



**DORSET & WILTSHIRE  
FIRE AND RESCUE  
AUTHORITY**

**Item 05B**

MEETING	Finance and Audit Committee
DATE OF MEETING	6 July 2016
SUBJECT OF THE REPORT	Dorset Fire Authority Treasury Management Annual Review and Actual Prudential Indicators 2015/16
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For information
EXECUTIVE SUMMARY	The annual report reviews the Treasury activities of Dorset Fire Authority for the year ended 31 March 2016 in accordance with the requirements of the CIPFA Code of Practice for Local Authorities adopted by the Fire Authority on 17 September 2002.
RISK ASSESSMENT	No risk issues arise directly from this report of outcomes for 2015/16. However, the Treasury Management policy agreed each year carefully balances the acceptance and spread of borrower risk against the requirement to maximise returns. In addition, a potential budget risk exists if there is a shortfall against budget of interest earnings as a result of lower interest rates and balances.
COMMUNITY IMPACT ASSESSMENT	None undertaken as a result of this report
BUDGET IMPLICATIONS	None
RECOMMENDATIONS	It is recommended that Members:  1. Receive the Treasury Management Annual Report. 2. Note the actual Prudential Indicators for 2015/16.
BACKGROUND PAPERS	CIPFA Treasury Management Code of Practice CIPFA Prudential Code for Capital Finance
APPENDICES	A. Loans and Investments Outstanding B. Transactions and Performance C. Long-term Debt

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	D. Delegation E. Prudential Indicators
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## **1 Background**

- 1.1 Dorset Fire Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its Treasury Management function in compliance with this Code. This requires that the prime objective of the Treasury Management function is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis.
- 1.2 The Code requires as a minimum the regular reporting of Treasury Management activities to:
- Forecast the likely activity for the forthcoming year (in the Annual Treasury Management Strategy Statement, which was agreed for 2015/16 by the Fire Authority on 10 February 2015);
  - A mid year review of treasury activity; and
  - Review the actual activity for the preceding year (this report).
- 1.3 Elements of the Treasury Management Strategy were changed in light of the Icelandic Banks crisis in 2008. Members have received periodic updates since October 2008 as more information has become available.
- 1.4 On 1 April 2016 Dorset Fire Authority combined with Wiltshire Fire and Rescue Service to form a new authority called Dorset & Wiltshire Fire and Rescue Service. Details of the funds transferred to the new authority are shown in 1.12.

