 (512)	7,379 (267)	Initial expenditure on Training Centre Project to be financed by borrowing.
Gross borrowing requirement: (Under) / Over borrowing	(5,205)	(5,451)	
Ratio of financing costs to net revenue stream	1.22%	1.13%	
Treasury Indicators	2017/18 Indicator £000	2017/18 Outturn £000	
Authorised limit for external debt Operational boundary for external debt	4,132 2,092	13,132 11,092	Increase to limits approved CFA 6/12/17 to enable up to £9m borrowing for Training Centre – borrowing not actually taken 2017/18, likely 2018/19 to 2019/20.
Actual external debt - Borrowing - Other long term liabilities Total	 1,903 25 1,928	 1,903 25 1,928	No new borrowing in 2017/18.
Upper limit of fixed interest rate exposure	100%	100%	
Upper limit of variable interest rate exposure	40%	Nil	
Upper limit for principal sums invested for over 364 days	£5m	£nil	

23. 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.

24. With the exception of the initially proposed New Chester Station scheme (£0.6) which did not proceed in 2017-18 (replaced with a revised scheme approved by the Authority in February 2018), capital expenditure was broadly in line with anticipated spending levels. This was due to the successful completion of the new Lymm Fire Station and Safety Centre fit out, completion of 7 new Fire appliances during the year and initial training centre project spend. A number of operational vehicles currently being procured account for some slippage into 2018-19.

Conclusion

25. 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.

26. Borrowing levels remain sustainable. Up to £9m of new borrowing was approved by the Authority in December 2017 to finance the new training centre project. The timing of this new borrowing will be kept under close review throughout 2018-19 and the borrowing will be secured at the optimum point taking into account prevailing and forecast market rates.

Financial Implications

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

Legal implications

28. All transactions between the Authority and counterparties are governed by the agreements between the two parties, and overseen by our Treasury Management partner Link Asset Services (provided via Warrington Borough Council in 2017-18 but procured directly by the new Joint Police and Fire Finance team from 1st April 2018).

Equality and Diversity and Environmental Implications

29. There are none.

BACKGROUND PAPERS : NONE