LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 30 November 2016

TREASURY MANAGEMENT MID-YEAR REPORT 2016/17
(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 2016/17, which are in line with decisions taken during the year to date, based on anticipated spending and interest rates prevailing at the time.

Recommendation

The Resources Committee is asked to note and endorse the report.

Information

In accordance with the CIPFA Treasury Management Code of Practice (2011) 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

The economic position and future outlook has been significantly influenced by the vote to leave the EU in the referendum on 23rd June 2016. This led to many economic commentators reducing their forecasts of economic growth. The risk of reduced growth was judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks to maintain the supply of credit to the economy. Although the impact of the vote to leave the EU is highly speculative it is likely that the uncertainty on future trade relations will impact on growth and future reduction in rates are possible.

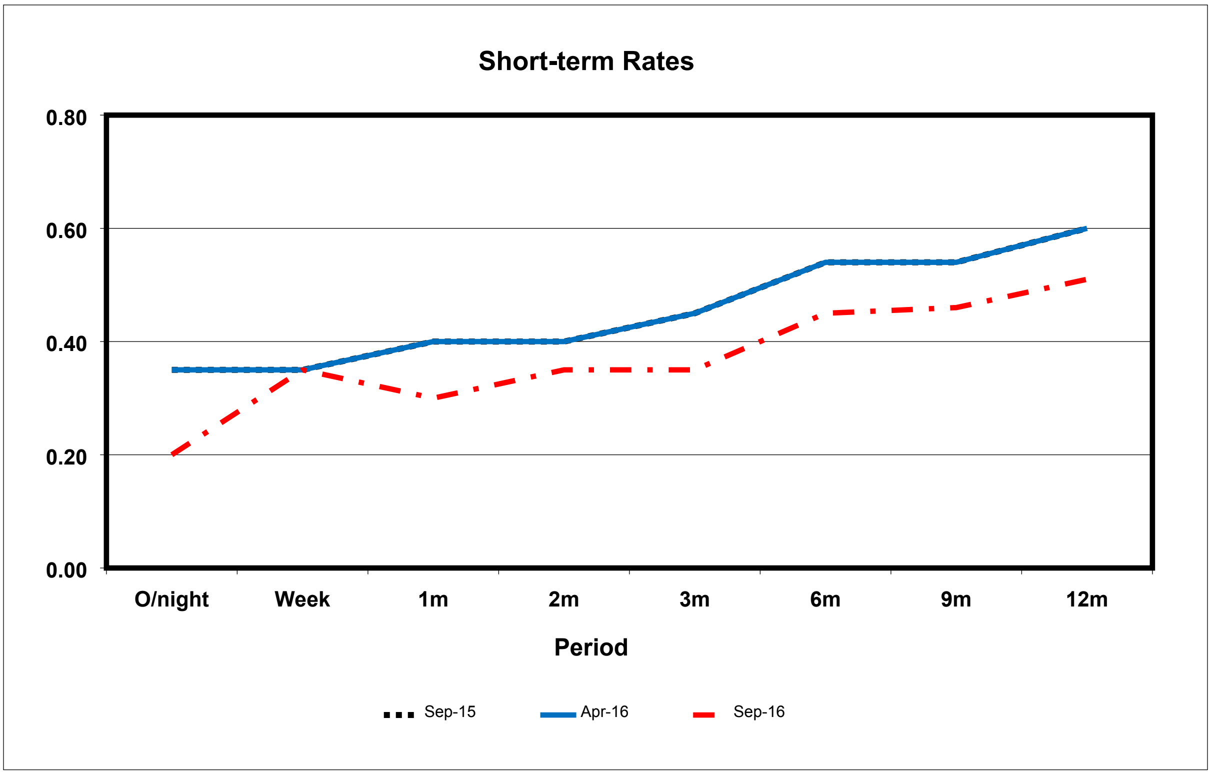
During the first part of the financial year the economy has grown. The first estimate of Q3 GDP released by the ONS showed the UK economy growing by 0.5% over the quarter and 2.3% year-on-year. Both of these figures were slightly above market expectations. The Q2 growth rates were growth of 0.7% over the quarter and 2.1% year on year.