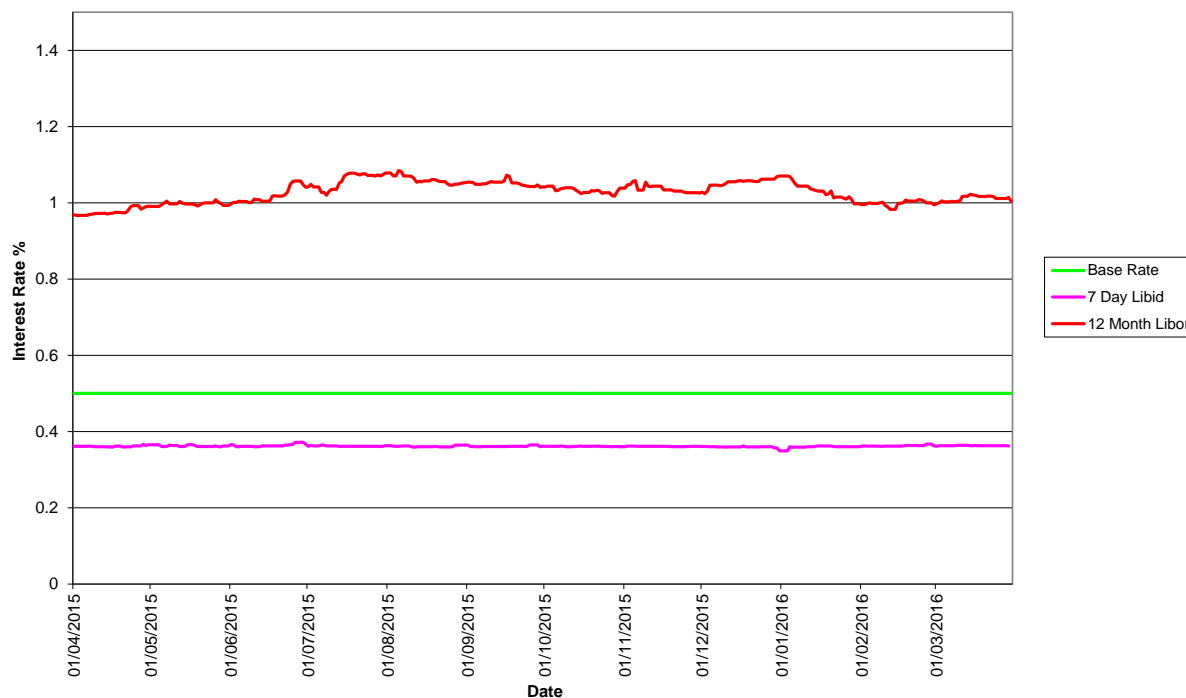
## **2 Update on Icelandic Banks**

- 2.1 In September 2008 Dorset Fire Authority made a temporary loan to Heritable Bank of £1 Million. This was a fixed term loan at an interest rate of 5.88% repayable on 30 January 2009. At the time that this loan was made, Heritable Bank met the criteria set by the Treasury Management Strategy.
- 2.2 To date the Fire Authority has received fifteen separate repayments totalling £984k, or 98% of our claim of £1.004m. We anticipate that some further small repayments may be received but the debt has been fully written off in the Authority's accounts.

## **3 Day to Day Cash Management Activity**

- 3.1 The Bank of England Base Rate was 0.50% for the entire year, having been reduced to that level on 5 March 2009 by the Bank of England Monetary Committee (MPC). The base rate was reduced to that level as part of worldwide central bank intervention to help ease the difficulties in the credit markets and stimulate the economy.
- 3.2 Over the course of the past 12 months interest rates have remained static. The Chart below illustrates the key market rates for the 2015/16 financial year.

## Interest Rate Comparisons



- 3.3 Interest earned from Treasury Management operations in the year was £75,281 which is higher than the estimate for the year of £60,000. The forecast was based on an average balance of £10.0 Million and an average interest rate of 0.60%.
- 3.4 The average daily balance was £11.5 Million (£10.6 Million excluding loans to Icelandic Banks) and the average interest rate earned was 0.62%. The average 7 day rate was 0.36%. A summary of statistics showing previous years is shown at Appendix B.
- 3.5 During the year there were 7 individual loans totalling £10.5 Million. As at 31 March 2016 the total of investments was £8.2M and this is illustrated in Appendix A.
- 3.6 An amount of £6.2M held with the Dorset Fire Authority was transferred to the new authority on 1 April 2016. A balance of approximately £2M was held by Dorset Fire Authority due to two BACS payments (£1.8M) relating to the old authority still requiring payment as well as an HMRC payment (£0.1M) for March 2016. The current balance as at 21 June 2016 is £664K due to income being received mainly from HMRC. This amount will be transferred across to the new authority in due course.
- 3.7 The Fire Authority has a surplus of cash on a month to month basis because of the time difference between receipt of income (grants and precepts) and the costs of providing services. In addition surplus cash balances arise monthly, and between years, from the financing of the Capital programme, the amounts held in reserves and any budget under-spending.

### **Long Term Debt Management**

- 3.8 The Fire Authority's capital programme is mainly financed by long term borrowings from the Public Works Loan Board (PWLB), and the balance is made up by Government grants and other contributions. During the year, the Authority repaid scheduled repayments of £0.09 Million. Interest paid during the year was £0.372 Million. Appendix 3 sets out a schedule of current debt totalling £8.824 Million, down from £8.995 Million at the start of the year, and analyses it by date of drawdown.
- 3.9 All Long term debt management was transferred to Dorset & Wiltshire Fire and Rescue Authority on 1 April 2016.

### **Compliance with Policy and Exercise of Delegations**

- 3.10 The Code of Practice as agreed by the Authority has been adhered to. The Code requires the Authority to be aware of who is responsible for which decisions, the limits on delegated responsibilities and reporting requirements. These are reproduced at Appendix D.

