

# **Annual Treasury Management Review 2015/16**

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Cambridgeshire and Peterborough Fire Authority  
June 2016

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## 1. Introduction

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2015/16 the minimum reporting requirements were that the full Fire Authority should receive the following reports:

- an annual treasury strategy in advance of the year (Authority 12/02/2015)
- a mid-year treasury update report (Authority 28/01/2016)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by members.

This Authority also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Resource Committee.

## 2. The Economy and Interest Rates

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 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.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

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The ECB commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. 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.

### 3. Overall Treasury Position as at 31 March 2016

At the beginning and the end of 2015/16 the Authority'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
<b>Total debt</b>	<b>£3.238m</b>	<b>4.39%</b>	<b>39</b>	<b>£3.200m</b>	<b>4.40%</b>	<b>38</b>
<b>CFR</b>	<b>£4.155m</b>			<b>£2.161m</b>		
<b>Over / (under) borrowing</b>	<b>(£917m)</b>			<b>£1.039m</b>		
<b>Total investments</b>	<b>£12.987m</b>	<b>0.74%</b>		<b>£16.112m</b>	<b>0.80%</b>	
<b>Net debt</b>	<b>£9.749m</b>			<b>£12.912m</b>		

### 4. The Strategy for 2015/16

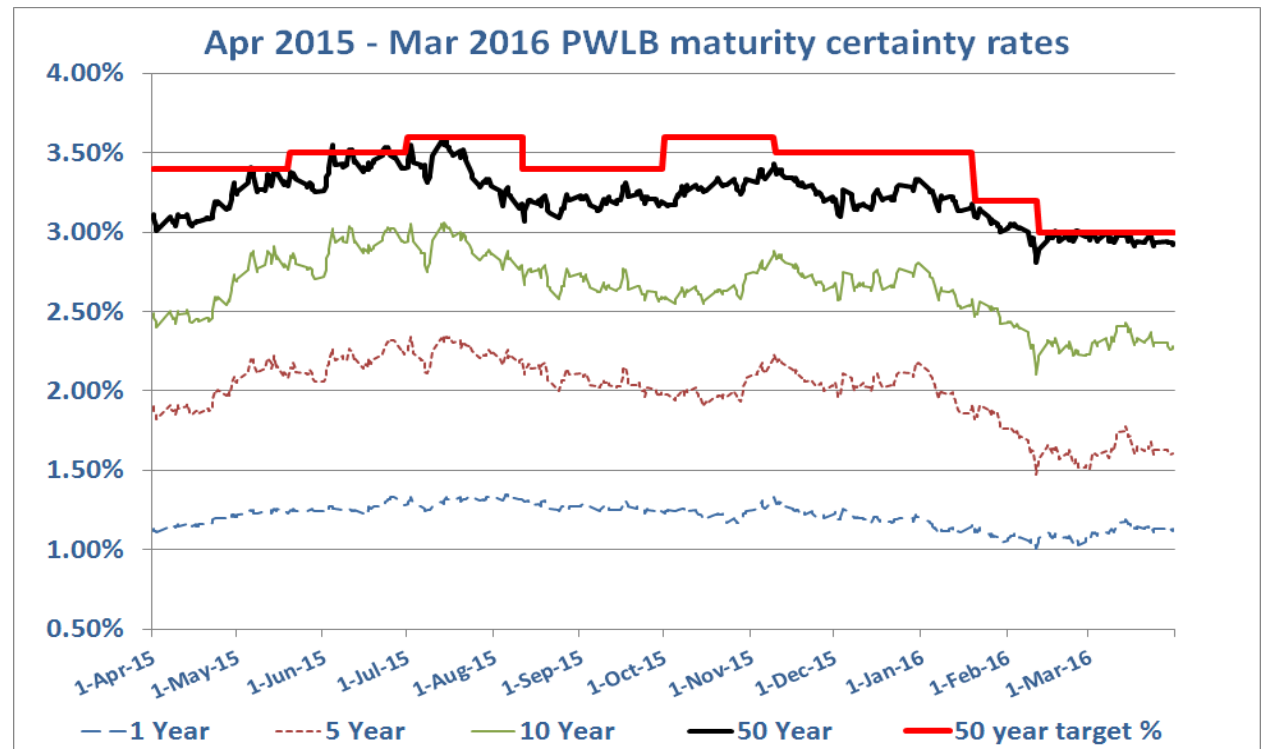
The expectation for interest rates within the treasury management strategy for 2015/16 anticipated low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

