LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 28 November 2019

TREASURY MANAGEMENT MID-YEAR REPORT 2018/19
(Appendix 1 refers)

Contact for further information:
Keith Mattinson - Director of Corporate Services – Telephone Number 01772 866804

Executive Summary

The report sets out the Authority's borrowing and lending activities during 2018/19. Decisions taken were in accordance with the Treasury Management Strategy and were based on anticipated spending and interest rates prevailing at the time.

Recommendation

The Authority is asked to note and endorse the report.

Information

In accordance with the CIPFA Treasury Management Code of Practice and to strengthen Members' oversight of the Authority's treasury management activities, the Resources Committee receives regular updates on treasury management issues including a mid-year report and a final outturn report. Reports on treasury activity are discussed on a quarterly basis with Lancashire County Council Treasury Management Team and the Authority's Director of Corporate Services and the content of these reports is used as a basis for this report to the Committee.

Economic Overview

During the period, economic growth has continued to be positive, albeit at historically low levels, and unemployment is low with the Bank of England projecting that it will fall a little further. At the same time, inflation has remained above the Bank of England's 2% target rate. In August the CPI rose to 2.7%. As a consequence of these economic factors, in August the Bank of England's Monetary Policy Committee (MPC) voted unanimously to increase Bank Rate by 0.25% from 0.50% to 0.75%.

Internationally, the US economy has continued to grow and at their meeting in September the central bank increased interest rates for the third time in 2018. In Europe the level of growth has moderated after a period of strong growth.

There is still a lot of uncertainty over the economy much of it arising from political factors. Domestically, the progress and unknown impact of the UK's withdrawal from the European Union continues to dampen investment. On the world economy the period has seen an increase in the potential for a trade war between the USA and China.

Outlook for Interest Rates

The Bank of England has raised expectations of gradual increases in interest rates and the increase in August was part of this. It is expected that this trend will continue. This is reflected in the County Council's Treasury advisers Arlingclose forecast for interest rates. Their central forecast sees a further 0.25% increase in March and September 2019 which would take the bank rate to 1.25%. They anticipate the rate would then stay constant up to September 2021 which is the end of the forecast period. However, with the current economic data and the risks in the economy they consider that there are also downside risks to the forecast.

Forecast for the key rates are shown below:

Period	Bank Rate	3 month money market	12 month money market	20-year Gilt Rate
Q4 2018	0.75	0.8	1.05	1.9
Q1 2019	1.0	1.0	1.25	1.95
Q2 2019	1.0	1.1	1.35	1.95
Q3 2019	1.25	1.2	1.4	2.0
Q4 2019	1.25	1.3	1.5	2.0
Q1 2020	1.25	1.3	1.45	2.0
Q2 2020	1.25	1.25	1.4	2.0
Q3 2020	1.25	1.2	1.4	2.0
Q4 2020	1.25	1.2	1.4	2.0
Q1 2021	1.25	1.2	1.4	2.0
Q2 2021	1.25	1.2	1.4	2.0
Q3 2021	1.25	1.2	1.4	2.0
Q4 2021	1.25	1.2	1.4	2.0

Treasury Management position and Policy

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The treasury management activity is influenced both by the position at the beginning of the year and the plans in year. The position at the start of the financial year are summarised in the Table over the page:

	Balance 31.3.18
	£m
Capital Finance Requirement	14.518
Less other debt liabilities	-14.231
Borrowing Requirement	287
External borrowing	2.000
Reserves	35,232
Working capital	-2.577
Available for investment	32.655
Investments	33.555

The table above shows that the level of loans was above the CFR at 31.3.18. This is the result of the Authority adopting a policy of setting aside additional Minimum Revenue Provision (MRP) in order to generate the cash to repay loans either on maturity or as an early repayment.

It is not anticipated that the new capital expenditure will be funded from borrowing in the year while it was anticipated that there may be some reduction in the level of reserves held.

Borrowing

There has been no new borrowing in the first six months of the financial year. This is consistent with the position that the current borrowing is above the CFR and there are no planned need to borrow.

All of the Fire Authority's existing borrowing is from the Public Works Loan Board. The long term debt outstanding at the beginning of the year was £2m which has remained unchanged up to 30th September.

