DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 18/27

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	6 June 2018
SUBJECT OF THE REPORT	Treasury Management Annual Report 2017-18
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For Information
EXECUTIVE SUMMARY	At the meeting of the Authority on 9 February 2017 Members received and approved the Treasury Management Strategy Statement and Prudential Indicators for 2017-18. This report updates Members on the actual Treasury Management performance for 2017-18, and follows on from the six-monthly report presented in December 2017.
RISK ASSESSMENT	No risk issues arise directly from this report of treasury management performance for 2017-18.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	None for the purposes of this report
RECOMMENDATIONS	Members are asked to note the report
BACKGROUND PAPERS	Treasury Management Policy Statement and Practices 2017-18, Dorset & Wiltshire Fire and Rescue Authority (February 2017).
APPENDICES	Appendix A - Capital Prudential Indicators
REPORT ORIGINATOR AND CONTACT	Name: Ian Cotter, Head of Financial Services Email: ian.cotter@dwfire.org.uk Telephone No: 01722 691109

1. Introduction

1.1 The purpose of this report is to report the performance of the Dorset & Wiltshire Fire and Rescue Authority's (the Authority) treasury management activity in 2017-18.

1.2 The Authority's 'Treasury Management Policy Statement and Practices', approved in February 2017 (in respect of 2017-18), 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".

2. Approved Lending List

2.1 During 2017-18 the 'Approved Lending List' was reviewed on four occasions, in April 2017, July 2017, October 2017 and January 2018, in line with the Treasury Management policy.

2.2 Changes were made on each occasion to reflect changes in external risk ratings, assessed financial stability and financial outlook rating, resulting in changes to the eligibility of institutions under our Treasury Management Policy. No significant changes were required.

2.3 The approved lending lists applicable to 2017-18 and the current 2018-19 lending list (which was reviewed in April 2018) are available to Members on request.

3. Borrowing 2017-18

3.1 Borrowing is undertaken, if required, to fund the ongoing capital programme as approved by the Authority, and to address any short term temporary shortfalls in cash flow. There was no requirement for borrowing during 2017-18.

3.2 The Authority has been using surplus cash to fund the capital programme, rather than borrowing, therefore no loans were required in 2017-18. During 2017-18 borrowing interest rates quoted by the Public Works Loans Board (PWLB) were regularly monitored and a view formed on the prudence of undertaking new borrowing. During the early part of 2017 professional advice was sought confirming our view that the current practice of using surplus cashflows was the most effective strategy, given our current financial circumstances. This position is reviewed on a regular basis.

3.3 In respect of our current borrowing commitments, repayments of £1,191,657 were made during 2017-18, reducing the Authority's total amount of long term debt to £10.758m as at 31 March 2018. Total interest paid during 2017-18 was £479,718 equivalent to an average borrowing rate of 4%.

3.4 In summary:

Loans (number)	Balance 1 April 2017	Repayments	Balance 31 March 2018	Interest Paid 2017-18
Annuity Loans (3)	£526,197	-£94,824	£431,373	-£24,198
Maturity Loans (12)	£10,819,000	-£976,000	£9,843,000	-£436,350
EIP Loans (1)	£604,167	-£120,833	£483,334	-£19,170
TOTAL	£11,949,364	-£1,191,657	£10,757,707	-£479,718

4. Investments

4.1 The Authority has a surplus or deficit of cash on a month by month basis, dictated by timing differences between the receipt of income (e.g. grants and precepts) and our need to spend (e.g. for payroll and other purposes). In addition, 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 2017-18 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 £80.568m, and disinvestment transactions totalled £83.576m. Net investments therefore decreased by £3.008m during the year, bringing the total invested at 31 March 2018 to £9.541m. (Total invested at 1 April 2017 was £12.549m).

4.3 The gross yield from the investments averaged 0.41%. Gross income from investments totalled £58,499, compared to the original budget target of £80,000. For the purposes of comparison, the average seven-day lending rate for local authorities for the year was 0.28%, therefore investment performance has been better by 0.13% in comparison.

5. Interest Rate Movements

5.1 Interest rate movements are important when considering the financial performance of investments. In 2008-09 there was an unprecedented change in the bank 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 level of income generated from investments and borrowing rates since 2008-09.

5.2 The base rate was reduced to 0.5% in March 2009, 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, following the Brexit vote, but was increased back to 0.5% in November 2017. It is anticipated that there will be one or two small increases during 2018-19, with further small increases thereafter.