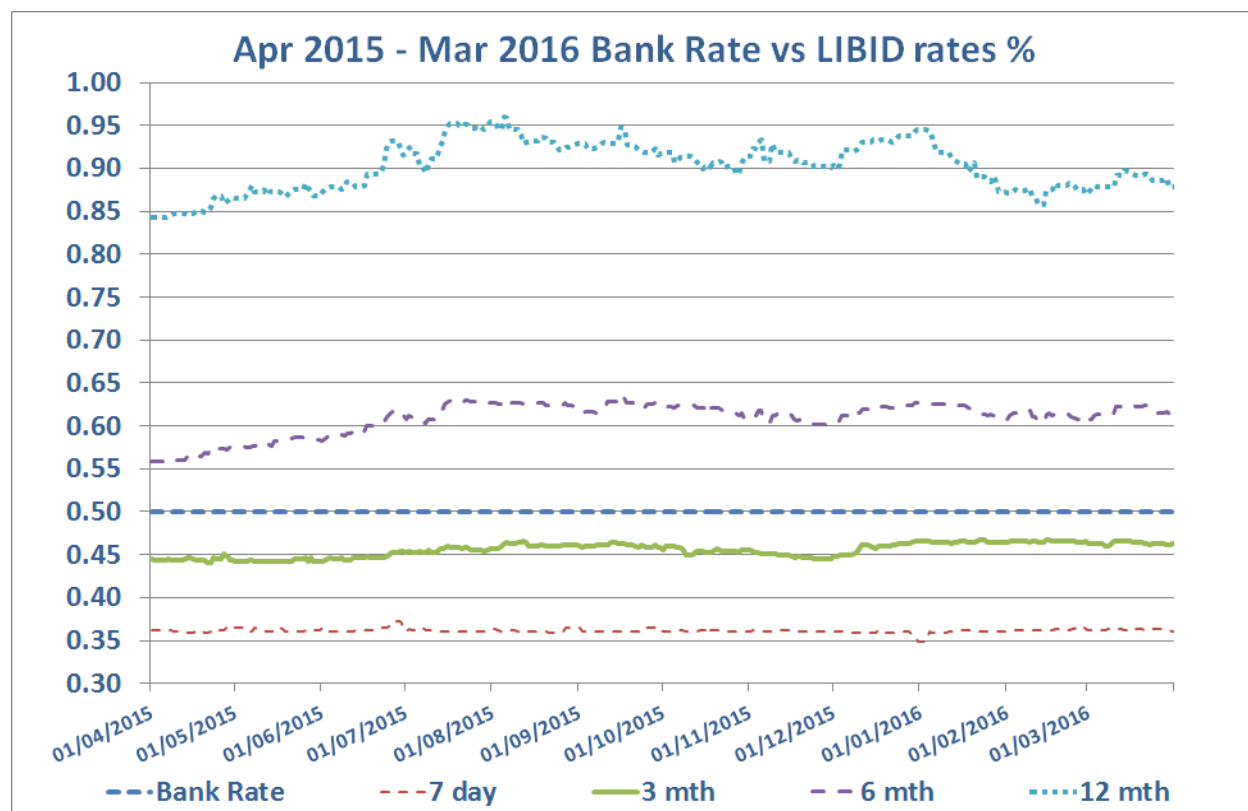
The actual movement in gilt yields meant that PWLB rates saw little overall change during the year.

## 5. Borrowing Rates in 2015/16

**PWLB certainty maturity borrowing rates** - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



## 6. Investment Rates in 2015/16



Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.

## 7. Investment Outturn for 2015/16

**Investment Policy** – the Authority’s investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by the Authority. This 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 Authority had no liquidity difficulties.

## Appendix 1: Prudential and Treasury Indicators

	Actual 2014/15 £m	Budget 2015/16 £m	Actual 2015/16 £m
	£m	£m	£m
Capital Financing Requirement	3.238	4.102	3.200
Authorised Limit	3.238	4.833	3.200
Operational Boundary	3.238	3.333	3.200
Upper limit for fixed interest rate exposure Net principal fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable interest rate exposure Net principal variable rate borrowing / investments	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	0%	0%	0%
Maturity structure of new fixed rate borrowing during 2015/16:			
	<b>Upper Limit</b>	<b>Lower Limit</b>	
under 12 months	100%	0%	
12 months and with 24 months	100%	0%	
24 months and within 5 years	100%	0%	
5 years and within 10 years	100%	0%	
10 years and above	100%	0%	