LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 23 September 2020

YEAR END TREASURY MANAGEMENT OUTTURN 2019/20

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Executive Summary

The report sets out the Authority's borrowing and lending activities during 2019/20. All borrowing and investment activities undertaken throughout the year are in accordance with the Treasury Management Strategy 2019/20.

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's exit from the European Union and future trading arrangements had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. The UK's negotiations on the exit from the European Union together with its future trading arrangements drove volatility. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%. However, coronavirus changed everything. COVID-19, spread across the globe in early 2020 causing falls in financial markets not seen since the Global Financial Crisis.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

With the crisis there has been flight to quality in financial markets resulting in gilts yields to fall substantially for example the 10-year benchmark yield fell from 1% to 0.4%,

Borrowing

The borrowing of the Fire Authority has remained unchanged at £2m in 2019/20. 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 2020/21 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 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 they were taken out in 2007 when the base rate was 5.75%. The maturity and interest rate of the Authority's 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 £48.0m and the lowest £27.7m, 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. At the year-end fixed investments of £10m were in place. However, during the year other fixed term investments had matured.

The table below shows the impact of fixed term investments in 2019/20:

Start Date	End Date	Principal	Rate	Interest in 2019/20
30/6/14	28/06/19	£5,000,000	2.40%	£28,932
18/10/18	19/10/20	£5,000,000	1.15%	£57,500
19/11/18	18/11/19	£5,000,000	1.00%	£31,644
19/12/18	19/06/19	£5,000,000	0.92%	£ 9,956
10/12/19	10/06/21	£5,000,000	1.20%	£18,575

Investing in these fixed term deposits, rather than leaving the money in the call account, has increased the interest received in 2019/20 although having fixed term deals does reduce the liquidity of the investments.

The call account provided by Lancashire County Council paid the base rate throughout 2019/20. 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 £25.8m earning interest of £0.185m.

The overall interest earned during this period was £0.332m at a rate of 0. 91% which compares favourably with the benchmark 7 day index (Sterling Overnight rate 7 day rate) which averages 0.74% 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 2019/20 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	6,000	2,000
Other long-term liabilities – these relate to vehicle finance leases and the PFI agreements	30,000	13.793
Total	36,000	15.793

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	18,000	13.793
Total	21,000	15.793
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	31%
Upper limit for variable rate exposure		
Borrowing	25%	0%
Investments	100%	69%
Upper limit for total principal sums invested for over 365 days (per maturity date)	25.000	10.000
Maturity structure of debt	Upper/ Lower Limits	Actual
Under 12 months	100%/nil	-
12 months and within 24 months	50%/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	(0.309)	(0.332)	Minor variations due to changes in balances available from forecast
Minimum Revenue Provision re PWLB loans	0.010	0.197	Voluntary MRP of £0.187m approved in TM mid-year update reported Resources November 2019
Net financing income from Treasury Management activities*	(0.209)	(0.045)	

* 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 2019/20	February 2019	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:		