Lancashire Combined Fire Authority
Resources Committee
Meeting to be held on 12 July 2023

Year End Treasury Management Outturn 2022/23

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Executive Summary

The report sets out the Authority's borrowing and lending activities during 2022/23. All treasury activities undertaken throughout the year are in accordance with the Treasury Management Strategy 2022/23.

Recommendation

The Authority 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

The key economic features of the year were increasing inflation and the subsequent rises in interest rates as central bankers tried to bring inflation under control. Global inflation continued above central bank targets largely as a consequence of the Ukraine war while in the UK economic outlook remained relatively weak with forecasts indicating there was a chance of a mild recession.

Starting the financial year at 5.5%, the annual Consumer Prices Index (CPI) measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February to 10.4% before falling back a little to 10.1% in March. However, the expectation was that the rate of inflation would fall potentially quite sharply over the next few months as the impact of the large increases in energy costs fall out of the calculation.

The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3 month/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

In response to the high inflation The Bank of England increased the official Bank Rate several times during the year. In March 2022 the Bank Rate stood at 0.75%. However, the Monetary Policy Committee (MPC) increased the rate at every meeting in the financial year. Recent increases of 0.5% in December and February and then 0.25% in March saw the rate rising to 4.25% (as of June 2024 it is now 5%). Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

Borrowing costs from the PWLB are linked to the Gilt yields. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%.

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:

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 2026/27, 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 repaying the loans early would incur a penalty cost (referred to as a premium cost). The penalty fluctuates with PWLB repayment rates but at the end of the financial year it was estimated that the penalty would be £0.220m. 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 were at 3.3% over the remaining period of the loan, then repaying the loans during 2022/23 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.

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 counterparties which are considered to represent a low credit risk, including other local authorities. During the year the total cash held by the Authority has been positive with the highest balance being £46.8m and the lowest £26.7m. For the monies invested with Lancashire County Council the range was £41.8m to £16.6m.

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 investment portfolio and therefore there is a limit to the amount that is advised to be tied up in long term deals. At the year-end fixed investments of £15m were in place. During the year two fixed term investments have matured and two new investments were made. The table below shows the interest earned on fixed term investments in 2022/23:

Start Date	End Date	Principal	Rate	Interest in 2022/23
20/04/2020	20/04/2022	£5,000,00	1.45%	£3,744
24/04/2020	25/04/2022	£5,000,00	1.45%	£4,767
21/03/2022	21/03/2024	£5,000,00	1.50%	£75,000
27/10/2022	26/10/2023	£5,000,00	3.30%	£70,521
07/10/2022	06/10/2023	£5,000,00	4.00%	£96,438

The call account provided by Lancashire County Council paid the base rate throughout 2022/23. 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 £26.6m earning interest of £0.586m.

The overall interest earned during this period was £0.837m at a rate of 2.28% which is comparable with the benchmark 7-day index (Sterling Overnight rate 7-day rate) which averages 2.30% over the same period and the Sterling overnight rate which averaged 2.28%.

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 2022/23 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 leases and the PFI agreements	30,000	12,000
	Total	36,000	14,000
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 leases and the PFI agreements	16,000	12,000
	Total	19,000	14,000
Upper limit for fixed interest rate exposure			
	Borrowing	100%	100%
	Investments	100%	48%
Upper limit for variable rate exposure			

	Borrowing	25%	0%
	Investments	100%	52%
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:-

	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	(0.205)	(0.836)	Largely due to the interest rates being higher than anticipated when setting the budget.
Voluntary Minimum Revenue Provision re PWLB loans	0.010	0.010	
Net financing income from Treasury Management activities*	(0.105)	(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: Treasury Management Strategy 2022/23
Date: February 2022
Contact: Steven Brown, Director of Corporate Services

Paper: Treasury Management Guidance
Date: February 2017
Contact: Steven Brown, Director of Corporate Services

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