DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 17/21

MEETING	Finance, Governance and Audit Committee
DATE OF MEETING	7 July 2017
SUBJECT OF THE REPORT	Treasury Management Annual Report 2016 -17
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For information
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. A half year report was presented to this committee in December and this Annual Report provides an assessment of performance of the full treasury management activity over the year 2016-17.
RISK ASSESSMENT	No risk issues arise directly from this report of outcomes for 2016-17.
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 Statement and Practices 2016-17 – Dorset & Wiltshire Fire and Rescue Authority (February 2016).
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 Dorset & Wiltshire Fire and Rescue Authority's treasury management activity in 2016-17.

1.2 The Authority's 'Treasury Management Policy Statement and Practices', which was approved in February 2016 (in respect of 2016-17) 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 One such aspect of the Treasury Management Policy is to report any non-compliance of the policy. It is pleasing to note that we have no non-compliance events throughout 2016-17 to report, however one aspect to note for future years is the maturity structure at the end of March 2017, that is the maturity structure for 2017-18. Due to repayment dates on maturity loans, the profile of our loans in 2017-18 will no longer be compliant with the Treasury Management Policy. This has arisen due to not borrowing for capital purposes for a number of years. The impact of such non-compliance is minimal.

2 Approved lending list

2.1 The 'Treasury Management Policy Statement and Practices', defines the policies adopted by the Authority for the year. During 2016-17, 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 required by the policy.

2.2 Changes were made on four occasions in April 2016, July 2016, October 2016 and January 2017 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. In 2016-17 two banks on our original listing have since been excluded from the lending list due to adverse changes in their financial rating.

2.3 The approved lending lists applicable to 2016-17 and the current 2017-18 lending lists (which was reviewed and changed in April 2017) are available to Members on request.

3 Borrowing 2016-17

3.1 Borrowing is undertaken, if required, to fund the ongoing capital programme as approved by the Authority and also to address any short term temporary shortfalls in cash flow. There was no short term borrowing undertaken to meet temporary shortfalls in cash during 2016-17.

3.2 Due to the global financial and economic downturn in previous years, interest rates on investments have been the lowest seen in decades. Where possible, surplus cash has been used to fund the capital programme rather than borrowing, therefore no loans were required in 2016-17 as a result. During 2016-17 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. During 2016-17 professional advice was sought and decisions have been taken not to borrow, as current surplus cash balances have reduced the need to do so. This was judged to be the most effective strategy given our current financial circumstances, however we are constantly reviewing our financial position and, should the need arise, borrowing may be considered in 2017-18.

3.3 In respect of our current borrowing commitments, payments of £90,360 were made in relation to three annuity loans taken out in the period 2000 to 2005. One maturity loan totalling £311,000 was repaid in October 2016, it was 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. These result in the Authority’s total amount of long term debt of £13.949m as at 31 March 2017 (annuity loans £526k, maturity loans £10.819m and equal instalment of principal loans £604k).

3.4 Outstanding loans as at 31 March 2017 total £11.949m. Total interest paid during 2016-17 payable was of £519k, equivalent to an average borrowing rate of 4.3%.

3.5 In summary:

Loans (number)	Balance 1 1 April 2016	Repayments	Balance 31 March 2017	Interest Paid 2016-17
Annuity Loans(3)	£616,557	-£90,360	£526,197	-£28,662
Maturity Loans(13)	£11,130,000	-£311,000	£10,819,000	-£467,960
EIP Loans(1)	£725,000	-£120,834	£604,166	-£23,206
TOTAL	£12,471,557	-£522,194	£11,949,363	-£519,828

4 Investments

4.1 The Fire Authority has a surplus of cash on a month by month basis because of the time difference between receipt of income (grants and precepts) and the costs of providing services (for example payroll). 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 and overspending.

4.2 Surplus cash is invested where possible. Investments in 2016/17 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 £82.370m, and disinvestment transactions totalled £74.243m. Net investments therefore increased by £8.127m during the year, bringing the total invested at 31 March 2017 to £12.549m. (Total invested at 01/04/2016 was £4.422m).

4.3 The gross yield from the investments averaged 0.45%. Gross income from investments totalled £64,676. For the purposes of comparison, the average seven-day lending rate for local authorities for the year was 0.26%, therefore investment performance has been better by 0.19% against the average seven-day rate for local authorities.

4.4 Update on Icelandic Banks – In September 2008 the former Dorset Fire Authority made a temporary loan to Heritable Bank of £1m; a fixed term loan at an interest rate of 5.88% repayable on 30 January 2009. Prior to the combination fifteen separate repayments totalling £984k had been received, £98% of the total due of £1.004m. No further payments are expected and the debt was fully written off prior to combination.

5 Interest Rate Movements

5.1 What is important when considering financial performance on interest and investments is how interest rates impact. In 2008/09 there was 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 and the impact of this change on the Authority has been dramatic, affecting the income from investments and borrowing rates since 2008/09.

5.2 The base rate as at March 2009 was reduced to 0.5% as part of a worldwide central bank intervention to help ease the difficulties in the credit markets and stimulate the economy. It remained static at 0.5% until the Bank of England Monetary Policy Committee (MPC) announced a reduction to 0.25% in August 2016, and it has remained at that rate since.

5.3 The average seven-day rate used to measure our performance is advised through brokering rates on a daily basis, that is a cash deposit bid price. In 2016/17 the average was 0.26%.

6 Prudential Indicators

6.1 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.

6.2 The Chartered Institute of Public Finance and Accountancy (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

6.3 Other prudential indicators aligned to the Treasury Management Strategy in relation to the capital programme are also reported in appendix A.

6.4 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.

6.5 The Interest Rate exposures for 2016-17 were as follows:

- Upper Limit – Fixed Rates 100%
- Upper Limit – Variable rates 10%

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

6.6 The Authority's Borrowing Strategy for 2016-17, 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 2016-17 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 2016-17, that is the Operational Boundary, was £27.436m and an Authorised Limit of £27.386m. Total outstanding borrowing was maintained well within these boundary limits for 2016-17.

6.7 The maturity structure of borrowing for 2016-17 compared to Actuals is as follows:

Maturity Structure	**1 Apr 2016**	**% Total**	**31 Mar 2017**	**% Total**	**Upper Limit %**	**Lower Limit %**
Under 12 mths	0.522	4%	1.192	10%	15%	0%
12 mths and within 24 mths	1.192	10%	0.782	7%	15%	0%
24 mths and within 5 yrs	1.136	9%	2.506	21%	25%	0%
5 yrs and within 10 yrs	2.915	23%	0.762	6%	35%	15%
10 yrs and above	6.707	54%	6.707	56%	70%	15%
	12.472		12.472			

6.8 In 2016-17 there were no investments for a period greater than one year, which was in line with the Authority's Treasury Management Policy Statement and Practices.

Phil Chow

Director of Finance

July 2017