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 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 that makes it clear that the control of risks is a prime objective, it also clearly endorses the importance of the pursuit of best value and the measurement of performance.

6.5 The interest rate exposures for 2017-18 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 2017-18, 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 borrowing was required for this purpose during the year

- the limit set on the total amount of outstanding borrowing at any time in 2017-18 i.e. the Operational Boundary was £26.070m and an Authorised Limit of £27.070m. Total outstanding borrowing was maintained well within these boundary limits for 2017-18.

6.7 The maturity structure of borrowing for 2017-18 compared to target limits is as follows:

Maturity Structure	**1 Apr 2017**	**% Total**	**31 Mar 2018**	**% Total**	**Upper Limit %**	**Lower Limit %**
Under 12 mths	1.192	10%	0.782	7%	15%	0%
12 mths and within 24 mths	0.782	7%	0.202	2%	15%	0%
24 mths and within 5 yrs	2.507	21%	2.913	27%	25%	0%
5 yrs and within 10 yrs	0.762	6%	0.654	6%	50%	0%
10 yrs and above	6.706	56%	6.207	58%	80%	0%
	11.949		10.758			

6.8 Due to repayment dates on loans inherited from the two previous Fire and Rescue Authorities, the maturity profile of loans in 2017-18 is not compliant with the Treasury Management Policy. This issue has occurred as a result of there being no new borrowing activity for a number of years. The impact of such non-compliance is minimal, and is the only non-compliant area in 2017-18.

6.9 For 2017-18, in line accordance with the Authority's Treasury Management Policy Statement and Practices, no investments were made for a period of more than one year.

7. Summary and Key Points

7.1 The Authority's treasury management activity is controlled through the Treasury Management Policy Statement and Practices approved in February each year, for the new financial year starting in April.

7.2 Taking account of repayments made during the year, and that no new borrowing has been undertaken, the Authority's total amount of outstanding long-term debt has reduced to £10.758m as at 31 March 2018.

7.3 Net investments of surplus funds decreased by £3.008m during the year, bringing the total invested at 31 March 2018 to £9.541m, compared to £12.549m at the beginning of the year. Investment returns totalled £58k compared to an original budget target of £80k.

June 2018

CAPITAL PRUDENTIAL INDICATORS 2017-18

The Capital Prudential Indicators are driven by the Dorset & Wiltshire Fire and Rescue Authority's (The Authority) Capital Programme plans. The Capital Programme influences all borrowing decisions made by the Authority and the subsequent Treasury Management activity associated with this.

Capital Expenditure

This indicator is a summary of the Authority's capital programme requirement as indicated in the Budget Report and Medium-Term Finance Plan (MTFP).

	Estimate 2017/18 £000	Actual 2017/18 £000
Capital Expenditure		
Property/Estates	4,690	550
Vehicles	5,176	3,720
Equipment	225	271
Information Communication Technology	1,069	1,454
Total Capital Programme	**11,160**	**5,995**

Capital Financing Requirement

The capital financing requirement (CFR) measures the Authority's underlying need to borrow for capital purposes. It is simply the total historic capital expenditure, including financing that is implicit in Private Finance Initiative (PFI) schemes and finance leases, which has not yet been paid for from either revenue or capital resources.

	Estimate 2017/18 £m	Actual 2017/18 £m
CFR at 1 April (start of year)	**39.354**	**39.354**
Planned Capital expenditure	**11.160**	**5.995**
Less:		
Write down of PFI and Finance leases	**-0.791**	**-0.770**
Revenue Financing	**0.000**	**-5.843**
Grants/Receipts Applied	**-4.553**	**-0.152**
Statutory Charge to Revenue	**-1.414**	**-1.414**
CFR at 31 March (end of year)	**43.756**	**37.170**

Ratio of Financing Cost to the Net Revenue Stream

This indicator shows the net cost of financing the capital programme as a percentage of the funding receivable from the Government and council tax payers, expressed as a ratio. The net cost of financing includes interest and principal repayments, netted off by interest receivable in respect of any cash investments held.

	Estimate 2017/18	Actual 2017/18
Ratio of financing costs to net revenue stream	**6.08%**	**6.26%**

Impact of New Capital Investment on Council Tax

This indicator shows the revenue costs associated with current capital expenditure plans. This indicator is no longer required from 2018-19 onwards.

	Estimate 2017/18	Actual 2017/18
Impact of New Capital Investment on Council Tax	**£1.48**	**£0.41**