The period has seen some change in inflation. Following BREXIT there has been a fall in the value of sterling which along with the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. Twelve-month CPI inflation had increased by 0.4% to 1.0% in September. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013. However, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation

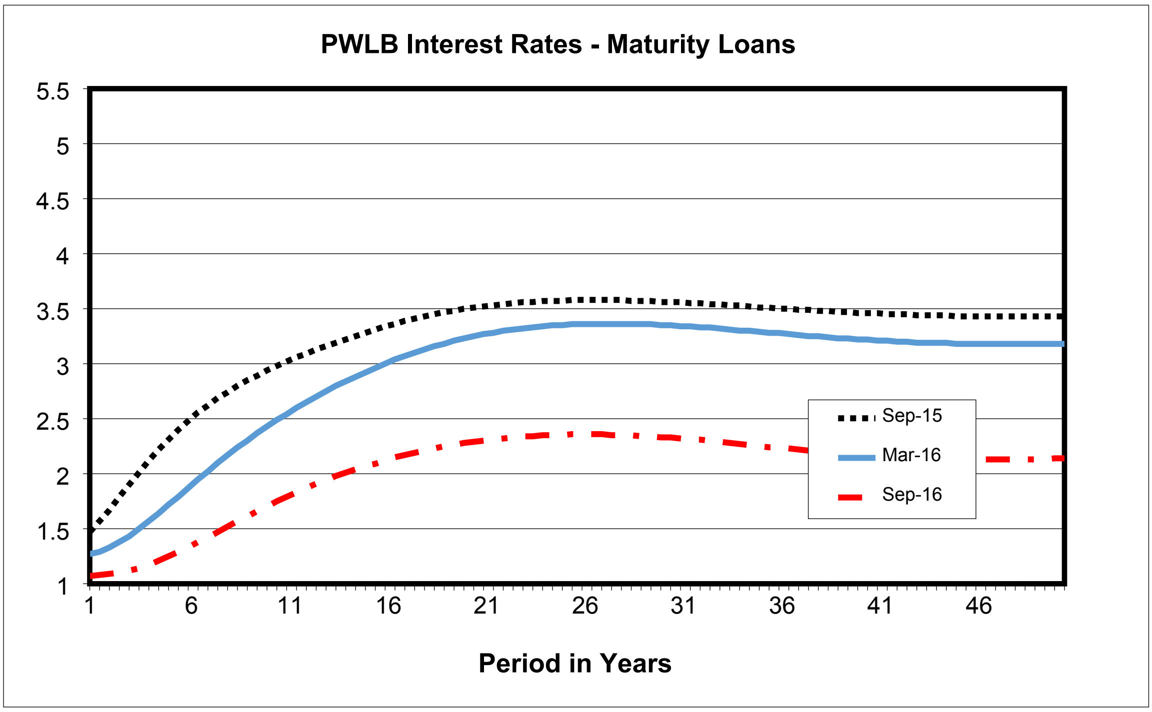
The impact of the new government may also impact on economic conditions. After six years of fiscal consolidation it is seen as likely that the Autumn Statement will include fiscal initiatives to support economic activity. This is most likely to be in the form of infrastructure investment although tax cuts or something similar cannot be ruled out.

Interest Rate Environment

Short term interest rates continue at the very low levels with the Bank of England reducing the base rate to 0.25% in August which is the first movement in base rate since March 2009. The graphs below show the latest short term rates and longer term borrowing rates available from the PWLB.



Current longer term PWLB rates are shown below.



Outlook for Interest Rates

The table below shows Arlingclose, the County Council's Treasury Management advisors, forecast for interest rates. They consider that over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. In the short term they feel the most likely scenario is for the base rate to remain constant but if there is to be a move it is likely to be a further reduction.

Period	Bank Rate	3 month LIBID	12 month LIBID	20-year Gilt Rate
Q4 2016	0.25	0.25	0.60	1.25
Q1 2017	0.25	0.25	0.50	1.25
Q2 2017	0.25	0.25	0.50	1.25
Q3 2017	0.25	0.30	0.50	1.25
Q4 2017	0.25	0.30	0.50	1.25
Q1 2018	0.25	0.30	0.50	1.25
Q2 2018	0.25	0.30	0.50	1.25
Q3 2018	0.25	0.30	0.60	1.30
Q4 2018	0.25	0.30	0.70	1.35
Q1 2019	0.25	0.30	0.85	1.35
Q2 2019	0.25	0.30	0.90	1.40
Q3 2019	0.25	0.30	0.90	1.40

