



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 05A

MEETING	Finance and Audit Committee
DATE OF MEETING	6 July 2016
SUBJECT OF THE REPORT	Treasury Management Annual Report 2015/16 - Wiltshire and Swindon Fire Authority
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For consideration and note
EXECUTIVE SUMMARY	Treasury management has come under increasing scrutiny since the Icelandic banking collapse several years ago, and much more by way of governance arrangements are now in place as a result. Good governance requires the Authority, in compliance with the Treasury Management Code, to report its treasury management performance on a regular basis.
RISK ASSESSMENT	No risk issues arise directly from this report of outcomes for 2015/16.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report.
BUDGET IMPLICATIONS	None
RECOMMENDATIONS	Members are asked to note the report.
BACKGROUND PAPERS	Treasury Management Policy and Practices 2015/16 - Wiltshire and Swindon Fire Authority: Finance Review and Audit Committee March 2015.
APPENDICES	Appendix A - Capital Prudential Indicators
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1. Introduction

- 1.1 The purpose of this report is to report the performance of the Wiltshire and Swindon Fire Authority's treasury management activity in 2015/16.
- 1.2 In Wiltshire, the Authority's 'Treasury Management Policy Statement and Practices', which was approved in March 2015 (in respect of 2015/16) requires:-
- “An annual report on the performance of the treasury management function, on the effects of decisions taken and transactions executed in the past year, and on any circumstances of non-compliance with the Authority's treasury management policy statement and treasury management practices.”
- 1.3 The policy statement for the new Authority has been established for 2016/17 and was approved at the February 2015 meeting of the Shadow Dorset and Wiltshire Fire and Rescue Authority.

2. Approved lending List

- 2.1 The 'Treasury Management Policy Statement and Practices', defines the policies adopted by the Authority for the year. During 2015/16, due to the volatility of the financial markets and the resultant changes to financial institutions financial risk ratings, the 'Approved Lending List' was reviewed several times as per the policy.
- 2.2 Changes were made on four occasions in April 15, July 2015, October 15 and January 2016 to reflect changes in external risk ratings, assessed financial stability and financial outlook rating, which has meant that eligibility of institutions under our Treasury Management Policy has changed. For example at the start of 2015/16, our investment policy allowed us to invest up to £5m in top UK banks, however the ratings used for one such bank reduced significantly which meant we were unable to use for the remainder of the year.
- 2.3 The approved lending lists applicable to 2015/16 and the current 2016/17 lending lists (which was reviewed and changed in April 2016) are available to Members on request.
- 2.4 One such aspect of the Treasury Management Policy is to report any non-compliance of the policy. We have identified non-compliance with our policy with regard to our borrowing maturity structure. Please see paragraph 3.16 below for further details.

3. Borrowing 2015/16

- 3.1 Borrowing is allowed to fund the ongoing capital programme as approved by the Authority and also if required to address any short term temporary shortfalls in cashflow. There was no short term borrowing undertaken to meet temporary shortfalls in cash during 2015/16.

NOT PROTECTIVELY MARKED

- 3.2 Due to the global financial and economic downturn in previous years, interest rates on investments have been the lowest seen in decades. Therefore, where possible, surplus cash has have been used to fund the capital programme. No loans were therefore required in 2015/16, as a result. During 2015/16 borrowing interest rates as quoted by the Public Works Loans Board (PWLB)(central government long term borrowing facility open to public bodies), were regularly monitored and a view would have been formed if prudent to do so, to borrow money to fund the capital programme. Decisions have been taken not to borrow, as current surplus cash balances have reduced the need to do so, however this is constantly reviewed and should the need arise borrowing will be considered in 2016/17.
- 3.3 One maturity loan totalling £250,000 was repaid in October 2015, taken out in March 2005 at a fixed rate of 4.95%. In addition to this, two repayments totalling £120,833 were also made in respect of an 'equal instalment of principal' (EIP) loan taken out for £1.450m in 2010, resulting in the Authority's total amount of long term debt of £3.648m as at 31 March 2016 (maturity loans £2.923m and equal instalment of principal loans £0.725m).
- 3.4 The outstanding loans as at 31 March 2016 total £3,648,000. Total interest during 2015/16 payable was of £173,449, therefore this is equivalent to an average borrowing rate of 4.75%.

