LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 25 November 2020

TREASURY MANAGEMENT MID-YEAR REPORT 2020/21

Contact for further information:
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Executive Summary

The report sets out the Authority's borrowing and lending activities during 2020/21. Decisions taken were in accordance with the Treasury Management Strategy and were 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 Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and to strengthen members' oversight of the Authority's treasury management activities, the Resources Committee receives a treasury management 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 situation has been dominated by the impact on the economy of the COVID-19 pandemic. The start of the financial year saw the UK in lockdown which effectively shut down a large proportion of the UK economy; although restrictions were eased in late May and early June. The Office of National Statistics first estimate for gross domestic product (GDP) in Quarter 2 (April-June) 2020 is estimated to have fallen by a record 20.4%. However, within the figures there was a month on month growth of 2.4% in May and 8.7% in June. Despite the growth in May and June the pace of any economic recovery is very uncertain especially with the potential for further Covid-19 related restrictions.

In response to the economic situation the Bank of England has maintained the Bank Rate at 0.1% while also continuing with an asset purchase programme to help stimulate the economy. Its central forecast is for GDP to continue to recover, supported by substantial fiscal and monetary policy actions. Unemployment is expected to rise significantly, before declining gradually while inflation as measured by the Consumer Prices Index is expected to rise slowly and reach roughly the 2% target in two years' time. However, this forecast assumes that the economic impacts of the Covid-19 pandemic will reduce gradually and that there will be an immediate move to a free trade agreement with the European Union post December 2020.

Arlingclose the council treasury management advisors expect the Bank Rate to remain at the current 0.10% level for the foreseeable future and that Gilt yields, which link to the rate the council can borrow from the Public Work Loans Board (PWLB) will remain very low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.

Details of the forecast for the key rates provided by Arlingclose are shown below:

Period	Bank Rate	3 month money market	5 year Gilt Rate	20-year Gilt Rate
Q4 2020	0.10	0.10	0.00	0.60
Q1 2021	0.10	0.10	0.00	0.60
Q2 2021	0.10	0.15	0.05	0.60
Q3 2021	0.10	0.20	0.10	0.65
Q4 2021	0.10	0.20	0.15	0.65
Q1 2022	0.10	0,.20	0.15	0.65
Q2 2022	0.10	0.20	0.20	0.70
Q3 2022	0.10	0.20	0.20	0.70
Q4 2022	0.10	0.20	0.25	0.75
Q1 2023	0.10	0.20	0.25	0.75
Q2 2023	0.10	0.20	0.25	0.75
Q3 2023	0.10	0.20	0.25	0.75
Q4 2023	0.10	0.20	0.25	0.75

Treasury Management position and Policy

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The treasury management activity is influenced both by the position at the beginning of the year and the plans in year.

The table below shows the position at the start of the financial year, highlighting that the level of loans was above the borrowing requirement at 31 March 2020. This is the result of the Authority adopting a policy of setting aside additional Minimum Revenue Provision (MRP) in order to generate the cash to repay loans either on maturity or as an early repayment. This has resulted in the borrowing being reduced but due to early repayment charges it has not been financially beneficial to repay three loans.

	Balance 31/3/20
	£m
Capital Finance Requirement	13.799
Less other debt liabilities	-13.793
Borrowing Requirement	0.006
External borrowing	2.000
Reserves	35.692
Working capital	1.378
Available for investment	37.070
Investments	37.385

It is not anticipated that the new capital expenditure will be funded from borrowing in the year while it was anticipated that there may be some reduction in the level of reserves held.

Borrowing

There has been no new borrowing in the first six months of the financial year. This is consistent with the position that the current borrowing is already above the CFR and that the capital programme does not include any expenditure to be financed from borrowing.

The long term debt outstanding of £2m is from the Public Works Loan Board. The table below show the maturity profile of the Authority's borrowings, along with an interest rate paid.