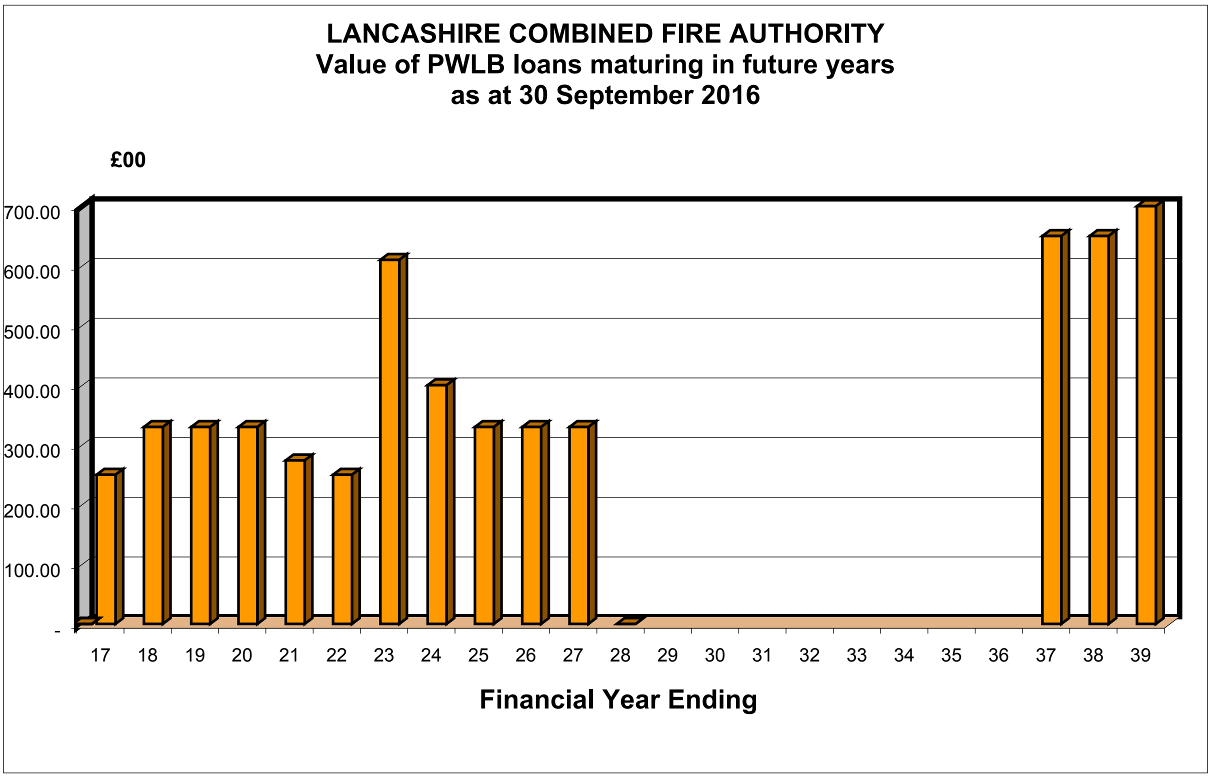
Borrowing

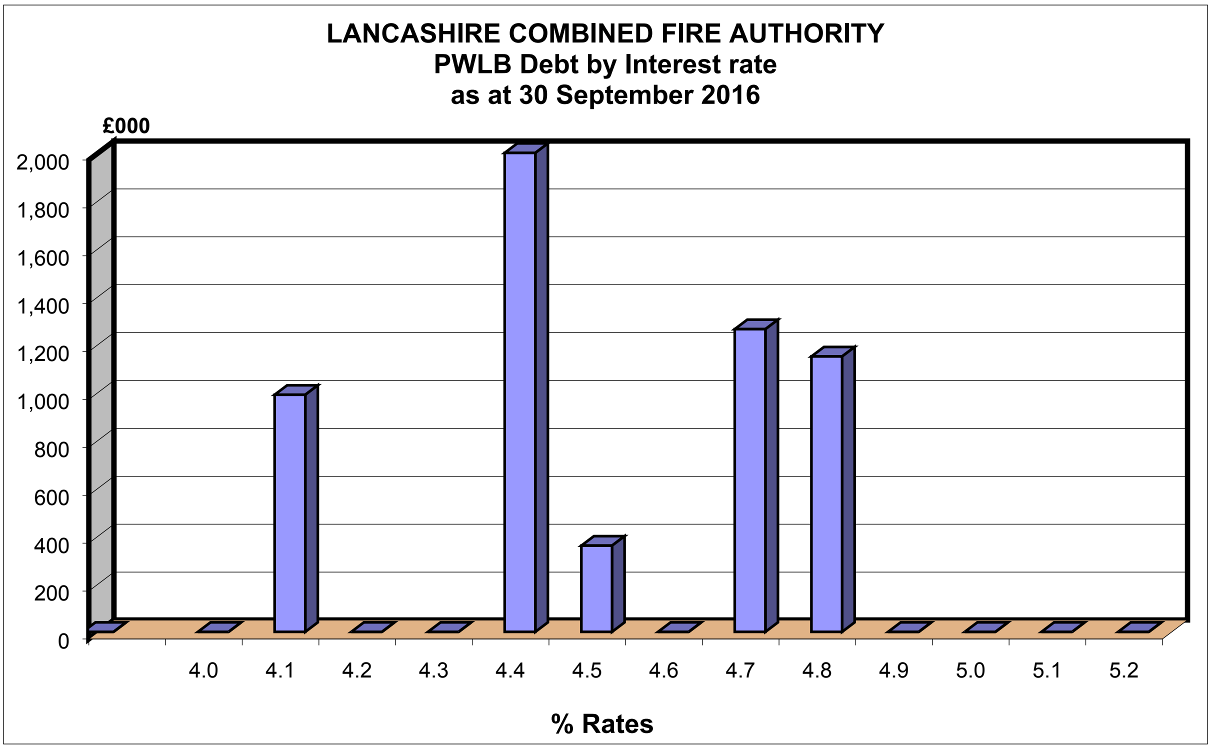
There has been no new borrowing undertaken in the first six months of the year. This is in line with the continuation of the policy of using cash balances to fund capital expenditure which has resulted in no new borrowing being undertaken since 2007.

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 £5.764m which has remained unchanged in the first half of the year. The next scheduled repayment of £0.250m is in December 2016 reducing the debt to £5.514m by year end.

The Authority is required to make a minimum revenue provision for the repayment of debt. This cash could be used to repay the debt early but the PWLB will charge an expensive premium for early repayment loss of interest and this has not been considered to be a cost effective option in this year. With the low level of interest rates, at present the repayment of this debt is prohibitively expensive. However in a few years' time, as the total debt falls due to scheduled repayments and as interest rates rise, premium payments for debt redemption may become more manageable. The actual timing of the repayment will depend upon the cost of the premiums but the current plan is to be in a position to clear the debt by 2018/19.

The charts below show the current maturity profile of the Authority's borrowings, along with an analysis of the debt by interest rate.





Investments

Both the CIPFA Code and the CLG 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 all new investments were placed with the County Council via this arrangement. At 30th September there was a balance of £36.965m with the average balance invested in LCC for the period was £31.099m.

