Status of Report:	**Public**	**Agenda Item:**	**9**

Meeting:	**Corporate Governance Committee**
Date:	**14 September 2016**
Subject:	**Annual Treasury Management Report 2015/16**
Report By:	**The Treasurer**
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For:	**Information Only**

1. Purpose

The report presents to the Corporate Governance Committee the Annual Treasury Management Report 2015/16.

2. Recommendations

The Committee is asked to note the Annual Treasury Management Report for 2015/16.

3. Executive Summary

The Annual Treasury Management Report covers the Combined Fire Authority's (CFA's) treasury position as at 31st March 2016 and borrowing and investment activity during the year.

This is the final report in the monitoring cycle for 2015/16. In summary, no new borrowing was required in the year, there were no opportunities to reschedule debt, and investment returns have been low in line with general low interest rates. A relatively cautious approach to investing our £6m funds has been taken, in line with risks in the financial markets. These are less severe than they were at the time of the 2008 financial crisis, but are real nonetheless.

4. Report Detail

The annual review report is to be found at the **Appendix.**

5. Report Implications / Impact

5.1 ***Legal (including crime and disorder)***

None.

5.2 ***Financial (including value for money, benefits and efficiencies)***

These are contained within the main body of this report.

5.3 ***Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)***

a) It is important to be aware of risk in respect of treasury management activities, both in investing and borrowing.

b) Capita are appointed as the CFA's treasury management advisors until March 2017. They ensure that the CFA's treasury management activities are appropriate. The City Council will take full ownership of this function from April 2017.

5.4 ***Staff, Service Users and Stakeholders (including the Equality Impact Assessment)***

None.

5.5 ***Environmental***

None.

5.6 ***Impact upon Our Plan Objectives***

None.

6. Background Papers

a) Budget 2015-16 (CFA Report - 11th February 2015)

b) Medium Term Financial Plan 2015-20 (CFA Report - 9th July 2015)

c) Mid-Year Financial Monitoring and Treasury Management (CFA Report - 9th December 2015)

7. Appendix

Annual Treasury Management Report 2015/16

Appendix

Annual Treasury Management Report 2015/16

1. The Economy and Interest Rates

1.1 At the start of the year, an early increase in bank rate was expected. However, by the end of the year, market expectations had changed due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

1.2 Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 was disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

1.3 Longer term interest rates have remained low. Borrowing rates are now lower than at any other time for public projects.

1.4 The promise of a referendum on the UK remaining part of the EU introduced concern in the market. The Government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

2. Overall Treasury Position as at 31 March 2016

At the beginning and the end of 2015/16 the CFA's treasury (excluding borrowing by PFI and finance leases) position was as follows:

TABLE 1	31 March 2015 Principal	Rate/ Return	Average Life yrs		31 March 2016 Principal	Rate/ Return	Average Life yrs
Total debt	***£15.7m***	***3.83%***	***19***		***£14.4m***	***3.73%***	***20***
Total investments	***£4.8m***	***0.67%***	***0***		***£4.0m***	***0.47%***	***0***
Net debt	**£10.9m**				**£10.4m**		

The debt referred to in the table above has been borrowed through the Public Works Loan Board (PWLB).

3. The Strategy for 2015/16

3.1 The expectation for interest rates within the treasury management strategy for 2015/16 anticipated low but rising Bank Rate (starting in quarter 1 of 2016) and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, resulting in relatively low returns on investments.

3.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments.

4. The Borrowing Requirement and Debt

The CFA's underlying need to borrow for financing capital expenditure is termed the Capital Financing Requirement (CFR). Actual borrowing is less than the CFR because it was more advantageous to use internal funds which were earning negligible amounts of interest.

	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
CFR (£m)	23.2	24.1	23.2

5. Borrowing in 2015/16

5.1 Borrowing

No PWLB or Finance Lease borrowing were taken during the year, as none was needed. In effect, investment balances are now lower than they otherwise would have been. As the Government no longer supports capital spending with permissions to borrow, the need to borrow in the foreseeable future is likely to be very limited. From 2016/17, any borrowing needed will be carried out on behalf of the CFA by the City Council.

5.2 Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

5.3 Repayments

On 30/06/2015 the CFA repaid £1.25m PWLB on maturity.

6. Investment in 2015/16

6.1 Investment Policy – the CFA's investment policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

The investment activity during the year conformed to the approved strategy, and the CFA had no liquidity difficulties.

6.2 Investments held by the CFA - the CFA maintained an average balance of £6.2m of invested funds. These funds earned an average rate of return of 0.53%.

As at 31st March 2016 the following investments were held:

Counterparty	Investment	Rate
	£	%
National Westminster	17,721	0.25
Santander	1,666,958	0.40
Bank of Scotland	550,233	0.40
Lloyds	1,753,686	0.57
CCLA	25,272	0.3695
TOTAL	**4,013,870**	

6.3 Treasury Indicators – In the treasury strategy presented to the CFA in February 2015, the CFA approved a number of treasury indicators which limit the treasury risk and activities of the CFA. This includes limits on the amount of debt that can be outstanding at any one time, the limit beyond which external debt is prohibited, the ratio of financing costs to net revenue stream and the impact to council tax of capital investments. All approved limits were complied with.