MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUDIT AND SCRUTINY SUB COMMITTEE**		
DATE:	**7TH JUNE 2018**	**REPORT NO:**	**CFO/033/18**
PRESENTING OFFICER	**IAN CUMMINS, TREASURER**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IANCUMMINS**
OFFICERS CONSULTED:	**SMG**		
TITLE OF REPORT:	**TREASURY MANAGEMENT ANNUAL REPORT 2017/18**		

APPENDICES:	**APPENDIX A:**	**TREASURY MANANGEMENT 2017/18 ANNUAL REPORT**

Purpose of Report

1. To advise Members of the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2017/18. This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Authority is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Recommendation

2. That Members note the Treasury Management Annual Report 2017/18 (attached as Appendix A)

Introduction and Background

3. Treasury management is defined as:

   "The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

4. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority and a Treasury Policy Statement incorporated in Financial Regulations in accordance with the requirements of the Code. The arrangements for reporting Treasury management activities to Members are that a minimum of three reports are presented to members: -
   - An Annual Treasury Strategy Report before the start of a financial year.
   - An interim report during the second half of a financial year. Other interim reports will be prepared if necessary.

- An annual outturn report by 30th September following the financial year to which it relates.

Annual Treasury Management Strategy

5. The Authority determines before the start of each financial year an agreed treasury management strategy to set certain parameters and guidelines around which the treasury management function will operate. The 2017/2018 – 2021/2022 Budget and Financial Plan report, CFO/015/17, considered by Members at the Authority meeting on 23rd February 2017, set the Authority's treasury management strategy for 2017/18:

   The strategy sets limits for the next three years on:-
   - overall Level of External Debt
   - operational Boundary for Debt
   - upper limits on fixed interest rate exposure
   - upper limits on variable rate exposure
   - limits on the maturity structure of debt
   - limits on investments for more than 364 days

   The strategy covers:
   - prospects for interest rates;
   - capital borrowing and the portfolio strategy;
   - annual investment strategy;
   - debt rescheduling;
   - external debt prudential indicators;

6. As short term interest rates were expected to be lower than long term borrowing rates the Authority, as part of its approved treasury management strategy, agreed to reduce investments and borrow for short periods when necessary. The interest rate market was monitored throughout the year for any changing circumstances requiring a review of the current strategy.

Interim Treasury Management report

7. The interim treasury management report, CFO/016/18, was considered by Members at the Audit and Scrutiny Sub-Committee on 8th February, 2018. The report confirmed that to date treasury management activity in 2017/18 had been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.

Annual Outturn Treasury Management report

8. The Treasury Management Annual Report 2017/18 is as attached at Appendix A to this report and demonstrates that treasury management activity has been carried out in-line with the approved Treasury Management Strategy and therefore within the borrowing and treasury management limits set by the Authority throughout the year. Treasury Management practices have maintained full compliance with the relevant Codes and Statutes.

9. The Authority's Treasury Management function is carried out by Liverpool City Council via a service level agreement.

Equality and Diversity Implications

10. None arising from this report.

Staff Implications

11. None arising from this report.

Legal Implications

12. This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Authority is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Financial Implications & Value for Money

13. The cost of Treasury Management Services was £21,139 in 2017/18 and was provided by Liverpool City Council.

14. The Authority's overall debt outstanding during the year reduced from £39.1m to £38.1m:-

	For Periods ending (2017/18)													
	Opening Position	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	**Closing Position**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
PWLB	**39,100**		0	0	-1,000	0	0	0	0	0	0	0	0	**38,100**
	39,100	0	0	0	-1,000	0	0	0	0	0	0	0	0	**38,100**

