Lancashire Combined Fire Authority
Resources Committee

Meeting to be held on 30 November 2022

Treasury Management Mid-Year Report 2022/23

Contact for further information:
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Executive Summary

The report sets out the Authority's borrowing and lending activities during 2022/23. 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 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 backdrop during the April to September period continued to be characterised by ongoing high inflation and its impact on consumers' cost of living and the expectation of low growth. There is no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy. Subsequently, UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August.

To combat inflation the Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. Current expectations are that the Bank Rate will continue to rise.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%.

The Sterling Overnight Rate (SONIA) averaged 1.22% over the period. 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	12 month money market	20-year Gilt Rate
Q3 2022	2.25	2.25	2.45	4.32
Q4 2022	4.75	4.25	4.45	4.25
Q1 2023	5.00	5.25	5.40	4.25
Q2 2023	5.00	5.25	5.40	4.15
Q3 2023	5.00	5.25	5.40	4.10
Q4 2023	5.00	5.25	5.40	4.00
Q1 2024	5.00	5.25	5.40	3.90
Q2 2024	5.00	5.25	5.40	3.90
Q3 2024	5.00	5.25	5.40	3.80
Q4 2024	4.75	4.75	4.90	3.80
Q1 2025	4.25	4.25	4.40	3.80
Q2 2025	3.25	3.25	3.40	3.80
Q3 2025	3.25	3.25	3.40	3.80

The inflation pressures facing the UK are being faced by countries throughout the world. In the US inflation hit 9.1% in June, although there was some slight easing in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

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, as per the table below, and the plans in year:

	Balance 31/3/22
	£m
Capital Finance Requirement	12.770
Less other debt liabilities	(12.770)
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 three loans.

It is not anticipated that the new capital expenditure will be funded from borrowing in the year while it was anticipated that there will 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%

There needs to be consideration for the early repayment of the loans, which however, would be subject to an early repayment (premium) charge. Previous reports on treasury management activities have reported that the premium (approx £0.8m) and the potential loss of investment income have been greater than the savings made on the interest payments therefore it has not been considered financially beneficial to repay the loans especially with the potential for increased interest rates. However, the estimated premium charge to repay the three loans is currently £0.100m; reflecting the significant increase in base rate. To offset the net savings on repaying the loans it is estimated that future interest on investments over the remaining period of the loans would need to be 4.1%.. If it is estimated that investment interest rates will be lower than this then it may be beneficial to repay the loans, however as set out earlier current forecast indicate future base rates in excess of this.

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 £36.055m invested in LCC while the average for the period was £35.187m. The current rate for these investments has increased to 2.25% on 22 September. At the beginning of the financial year the rate was 0.75%.

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 in 2022/23
20/04/2020	20/04/2022	£5m	1.45%	£72,500	£3,973
24/04/2020	25/04/2022	£5m	1.45%	£72,500	£4,966
21/03/2022	21/03/2024	£5m	1.50%	£75,000	£72,500

At 30 September there was £5m fixed term investment in place, therefore the total investment held at 30 September is £41.055m.

The overall rate of interest earned during this period was 1.49% which is favourable when compared with the benchmark 7 day index which averages 1.30% over the same period.

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

Note two further fixed term investments with other Local Authorities have now been taken out as follows:-

Start date	End date	Principal	rate	Annual interest	Interest in 2022/23
27/10/2022	26/10/2023	£5m	3.30%	£165k	£71k
07/10/2022	06/10/2024	£5m	4.00%	£200k	£96k

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

Period	Interest rate	Additional return per annum compared with current base rate for £5m investment
6 months	3.50%	£62.5K
1 year	4.36%	£105.5k
2 year	4.66%	£120.5k
3 year	4.77%	£126.0k

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 2022/23 were approved by the Authority on 22 February 2022 are shown in the table below alongside the current actual.

	2022/23 PIs	Actual at 30/9/22
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	12.351
Total	36.000	14.351
	2022/23 PIs	**Actual at 30/9/22**
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	16.000	12.351
Total	19.000	14.351
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	12.2%
Upper limit for variable rate exposure		
Borrowing	25%	0%
Investments	100%	87.8%
Upper limit for total principal sums invested for over 364 days (per maturity date)	25.000	5.000
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 2022/23 revenue budget for treasury management activity showed that anticipated income exceeded expenditure by £200k. 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:

	2022/23	2022/23	2022/23
	Budget	Forecast	Variance
	£m	£m	£m
MRP	0.010	0.000	(0.010)
Interest payable	0.090	0.090	(0.000)
Interest receivable	(0.300)	(0.770)	(0.470)
Net budget	(0.200)	(0.680)	(0.480)

The interest receivable is above budget as the balances and interest rates are higher than anticipated when setting the budget. The forecast assumes interest rates on the call account averages 3% 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

Paper: Treasury Management Strategy 2022/23
Date: February 2022
Contact: Keith Mattinson, Director of Corporate Services

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