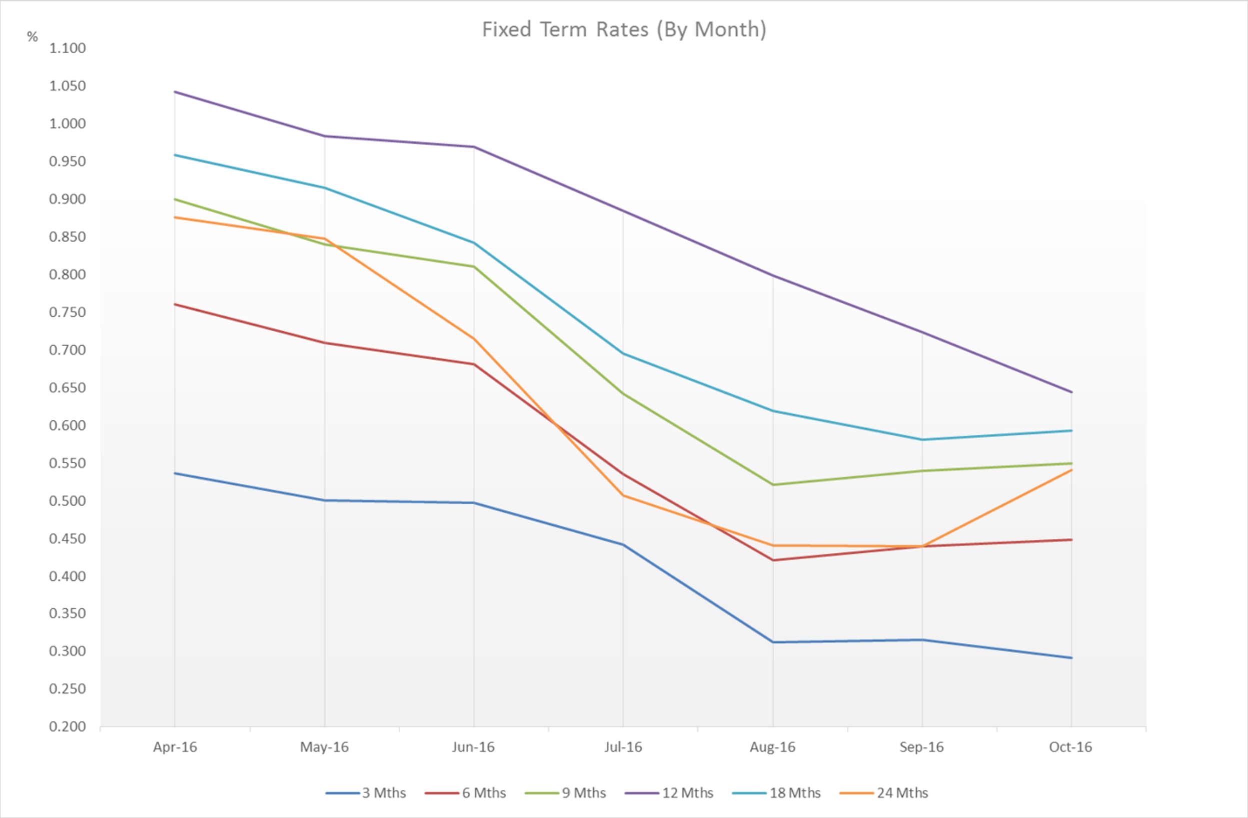
In addition the Authority still has two long term investments that have been placed with UK local authorities as outlined below:

Start Date	End Date	Principal	Rate	Annual Interest	Interest 2016/17
30/6/14	28/6/19	£5,000,000	2.4%	£120,000	£120,000
31/7/14	31/7/17	£5,000,000	1.6%	£80,000	£80,000

Therefore the total investment held at 30 September is £46.965m

The overall the rate of interest earned during this period was 0.80% which compares favourably with the benchmark 7 day index which averages 0.43% over the same period.

The chart below shows the current interest rates for different investment maturities. In order to increase the rate earned on current balances, the authority would need to place fixed investments of at least 24 months duration.



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. This position is kept under constant review and suitable opportunities will be taken.

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 2016/17 are shown in the table below alongside the current actual.

	2016/17 PIs	Actual to 30.9.16
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	7.800	5.764
Other long-term liabilities	14.900	14.886
Total	22.700	20.650
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	6.800	5.764
Other long-term liabilities	14.900	14.886
Total	21.700	20.650
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	21.3%
Upper limit for variable rate exposure		
Borrowing	25%	Nil
Investments	100%	78.7%
Upper limit for total principal sums invested for over 364 days (per maturity date)	25.000	10.000
Maturity structure of debt	**Upper/ Lower Limits**	**Actual**
Under 12 months	30% / nil	4.34%
12 months and within 24 months	30% / nil	5.73%
24 months and within 5 years	50% / nil	16.20%
5 years and within 10 years	80% / nil	33.31%
10 years and above	90% / nil	40.42%

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.