The table below show the maturity profile of the Authority's borrowings, along with an interest rate paid.

Loan Amount (£m)	Maturity Date	Interest rate (%)
0.700	June 2037	4.480
0.650	June 2036	4.490
0.650	December 2035	4.490

Consideration is given to the early repayment of the loans. However, these would be subject to an early repayment (premuim) charge. The authority did repay debt in 2017/18 but at the time it was considered that the premuim on these loans was such that it was not financially beneficial to repay the loans. This is still considered to be the case with the estimated premuim charge to repay the three loans being £0.855m.

Investments

Both the CIPFA Code and the MHCLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving low investment returns and having the value of reserves eroded by inflation.

The Authority principally invests in a call account provided by Lancashire County Council which pays the base rate. Each working day the balance on the Authority's Current Account is invested in this to ensure that the interest received on surplus balances is maximised. During the period any new investments were placed with the County Council via this arrangement. At 30th September there was a balance of £37.970m with the average balance invested in LCC for the period was £32.202m.

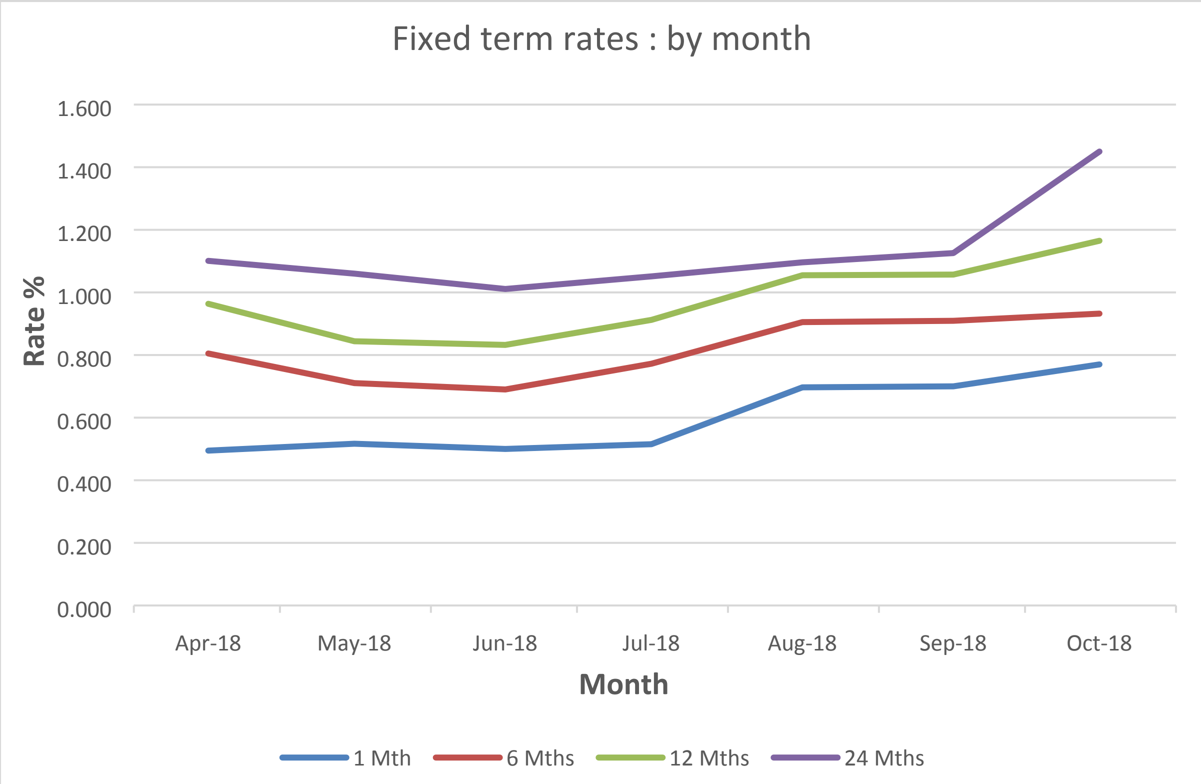
In addition the Authority has a long term investments that has been placed with UK local authority as outlined below.