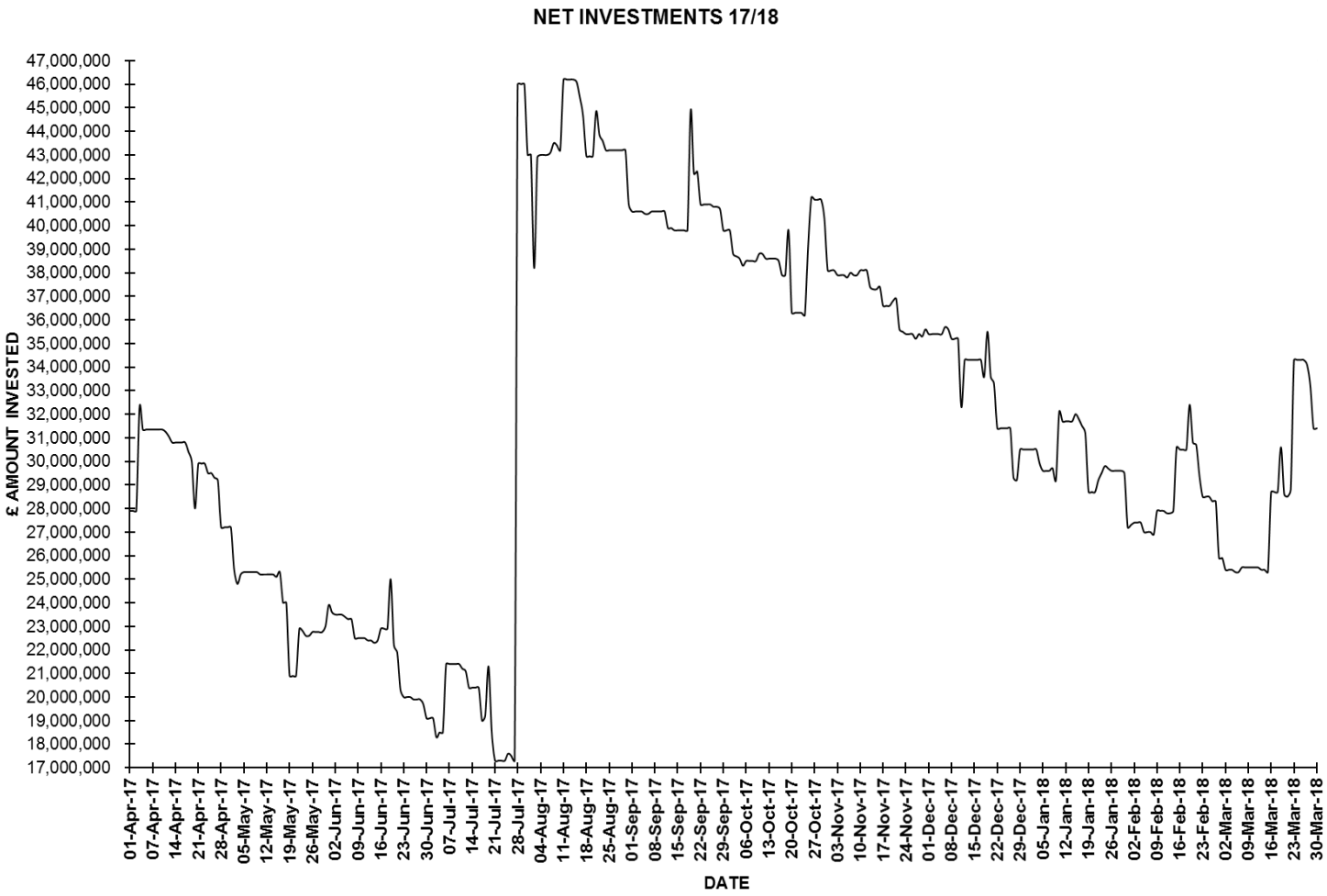
15. The reduction in debt of £1.0m was due to the repayment of a £1m loan that matured in the year.

16. The Authority paid total interest of £2.0m on all the debt during the year which was consistent with the budget. The reason for no new loans being taken out in the year (and as a consequence lower interest payments) is due to the current strategy of using available cash to fund capital investment rather than seek new loans while investment interest rates are so low.

17. The movement on the level of opening and closing investments is summarised below:

	£'m
01/04/17	27.9
31/03/18	31.4

Total investment levels moved during the year as outlined in the graph below:



18. The reason why the level of investments increased in the year is that the Authority receives significant grant income in advance of actual expenditure. For example the firefighter pension grant of £28.7m was paid in July but actual pension payments are spread throughout the year.

19. A combination of the grants received in advance of expenditure and the cash available as a consequence of the current reserve strategy meant the Authority had £31.4m of investments at the year-end.

20. The investments are held in institutions that reflect the approved investment strategy. The table overleaf outlines the £31.4m of investments held as at 31st March 2018;

ANALYSIS OF INVESTMENTS END OF QUARTER 4 2017/18

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society	Local Authority	Average Interest
		£	£	£	£	%
Federated Investors	AAA	1,200,000				0.44
JP Morgan Sterling Liquidity Fund	AAA	3,000,000				0.25
Legal & General	AAA	200,000				0.32
Standard Life	AAA	3,000,000				0.38
Close Brothers	A		2,000,000			1.10
Goldman Sachs	A		2,000,000			0.73
Handelsbanken	AA		2,000,000			0.20
Santander UK	A		2,000,000			0.85
Sumitomo/SMBCE	A		2,000,000			0.83
Cumberland BS				1,000,000		0.67
Nationwide B Soc	A			2,000,000		0.59
Newcastle B Soc				1,000,000		0.80
Nottingham B Soc				1,000,000		0.77
Principality B Soc				1,000,000		0.75
Skipton B Soc	A-			1,000,000		0.75
West Bromwich B Soc				1,000,000		0.80
London Borough of Brent					2,000,000	0.55
North Lanakshire Council					2,000,000	0.85
Slough BC					2,000,000	0.67
Totals		**7,400,000**	**10,000,000**	**8,000,000**	**6,000,000**	**0.63**
Total Current Investments					**31,400,000**	

**MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.*

21. Income earned on investments was £0.177m which was £0.005m above the amount budgeted for, reflecting the increase in the value of investments held in the year.

Risk Management, Health & Safety, and Environmental Implications

22. Robust management of the Authority's cash, investments and loans reduces the risk of poor security of investments, the lack of availability of funds when required, and a poor return on investments.

Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

23. A good Treasury Management Strategy ensures that funds are available to meet the approved financial plan and therefore the delivery of services required to achieve the Authority's mission.

BACKGROUND PAPERS

CFO/015/17 2017/2018-2021/2022 Budget and Financial Plan report, Authority 23rd February, 2017

CFO/016/18 Interim Treasury Management report, Audit Sub-Committee 8th February, 2018.

GLOSSARY OF TERMS