### **Prudential Indicators 2015/16**

- 3.11 The Fire Authority approved the Prudential Indicators for 2015/16 on 10 February 2015. It is a requirement of the Prudential Code that actual Indicators are reported after the end of the financial year.
- 3.12 Comparative figures showing actual Prudential Indicators are shown in Appendix E. It should be noted that only Indicators 4,5,8,9,10 and 11 are actually limits and the remainder are simply indicators. I can report that none of the limits set were breached during the year.

### **Treasury Management Update 2015/16**

- 3.12 Appendix A summarises the latest treasury management position for the Fire Authority.

**RICHARD BATES**

Treasurer to the Dorset Fire Authority

June 2016

**Appendix A**

**Portfolio of Loans and Investments outstanding as at 31 March 2016**

<b>Lender/ Borrower</b>	<b>Amount £'000</b>	<b>Rate %</b>	<b>Start Date</b>	<b>End Date</b>	<b>Long Term Rating at Date of Loan</b>	<b>Current Counter party Rating</b>	<b>Sovereign</b>
<u>Icelandic Bank Loans</u>							
Heritable Bank	16	5.88	10/09/2008	30/01/2009	A		Iceland
<u>Call Accounts</u>							
Natwest	8,192	0.25	31/03/2016	01/04/2016	BBB+	BBB+	UK
<b>Grand Total</b>	<b>8,208</b>	<b>0.62%</b>					

<b>Analysis of Loans by Maturity</b>	<b>£M</b>
Overnight Call Accounts	8.19
Icelandic Bank Loans	0.01
<b>Total</b>	<b>8.20</b>

<b>Analysis of Loans by Counterparty Rating</b>	<b>£M</b>
BBB+ and above	8.19
Icelandic Bank Loans	0.01
<b>Total</b>	<b>8.20</b>

NatWest is part of the Royal Bank of Scotland Group and although the minimum credit rating falls below the minimum criteria of A- as set out in the Dorset Fire Authority's Treasury Management Strategy Statement and Prudential Indicators report for 2015/16, NatWest is permitted to continue as it would be inconceivable not to use their own bankers.

<b>Analysis of Loans by Sovereign</b>	<b>£M</b>
UK	8.19
Iceland	0.01
<b>Total</b>	<b>8.20</b>

*Please note that Icelandic Bank loans were made before the introduction of Sovereign Rating criteria.*

### Compliance with Sovereign Limits

- The Authority will only lend to counterparties in countries with a Sovereign Credit Rating of AAA
- The maximum that can be deposited with banks in any one sovereign is £3 Million, with the exception of the United Kingdom.

Category	Credit Rating	Limit £M
Any local authority	N/A	1.5
Major UK High Street Banks	N/A	3.0
Banks and Building Societies	Short F1, Long A	1.5
Money Market Funds (Individual)	AAA	1.5
(Total)		7.5

Although the credit limit for Major UK banks (HSBC Plc, Barclays Bank Plc, Lloyds Banking Group Plc and the Royal Bank of Scotland Group Plc) is £3M, the amount held overnight on 31 March 2016 in the Dorset Fire Authority's NatWest Siba account was £8.2M. This was due to the transfer of funds to the Dorset and Wiltshire Fire and Rescue Service the following day. Although this amount was in excess of the agreed limit this plan of action had been agreed in advance with the consent of the Treasurer of the Dorset Fire Authority.

**Appendix B**

**SUMMARY OF KEY TRANSACTIONS AND PERFORMANCE**

<b>Activities</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<u>Lending</u>				
Number of transactions	18	7	8	7
Value £	21.0M	8.5M	11.5M	10.5M
 <u>Borrowing</u>				
Number of transactions	0	0	0	0
Value £	0.0M	0.0M	0.0M	0.0M
 <u>Performance</u>				
Average 7 day rate	0.52%	0.35%	0.35%	0.36%
Average rate earned	0.87%	0.77%	0.69%	0.62%



