LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 7 July 2021

YEAR END TREASURY MANAGEMENT OUTTURN 2020/21

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Executive Summary

The report sets out the Authority's borrowing and lending activities during 2020/21. All borrowing and investment activities undertaken throughout the year are in accordance with the Treasury Management Strategy 2020/21.

Recommendation

The Committee 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 coronavirus pandemic dominated 2020/21, The start of the financial year saw lockdowns which caused economic activity to grind to a halt in many countries including the UK. The Bank of England cut Bank Rate from 0.75% to 0.10% in March 2020 and it remained at this level throughout the 2020/21 financial year. The UK government also provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime. The GDP figures for the financial year are:

	GDP year on year change
2020 Q2	-21.4%
2020 Q3	-8.5%
2020 Q4	-7.3%
2021 Q1	-6.1%

In its March 2021 interest rate announcement, the Bank of England noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year.

The UK government's response included the furlough scheme which has protected many jobs. Despite this unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago.

The year also saw an agreement on a Brexit trade deal.

Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England’s 2% target.

A similar economic picture has occurred in various economies. The US saw growth collapsing at an annualised rate of 31.4% in Q2 before rebounding by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over $5 trillion. The Federal Reserve cut its main interest rate to between 0.00% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. In Europe the European Central Bank maintained its base rate at 0.0% and deposit rate at -0.5%.

The gilt yields which are a key determinant of borrowing costs for local authorities fluctuated in line with the economic conditions. For example, the 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84% and the 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

Borrowing

The borrowing of the Fire Authority has remained unchanged at £2m in 2020/21. The current capital programme has no requirement to be financed from borrowing until 2025/26, 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 the penalties incurred on repaying the loans early would incur significant costs currently estimated at £0.967m. Also, any early repayment means that cash balances available for investment will be reduced and hence interest receivable will also be reduced. It was estimated that if interest rate on investments are at 1.4% over the remaining period of the loan then repaying the loans during 2020/21 would be broadly neutral. 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). They were initially 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 total cash held by the Authority has been positive with the highest balance being £52.1m and the lowest £34.0m. For the monies invested with Lancashire County Council the range was £34.2m to £14.0m. 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 £15m were in place. However, during the year one fixed term investments had matured. The table below shows the interest earned on fixed term investments in 2020/21:

Start Date	End Date	Principal	Rate	Interest in 2020/21
18/10/2018	19/10/2020	£5,000,000	1.15%	£31,822
10/12/2019	10/06/2021	£5,000,000	1.20%	£60,000
20/04/2020	20/04/2022	£5,000,000	1.45%	£68,726
24/04/2020	25/04/2022	£5,000,000	1.45%	£67,932

Investing in these fixed term deposits, rather than leaving the money in the call account, has increased the interest received in 2020/21 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 2020/21. 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 £24.7m earning interest of £0.025m.

The overall interest earned during this period was £0.253m at a rate of 0.60% which compares favourably with the benchmark 7-day index (Sterling Overnight rate 7-day rate) which averages 0.17% 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 2020/21 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	13.376
Total	36,000	15.376
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	17,000	13.376
Total	20,000	15.376
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	40%

	Revised	Actual
Upper limit for variable rate exposure		
Borrowing	25%	0%
Investments	100%	60%
Upper limit for total principal sums invested for over 365 days (per maturity date)	25.000	15.000
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	(0.354)	(0.253)	Largely due to the reduction in interest rate offered for the call account investment due to the base rate change
Minimum Revenue Provision re PWLB loans	0.010	0.010	
Net financing income from Treasury Management activities*	(0.254)	(0.153)	

* 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 2020/21	February 2020	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:		