Loan Amount	Maturity Date	Interest rate
£0.700m	June 2037	4.480%
£0.650m	June 2036	4.490%
£0.650m	December 2035	4.490%

Consideration is given to the early repayment of the loans. However, these would be subject to an early repayment (premium) charge. It is not considered to be financially beneficial to repay the loans with the estimated premium charge to repay the three loans being £1.165m.

Investments

Both the CIPFA Code and the Ministry of Housing, Communities and Local Government 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 interest is received on surplus balances within an acceptable risk framework. During the period all new investments were placed with the County Council via this arrangement. At 30th September there was a balance of £26.385m invested in LCC while the average for the period was £23.089m.

In addition, in order to increase the rate earned on current balances, the authority have placed fixed investments with other local authorities. To attract a higher rate of interest than is available on the call account these investments will need to be fixed for a longer period of time. During the year the following investments have been in place:

Start Date	End Date	Principal	Rate	Annual Interest	Interest 2020/21
18/10/18	19/10/20	£5,000,000	1.15%	£57,500	£57,500
10/12/19	10/06/21	£5,000,000	1.20%	£60,000	£11,507
20/04/20	20/04/22	£5,000,000	1.45%	£72,500	£68,726
24/04/20	25/04/22	£5,000,000	1.45%	£72,500	£67,932

At 30 September there was £20m fixed term investment in place therefore the total investment held at 30 September is £46.385m.

The overall the rate of interest earned during this period was 0.56% which compares favourably with the benchmark 7 day index which averages 0.13% over the same period.

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 2020/21 were approved by the Authority on 1 February 2020 are shown in the table over the page alongside the current actual.

	2020/21 PIs	**Actual at 30/9/20**
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	6.000	2.000
Other long-term liabilities	30.000	13.983
Total	36.000	15.983

	2020/21 PIs	**Actual at 30/9/20**
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	17.000	13.983
Total	20.000	15.983
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	43.1%
Upper limit for variable rate exposure		
Borrowing	25%	0%
Investments	100%	56.9%
Upper limit for total principal sums invested for over 364 days (per maturity date)	25.000	20.000
Maturity structure of loan debt	**Upper/ Lower Limits**	**Actual %**
Under 12 months	100% / nil	0%
12 months and within 24 months	50% / nil	0%
24 months and within 5 years	50% / nil	0%
5 years and within 10 years	50% / nil	0%
10 years and above	100% / nil	100%

Revenue Budget Implications

The 2020/21 revenue budget for treasury management activity showed that anticipated income exceeded expenditure by £182k. Taking into account the activity for the first six months of the year and estimated cash-flow for the remainder of the year the latest forecast is shown below:

	Budget	Forecast	Variation
	£m	£m	£m
Interest Payable	**0.090**	**0.090**	**-**
Minimum revenue provision	**0.010**	**0.010**	**-**
Interest receivable	**(0.282)**	**(0.253)**	**0.029**
Net budget	**(0.182)**	**(0.153)**	**0.029**

The interest receivable is slightly below budget as the Bank of England base rate and consequently interest received on investments have fallen to by more than anticipated when setting the budget. The forecast assumes interest rates remain constant for the remainder of the financial year.

Regulatory Updates

A key source for long term borrowing is the PWLB. The PWLB lending is offered at a fixed rate above the gilt yields. For most authorities which qualify for the certainty rate, including the Lancashire Combined Fire Authority, this rate was 1.8%. However, there is a consultation paper issued on the use of PWLB borrowing which may result in the margin above gilts being reduced for funding certain capital expenditure, details as to how much the margin would be and what expenditure is covered have yet to be confirmed.

This does not have an immediate impact for the authority as it is not seeking new loans. However, should the capital financing position change then consideration will have to be given as to whether there are suitable alternatives to PWLB financing, such as Local Authority loans or other institutions, which have been approved as part of the Treasury Management Strategy.

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 2020/21	February 2020	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		