**Appendix C**

TREASURY MANAGEMENT

**Summary of Outstanding Borrowing (All PWLB)**

<b>Date</b>	<b>Capital Outstanding @ 31/03/16</b>	<b>Interest Rate %</b>	<b>Initial Term in years</b>	<b>Advance £</b>
22/03/2000	63,513	5.50	19	272,000
24/03/2003	191,881	4.65	17	619,500
25/03/2004	361,164	4.80	23	590,000
21/12/2004	200,000	4.55	25.5	200,000
15/02/2005	200,000	4.50	25.5	200,000
01/03/2006	1,307,000	4.05	25.5	1,307,000
28/08/2007	1,000,000	4.45	45.5	1,000,000
04/01/2008	1,000,000	4.43	34.5	1,000,000
09/01/2008	500,000	4.39	35	500,000
08/09/2008	2,000,000	4.38	50	2,000,000
03/11/2011	2,000,000	3.30	10	2,000,000
<b>Total</b>	<b>8,823,557</b>			<b>9,688,500</b>

Average Weighted Rate of Interest 4.21%

## Appendix D

### **Delegation**

The Code requires the policy of delegation to show who is responsible for which decision, the limits on the delegation and reporting requirements.

The Code also requires the responsibilities of the Authority, and its officers to be set out. In summary they are as follows:

#### **The Fire Authority -**

approval and review of the Treasury Policy statement, the receipt of annual reports from the Treasurer of the Fire Authority on treasury management activities and annually the borrowing limits.

#### **Treasurer to the Fire Authority -**

approval and review of draft policy statement, appointment of moneybrokers, regular monitoring of activities and reporting of these activities to the Authority.

#### **Assistant Chief Officer (Corporate Services)**

monitor implementation of policy.

#### **Treasury Management contractor -**

preparation of draft monitoring reports for the Treasurer to the Fire Authority and the placement and approval of deals on a day to day basis in accordance with the approved policy.

#### **Chief Fire Officer -**

that the system is laid down and resourced, and that the Treasurer to the Fire Authority makes the required regular reports to the Authority.

#### **Monitoring Officer -**

ensuring compliance by the Treasurer to the Fire Authority.

#### **Internal Audit -**

the policing of the arrangements.

In addition to these delegations there is in place a comprehensive system of checks undertaken by the Treasury Management contractor in accordance with the terms of the contract specified by the Authority.

## Appendix E

### Estimated and Actual Treasury Position and Prudential Indicators

	2015/16 Estimate (£'000)	2015/16 Actual (£'000)
<b>1 Capital Expenditure (£000)</b>	£3,572	£624
<b>2 Capital Financing Requirement (CFR) at 31 March (£'000)</b>	£30,170	£29,245
<i>Underlying Need to Borrow (£000)</i>	£15,578	£14,653
<b>3 External Debt at 31 March</b>		
Borrowing	£9,158	£8,823
Other long term liabilities	£15,295	£14,592
<b>Total Debt</b>	<b>£24,453</b>	<b>£23,415</b>
<b>4 Authorised Limit (against maximum position)</b>	£35,000	£23,415
<b>5 Operational Boundary</b>	£33,000	£23,415
<b>6 Ratio of financing costs to net revenue stream</b>	3.2%	3.20%
	£.pp	£.pp
<b>7 Estimated cost to the Council Tax payer of new borrowing in year</b>	£0.26	-£0.05
	(£'000)	(£'000)
<b>8 Upper limits on fixed interest rates (against maximum position) (net interest payable)</b>	£1,000	£377
<b>9 Upper limits on variable interest rates (against maximum position) (net interest payable)</b>	£200	£0
<b>10 Maturity structure of fixed rate borrowing (against maximum position)</b>		
Under 12 months	20%	1%
12 months to 2 years	20%	1%
2 years to 5 years	30%	25%
5 years to 10 years	40%	2%
10 years and above	100%	71%
	(£'000)	(£'000)
<b>11 Maximum principal funds invested for more than 364 days (against maximum position)</b>	£2,000	0

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In addition to the above the Authority is required as a Prudential Indicator to:

- Adopt the CIPFA Code of Practice.
- Ensure that over the medium term borrowing will only be for a capital purpose (i.e. net external borrowing is less than the CFR).