LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 1 December 2021

TREASURY MANAGEMENT MID-YEAR REPORT 2021/22

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Table 1Executive Summary and Recommendations

Executive Summary The report sets out the Authority's borrowing and lending activities during 2021/22. Decisions taken were in accordance with the Treasury Management Strategy and were based on anticipated spending and interest rates prevailing at the time. **Recommendation(s)** The Authority is asked to note and endorse the 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 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 recovery from the coronavirus pandemic continued to dominate the first half of the financial year both in the UK and many other parts of the world. However in its September 2021 policy announcement, the Bank of England (BoE) noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions.

The BoE has held Bank Rate at 0.1% and maintained its Quantitative Easing programme at £895 billion throughout the first half of the year. However, there are some concerns around inflation with the CPI inflation now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. Therefore although policy rates have remained unchanged there is a greater expectation that rates may increase in late 2021 or early 2022.

The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon. The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, than was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, will likely lead to higher prices.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10 year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.

The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter. SONIA is calculated by the Bank of England based on actual transactions reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

The table below shows the latest forecast for interest rates from Arlingclose:

Period	Bank Rate	3 month money market	20-year Gilt Rate
Q4 2021	0.10	0.10	1.40
Q1 2022	0.10	0.15	1.40
Q2 2022	0.25	0.35	1.40
Q3 2022	0.25	0.40	1.40
Q4 2022	0.25	0.45	1.35
Q1 2023	0.50	0.60	1.35
Q2 2023	0.50	0.65	1.30
Q3 2023	0.50	0.65	1.30
Q4 2023	0.50	0.60	1.30
Q1 2024	0.50	0.60	1.30
Q2 2024	0.50	0.60	1.30
Q3 2024	0.50	0.60	1.30

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 position at the start of the financial year is summarised in the Table below:

	Balance 31/3/21
	£m
Capital Finance Requirement	13.377
Less other debt liabilities	(13.377)
Borrowing Requirement	0.000
External borrowing	2.000

The table above shows that the level of loans was above the borrowing requirement. 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 CFR being reduced but due to early repayment charges it has not been financially beneficial to repay the existing loans.

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 £1.180m.

Whilst we have no need to borrow at the present time it is worth highlighting that a key source for long term borrowing is the PWLB. The PWLB lending is offered at a fixed rate of 1% above the gilt yields. For most authorities which qualify for the certainty rate, including the Lancashire Combined Fire Authority, this means a 0.2% reduction on these standard rates so equates to 0.80% above the gilt yields.

Current PWLB maturity loan rates are at extremely low levels:

10 years	1.81%
25 years	2.19%
40 years	2.06%

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. 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 £31.900m invested in LCC while the average for the period was £26.115m.

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 £m	rate	Annual interest	Interest in 2021/22
20/04/2020	20/04/2022	5.000	1.45%	£72,500	£72,500
24/04/2020	25/04/2022	5.000	1.45%	£72,500	£72,500
10/12/2019	10/06/2021	5.000	1.20%	£60,000	£11,507

At 30 September there was £10m fixed term investment in place, therefore the total investment held at 30 September is £41.900m. The overall the rate of interest earned during this period was 0.51% which compares favourably with the benchmark 7 day index which averages 0.14% over the same period.

All investments are made in accordance with the current Treasury Management Strategy and the CIPFA treasury management code of practice.

Current interest rates available for lending to other Local Authorities are:-

Period	Interest rate	Return per annum on £5m investment
Base rate	0.10%	£5.0k
6 months	0.10%	£5.0k
1 year	0.25%	£12.5k
2 year	0.70%	£35.0k
3 year	0.80%	£40.0k

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 2021/22 were approved by the Authority on 22 February 2021 are shown in the table over the page alongside the current actual.

	2021/212 PIs	**Actual at 30/9/21**
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	12.696
Total	36.000	14.696
	2021/212 PIs	**Actual at 30/9/21**
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	12.696
Total	20.000	14.696
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	23.9%
Upper limit for variable rate exposure		
Borrowing	25%	0%
Investments	100%	76.1%
Upper limit for total principal sums invested for over 364 days (per maturity date)	25.000	10.000
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 2021/22 revenue budget for treasury management activity showed that anticipated income exceeded expenditure by £36k. 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	(0.136)	(0.193)	(0.057)
Net budget	**(0.036)**	**(0.093)**	**(0.057)**

The interest receivable is above budget as the balances are slightly higher than anticipated when setting the budget. The forecast assumes interest rates remain constant for the remainder of the financial year.

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

Table 2 Details of any background papers

Paper:	Treasury Management Strategy 2021/22
Date:	February 2021
Contact:	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part 2 if appropriate:	