- 3.5 In summary:

Balance Loans Outstanding as at 1 April 2015:

Maturity Loans	£3.173m	
Equal Instalment of Principal Loans	<u>£0.846m</u>	
		£4.019m

Loan Repayments 2015/16:

Maturity Loans	-£0.250m	
Equal Instalment of Principal Loans	<u>-£0.121m</u>	
		-£0.371m

Balance Loans Outstanding as at 1 April 2016:

Maturity Loans	£2.923m	
Equal Instalment of Principal Loans	<u>£0.725m</u>	
		£3.648m

Investments

- 3.6 Investments in 2015/16 were only made in 'Fixed Term Deposits' and 'On-Call Deposits' with a maturity date less than one year, in accordance with the Authority's Annual Investment Strategy. Investment transactions totalled £36.195m, and disinvestment transactions totalled £33.451m. Net investments therefore increased by £2.744m during the year, bringing the total invested at 31 March 2016 to £4.422m. (Total invested at 01/04/2015 was £1.678m).

- 3.7 The gross yield from the investments averaged 0.62%. Gross income from investments totalled £44,759. For the purposes of comparison, the average 7 day lending rate for the year was 0.33%, therefore investment performance has been better by 0.29% against the average 7 day rate for local authorities.

Interest Rate Movements

- 3.8 2008/09 saw an unprecedented change in the base rate over a relatively small period. Since September 2008 the global banking system has experienced its most serious disruption for almost a century. The impact of this change on the Fire Authority has been dramatic, affecting the income from investments since 2008/09.
- 3.9 The base rate as at March 2009 was 0.5%. It has remained at 0.5% since that date.
- 3.10 The average 7 day rate as at October 2009 was 0.25% and remained so until it changed in October 2012 to 0.26% and has risen to 0.33% by the end of 2015/16. To illustrate how interest rates have changed it was 5.25% in April 2008.

Prudential Indicators

- 3.11 Under the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities, local authority capital spending and its borrowing to fund that spending is limited by what is affordable, prudent and sustainable.
- 3.12 The CIPFA Prudential Code sets out a number of indicators that enables the authority to assess affordability and prudence. The Prudential Indicators that relate to Treasury Management in the Public Services are:-
- Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services
 - Upper Limits for Fixed Rate Exposure and Variable Rate Exposure
 - Limits on Maturity Structure of Borrowing
 - Values of Principal Sums invested over one year
- 3.13 Other prudential indicators aligned to the Treasury Management Strategy in relation to the capital programme are also reported in appendix A.
- 3.14 The Authority adopted and complied with the CIPFA Code of Practice for Treasury Management in the Public services by putting in place a policy which makes it clear that the control of risks is a prime objective and also clearly endorses the importance of the pursuit of Best Value and the measurement of performance.
- 3.15 The Interest Rate exposures for 2014/15 were as follows:-
- Upper Limit – Fixed Rates 100%
 - Upper Limit – Variable rates 10%

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All investments were made at fixed rates, and there were no investments made on a variable rate basis.

3.16 The Authority’s Borrowing Strategy for 2015/16, and performance against that strategy was as follows:

- The Authority planned only to borrow short-term (up to twelve months) for the purpose of maintaining sufficient cash flow. As per paragraph 3.1, no such events occurred in 2015/16 as borrowing was not required for the purpose of maintaining sufficient cash flow.
- The limit set on the total amount of outstanding borrowing at any time in 2015/16 i.e. the Operational Boundary was £7.689m and an Authorised Limit of £7.739m. Total outstanding borrowing was maintained well within these boundary limits for 2015/16.

3.17 The maturity structure of borrowing for 2015/16 compared to Actuals is as follows:-

Maturity Structure at 31st March 2016	Original 2015/16 £m	% Total	Actual 2015/16 £m	% Total	Upper Limit %	Lower Limit %
Under 12 mths	0.381	9%	0.431	12%	20%	0%
12 mths and within 24 mths	0.442	10%	1.097	30%	20%	0%
24 mths and within 5 yrs	1.931	45%	0.925	25%	50%	0%
5 yrs and within 10 yrs	0.866	20%	0.695	19%	50%	15%
10 yrs and above	0.700	16%	0.500	14%	50%	15%
	4.319		3.648			

The upper limit on borrowing over the period 12 months to 24 months is 20%. The lower limit on borrowing over the period 10 years or more is 15%. The impact of not taking out any additional borrowing in recent times has meant these limits have been exceeded meaning we are not in compliance with our policy. This has occurred primarily due to not having to borrow for capital purposes in recent years due to surplus cash balances.

3.18 In 2015/16 there were no investments for a period greater than one year made, which was in line with our strategy.