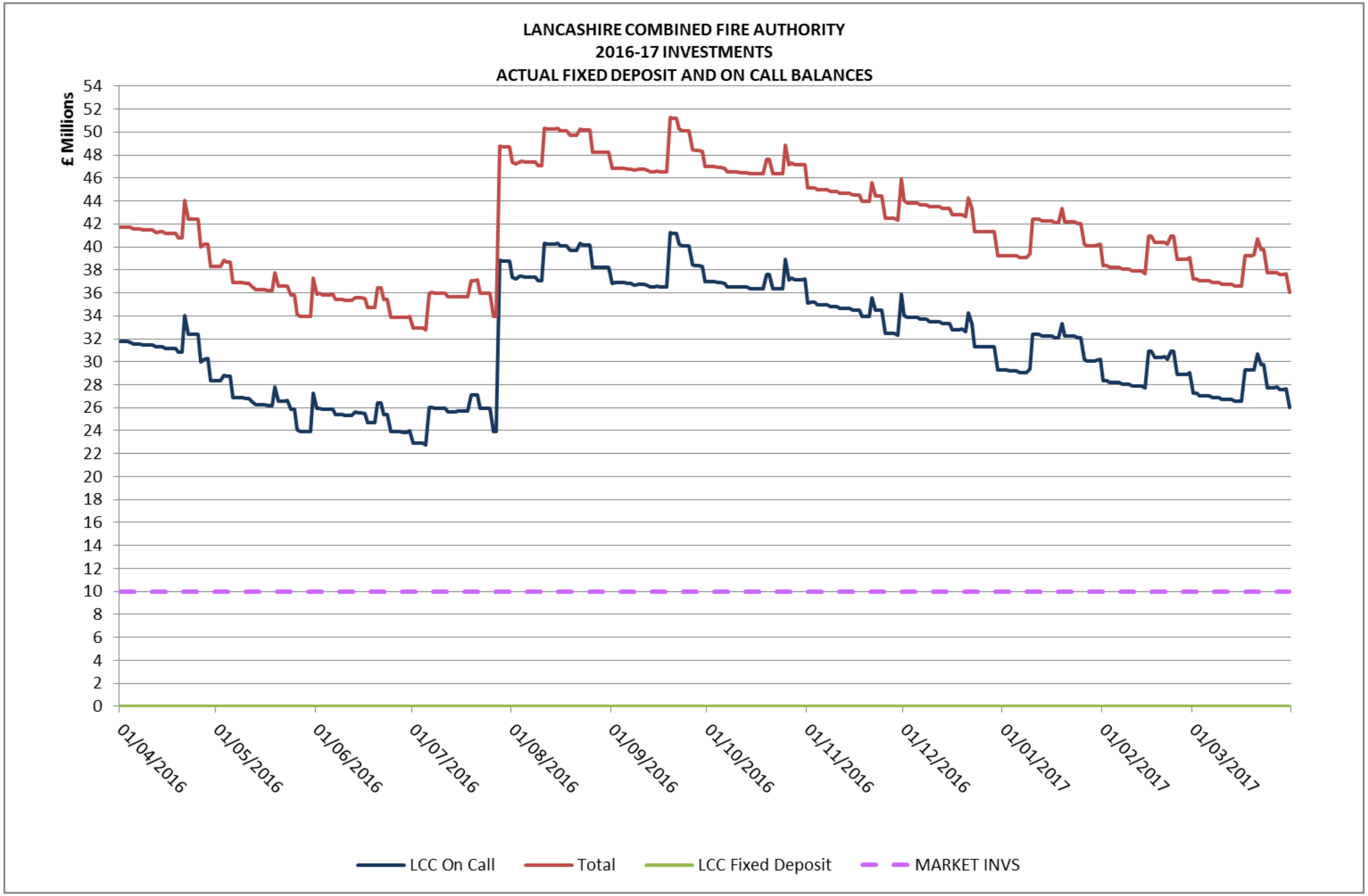
However, it must be acknowledged that there will always be a balance between risk and return and hence the strategy does not completely eliminate the risk of any further default on investments in the future.

Environmental Impact
None

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

Paper	Date	Contact
Treasury Management Strategy 2016/17	February 2016	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

APPENDIX 1



LANCASHIRE COMBINED FIRE AUTHORITY
2016-17 INVESTMENTS
ACTUAL FIXED DEPOSIT AND ON CALL BALANCES
£ Millions
54
52
50
48
46
44
42
40
38
36
34
32
30
28
26
24
22
20
18
16
14
12
10
8
6
4
2
0
01/04/2016
01/05/2016
01/06/2016
01/07/2016
01/08/2016
01/09/2016
01/10/2016
01/11/2016
01/12/2016
01/01/2017
01/02/2017
01/03/2017
LCC On Call
Total
LCC Fixed Deposit
MARKET INVS