LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 29 May 2019

YEAR END TREASURY MANAGEMENT OUTTURN 2018/19

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. All borrowing and investment activities undertaken throughout the year are in accordance with the Treasury Management Strategy 2018/19, and are based on anticipated spending and interest rates prevailing at the time.

Recommendation

The Authority is asked to note and endorse the outturn position 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 Director of Corporate Services and the content of these reports is used as a basis for this report to the Committee.

Investment and borrowing decisions are taken in the light of long term borrowing requirements, the estimated level of reserves and actual and estimated cash-flow. Consideration is also given to various risks and ensuring compliance with the Prudential Indicators. Decisions are taken in the light of current and forecasted economic decisions. Therefore this report provides information on:

- An economic overview
- Borrowing position
- Investment activity
- Comparison to the Prudential Indicators

Economic Overview

The UK economy has continued to show economic growth with the last annual GDP growth being at 1.4% although this is below recent growth trends. The quarterly returns were:

- Q2 2018 0.4%
- Q3 2018 0.6%
- Q4 2018 0.2%

The continued uncertainty regarding the outcome of the discussions to leave the European Union has been impacting on the economy. However, growth has also been affected by world factors. There continues to be uncertainty with the USA introducing protectionist policies which could lead to potential trade wars with both China and the European Union. The European Union has shown signs of a rapid slowdown in economic growth

Despite the low economic growth employment data has remained positive with unemployment remaining low throughout the year. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The year has also seen real wages increasing with the 3-month average annual growth rate for pay excluding bonuses grew by 1.4% in real terms.

Inflation as measured by the CPI was 3.0% in April 2018. It fell steadily to a low of 2.3% in August before rising again to 2.7% in November and has fallen below the Bank of England's target of 2% in both January and February with the latest figures showing CPI of 1.9%.

The continued uncertainty over the economy meant that the Bank of England has continued with its policy of slow and gradual increases in interest rates. Therefore the only change in the base rate came in August when the base rate was increased from 0.50% to 0.75%. The treasury management activity was undertaken with the expectation that interest rates would remain at the historically low levels but that there would be small increases. The latest forecast from Arlingclose, the County Council's Treasury Advisers, is for a 0.25% increase in the base rate in both of the quarters ending March and September 2020.

Borrowing

The borrowing of the Fire Authority has remained unchanged at £2m in 2018/19. The current approved capital programme has no requirement to be financed from borrowing and the debt relates to earlier years' capital programmes. While the borrowing is above its Capital Financing Requirement (CFR), which is the underlying need to borrow for capital purposes, this is because the Fire Authority has had a policy of setting aside monies in the form of statutory and voluntary minimum revenue provision (MRP) in order to repay debt as it matures or to make an early repayment. Consideration has been given to repaying the £2m but as reported to the Resources Committee as part of the 2019/20 Treasury Management Strategy the penalties incurred on repaying the loans early would incur significant costs. Also any early repayment means that cash balances available for investment will be reduced and hence interest receivable will also be reduced. It was estimated that if interest rate on investments are at 1.5% over the remaining period of the loan then repaying the loans during 2018/19 would be broadly neutral. It was concluded that the repayment was not considered to be financially beneficial at the time. However, the situation is periodically reviewed by the Director of Corporate Services.

The loans outstanding are all with the Public Loans Works Board (PWLB) and the maturity and interest rate of the Authority's outstanding borrowing is:

Loan amount	Maturity	Interest rate
£650k	December 2035	4.49%
£650k	June 2036	4.49%
£700k	June 2037	4.48%

Total interest paid on PWLB borrowing was £90k, which equates to an average interest rate of 4.49%.

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. Throughout the year when investing money the key aim was to strike an appropriate balance between risk and return.

In order to reduce credit risk to the Authority, Lancashire County Council (credit rating by Moodys Aa3) is the main counterparty for the Authority's investments via the operation of a call account. However the Treasury Management Strategy does permit investment with other high quality counterparties including other local authorities. During the year the cash held by the Authority has been positive with the highest balance being £48.7m and the lowest £28.5m. Therefore, given that the expectation was that interest rates would remain low the opportunity was taken to undertake some fixed term investments with other local authorities rather than keeping all the monies in the call account. This aimed to enhance the investment return while keeping the credit risk low. Therefore at the year end the following investments were held:

Start Date	End Date	Principal	Rate	Annual Interest
30/6/14	28/06/19	£5,000,000	2.40%	£120,000
18/10/18	19/10/20	£5,000,000	1.15%	£57,500
19/11/18	18/11/19	£5,000,000	1.00%	£50,000
19/12/18	19/06/19	£5,000,000	0.92%	£46,000*

* As this is only a 6 month investment actual interest earned will be £23k

Investing in these fixed term deposits, rather than leaving the money in the call account, has increased the interest received in 2018/19 by £102k although this does reduce the liquidity of the investments.

The call account provided by Lancashire County Council paid the base rate throughout 2018/19. 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. The average balance in this account during the year was £27.258m earning interest of £0.180m.

The overall interest earned during this period was £0.358m at a rate of 0.95% which compares favourably with the benchmark 7 day index (Sterling Overnight rate 7 day rate) which averages 0.66% over the same period.

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

Cash flow and interest rates continue to be monitored by the Director of Corporate Services and the County Council's treasury management team, and when rates are felt to be at appropriate levels further term deposits will be placed.

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 revised indicators for 2018/19 are shown in the table below alongside the actual outturn position.

	Revised	Actual
Adoption of the CIPFA Code of Practice for Treasury Management	Adopted	Adopted
Authorised limit for external debt	£000	£000
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 – these relate to vehicle finance leases and the PFI agreements	15,000	14,177
Total	20,000	16,177
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 – these relate to vehicle finance leases and the PFI agreements	14,400	14,177
Total	17,400	16,177
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	58%
Upper limit for variable rate exposure		
Borrowing	25%	0%
Investments	100%	42%
Upper limit for total principal sums invested for over 365 days (per maturity date)	25.000	20.000

Maturity structure of debt	Upper/ Lower Limits	Actual
Under 12 months	100%/nil	-
12 months and within 24 months	30%/nil	-
24 months and within 5 years	50%/nil	-
5 years and within 10 years	50%/nil	-
10 years and above	100%/nil	100%

Financial Implications

The following table summarises the Financing costs for the Authority, comparing actual with budget:-

	Revised Budget £m	Actual £m	Reason for variance
Interest Payable on PWLB loans	0.090	0.090	-
Interest Receivable on call account and fixed term investments	(0.272)	(0.358)	Higher cash balances than forecast, favourable interest rates
Minimum Revenue Provision re PWLB loans	0.010	0.010	-
Net financing income from Treasury Management activities*	(0.172)	(0.258)	-

* There are financing costs associated with vehicle finance leases and the PFI agreements, which are not included in the balances above as they are not the result of Treasury Management activities.

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

The Treasury Management Strategy is designed to maximise interest earned, minimise interest paid whilst maintaining an acceptable level of risk. The reviews of performance provide members with an assurance that this has been complied with.

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
Treasury Management Guidance	February 2017	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		