Lancashire Combined Fire Authority
Resources Committee
Meeting to be held on 06 July 2022

Year End Treasury Management Outturn 2021/22

Contact for further information: Keith Mattinson - Director of Corporate Services
Tel: 01772 866804

Table 1 Executive Summary and Recommendations

Executive Summary The report sets out the Authority's borrowing and lending activities during 2021/22. All treasury activities undertaken throughout the year are in accordance with the Treasury Management Strategy 2021/22 **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.

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

There were a number of key economic issues in 2021/22. Initially, the continuing economic recovery from coronavirus pandemic was a dominant feature but as the year progressed concerns about inflation, the potential for higher interest rates and possibility of a future recession were major issues.

The Bank Rate was 0.1% at the beginning of the financial year. Although April and May saw the economy gathering momentum as pandemic restrictions were eased, market expectations were that the Bank of England would delay rate rises until 2022. However, the rise in inflation changed the position and saw the Bank Rate increase the rate late in 2021.

UK Consumer Prices Index (CPI) was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. However, a combination of rising global costs, strong demand and supply shortages saw large increases in inflation. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month.

As a response to the increase in inflation the Bank of England made the following increases in the Bank Rate:

- December 2021 increase to 0.25%
- February 2022 increase to 0.5%
- March 2022 increase to 0.75%

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022.

The picture seen in the UK was seen in many of the world economies. Both the euro zone and the US have seen increases in inflation and in its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months.

The continuing uncertainty has seen gilt yields increase. The costs of authorities borrowing from the Public Loans Work Board are related to the bond yields and therefore the cost of borrowing has increased. For example, for a 10-year PWLB fixed rate loan taken on the 1 April 2021 was at interest rate of 1.7%. An equivalent loan taken on 31 March 2022 was at 2.81%.

Borrowing

The borrowing of the Fire Authority has remained unchanged at £2m. The existing loans were taken out with the Public Loans Works Board (PWLB) in 2007 when the base rate was 5.75%. The maturity and interest rate of the Authority's borrowing is:

Table 2 Summary of Borrowing

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%.

The current approved 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. The penalty fluctuates with PWLB repayment rates but during the year it was estimated that the penalty would be £0.9m. 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.

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 £46.7m and the lowest £30.8m. For the monies invested with Lancashire County Council the range was £36.7m to £17.6m.

By placing monies in longer term fixed rate investments it is anticipated a higher level of interest will be earned. However, having fixed term deals does reduce the liquidity of the investments and therefore their use is limited. At the year-end fixed investments of £15m were in place. During the year one fixed term investments had matured and one new investment was made. The table below shows the interest earned on fixed term investments in 2021/22:

Table 3 Summary of Fixed Term Investments

Start Date	End Date	Principal	Rate	Interest in 2021/22
10/12/201	10/06/202	£5,000,00	1.20%	£11,506
20/04/202	20/04/202	£5,000,00	1.45%	£72,500
24/04/202	25/04/202	£5,000,00	1.45%	£72,500
21/03/202	21/03/202	£5,000,00	1.50%	£2,260

The call account provided by Lancashire County Council paid the base rate throughout 2021/21. 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 £25.8m earning interest of £0.047m.

The overall interest earned during this period was £0.205m at a rate of 0.56% which compares favourably with the benchmark 7 day index (Sterling Overnight rate 7 day rate) which averages 0.20% 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 2021/22 are shown in the table below alongside the actual outturn position.

Table 4 Prudential Indicators

	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	13,000
Total	36,000	15,000
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	13,000
Total	20,000	15,000
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	46%
Upper limit for variable rate exposure		
Borrowing	25%	0%
Investments	100%	54%
Upper limit for total principal sums invested for over 365 days (per maturity date)	25.000	5.000
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:-

Table 5 Summary of Financing Costs

	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	(0.136)	(0.205)	Largely due increase in call account rate for the last quarter of the financial year
Minimum Revenue Provision re PWLB loans	0.010	0.010	
Net financing income from Treasury Management activities*	(0.036)	(0.105)	

* 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:
Reason for inclusion in Part 2 if appropriate: N/A