Start Date	End Date	Principal	Rate	Annual Interest	Interest 2018/19
30/6/14	28/6/19	£5,000,000	2.4%	£120,000	£120,000

Therefore the total investment held at 30 September is £42.970m.

The overall the rate of interest earned during this period was 0.84% which compares favourably with the benchmark 7 day LIBOR index which averages 0.56% over the same period.

In order to increase the rate earned on current balances, the authority would need to place fixed investments for a longer period of time. Attached at appendix 1 is a forecast cash flow for the year. This shows that further sums could be placed on fixed term investments. However, to obtain a better interest rate return than the call account would involve fixing investment for at least 3 months. The graph over the page shows the fixed term rates available in the market; although with the limits on the credit rating of the counterparties in the Fire Strategy the rate available to the Authority may be slightly lower.



The possibility for longer term investments is kept under constant review and suitable opportunities will be taken. Therefore, to increase yield while maintaining security the following fixed rate deals with other local authorities have been arranged:

Start Date	End Date	Principal	rate	Annual interest	Interest 18/19
18/10/18	19/10/20	£5,000,000	1.15%	£57,500	£25,993
19/11/18	18/11/19	£5,000,000	1.00%	£50,000	£18,356
19/12/18	19/06/19	£5,000,000	0.92%	£46,000	£12,981

All investments are made in accordance with the current Treasury Management Strategy and the CIPFA treasury management code of practice.

Prudential Indicators

In order to control and monitor the Authority's treasury management functions, a number of prudential indicators are determined against which performance may be measured. The indicators for 2018/19 were approved by the Authority on 19 February 2018 are shown in the table over the page alongside the current actual.

	2018/19 PIs	Actual at 30.9.18
Adoption of the CIPFA Code of Practice for Treasury Management	Adopted	Adopted
Authorised limit for external debt	£m	£m
A prudent estimate of total external debt, which does not reflect the worst case scenario, but allows sufficient headroom for unusual cash movements		
Borrowing	5.000	2.000
Other long-term liabilities	15.000	14.056
Total	20.000	16.056
Operational boundary for external debt		
A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the Authority's current plans		
Borrowing	3.000	2.000
Other long-term liabilities	14.200	14.056
Total	17.200	16.056
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	11.6%
Upper limit for variable rate exposure		
Borrowing	25%	0%
Investments	100%	88.4%
Upper limit for total principal sums invested for over 364 days (per maturity date)	25.000	0.000
Maturity structure of loan debt	**Upper/ Lower Limits**	**Actual %**
Under 12 months	100% / nil	0%
12 months and within 24 months	30% / nil	0%
24 months and within 5 years	50% / nil	0%
5 years and within 10 years	50% / nil	0%
10 years and above	100% / nil	100%

Regulatory Updates

CIPFA has introduced updated versions of the Prudential and Treasury Management Codes. In addition the MHCLG has re-written its Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return. This will cover loans to employees. The Authority will need to produce a Capital Strategy and an Investment Strategy.

Financial Implications

Included within report above

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

The Treasury Management strategy is designed to minimise the Authority's financial risk associated with investment decisions, whilst maximising the return on any investments made. As such the adoption of the CIPFA's Code of Practice on Treasury Management and the monitoring arrangements in place ensure that any risks faced by the Authority are managed.

However, it must be acknowledged that there will always be a balance between risk and return and hence the strategy does not completely eliminate the risk of any further default on investments in the future.

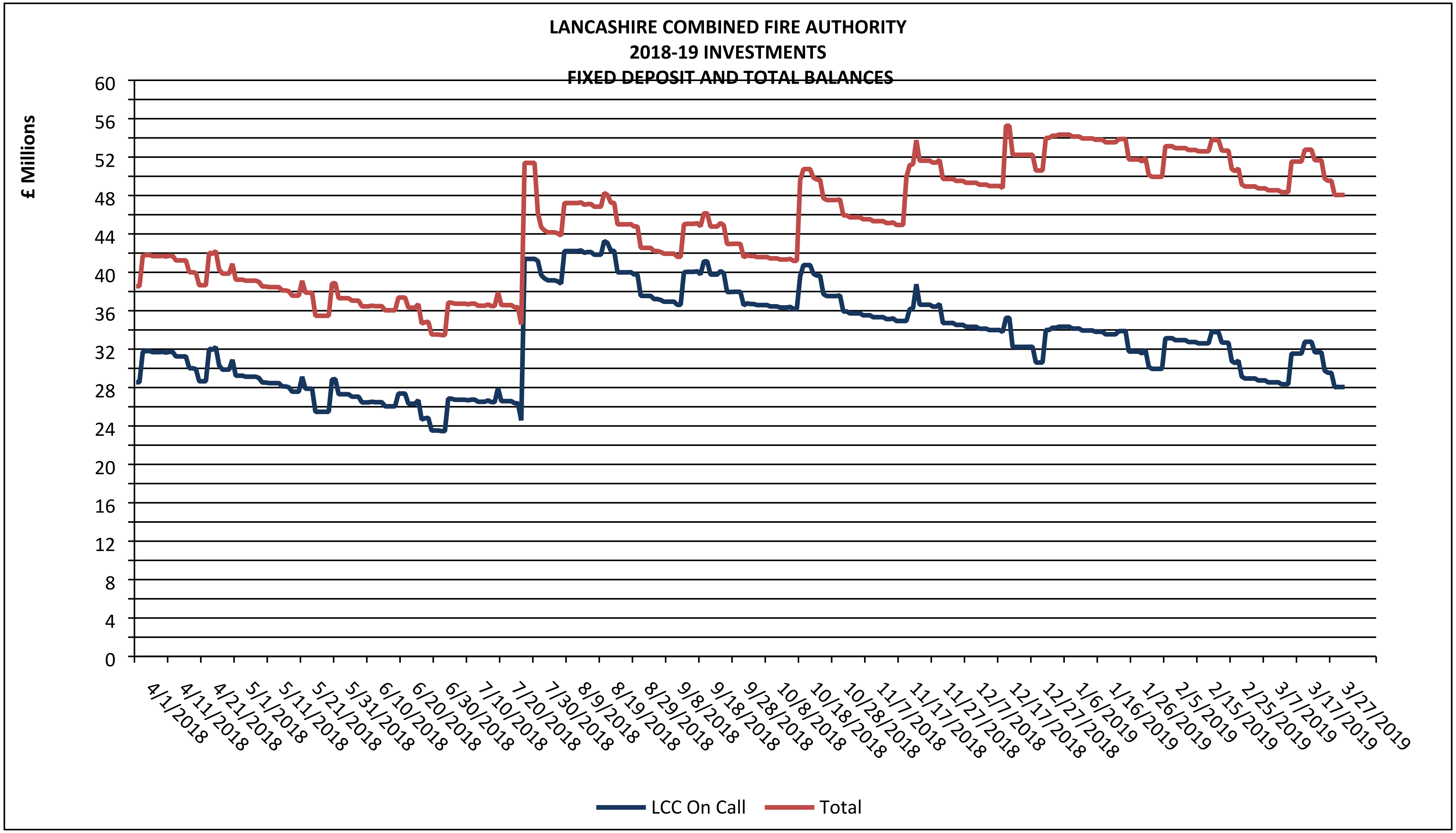
Environmental Impact

None

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact
Treasury Management Strategy 2018/19	February 2018	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

Appendix 1



LANCASHIRE COMBINED FIRE AUTHORITY
2018-19 INVESTMENTS
FIXED DEPOSIT AND TOTAL BALANCES
£ Millions
0
4
8
12
16
20
24
28
32
36
40
44
48
52
56
60
4/1/2018
4/11/2018
4/21/2018
5/1/2018
5/11/2018
5/21/2018
5/31/2018
6/10/2018
6/20/2018
6/30/2018
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11/7/2018
11/17/2018
11/27/2018
12/7/2018
12/17/2018
12/27/2018
1/6/2019
1/16/2019
1/26/2019
2/5/2019
2/15/2019
2/25/2019
3/7/2019
3/17/2019
3/27/2019
LCC On Call
Total