DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 20/41

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| MEETING | Dorset & Wiltshire Fire and Rescue Authority |
| DATE OF MEETING | 10 December 2020 |
| SUBJECT OF THE REPORT | Treasury Management Mid-Year Report 2020-21 |
| STATUS OF REPORT | For open publication |
| PURPOSE OF REPORT | For information and to note |
| EXECUTIVE SUMMARY | At the meeting of the Authority on 12 February 2020, Members received and approved the Treasury Management Strategy Statement and Prudential Indicators for 2020-21. This report updates Members on Treasury Management performance for the six months to 30 September 2020.<br><br>The general economic picture remains very unstable, particularly given the impact of the coronavirus pandemic and continuing uncertainties over Brexit issues as we come to the end of the transition period.<br><br>At the end of the last financial year, the Authority had a capital financing requirement (excluding PFI and leasing) of £23.836m and actual outstanding borrowing of £14.174m. This left an underlying under-borrowing position of £9.662m, which has been supported through internal borrowing from reserves and balances, leading to significant financial savings in recent years.<br><br>No new borrowing has been undertaken yet this year, with the revised plan assuming borrowing of up to £4m to support cash flow and the capital programme.<br><br>Our budget target for investment returns is £60k, but we are currently only estimating returns of £15k, given the economic impact of the pandemic. |

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| RISK ASSESSMENT | Borrowing and lending by the Authority always carries some financial risk. This is managed in accordance with the Treasury Management Strategy approved by the Authority on an annual basis. |
| COMMUNITY IMPACT ASSESSMENT | None for the purposes of this report |
| BUDGET IMPLICATIONS | All treasury and budget implications are reported as part of the financial reports presented to Finance & Audit Committee. |
| RECOMMENDATIONS | Members are asked to note the Treasury Management position as at 30 September 2020. |
| BACKGROUND PAPERS | Authority paper 20/06 February 2020 – Treasury Management 2020-21 |
| APPENDICES | Appendix A - Current Borrowing<br>Appendix B - Current Investments<br>Appendix C - Revised Prudential Indicators 2020-21 |
| REPORT ORIGINATOR AND CONTACT | Name: Ian Cotter, Head of Financial Services & Treasurer<br>Email: ian.cotter@dwfire.org.uk<br>Tel no: 01722 691109 |

## 1. Introduction

1.1 The Authority has adopted the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Sector and operates its treasury management function in compliance with this Code. This requires that the primary objective of the treasury management function is the effective management of risk, and that its borrowing activities are undertaken on a prudent, affordable and sustainable basis.

1.2 The Code requires regular reporting of treasury management activities to include, as a minimum:

- a forecast of the likely activity for the forthcoming year (the Treasury Management Strategy for 2020-21 was agreed by the Authority on 12 February 2020)
- a mid-year update on treasury management activity (this report) and
- an annual review of the capital activity for the preceding year.

## 2. Approved Lending List

2.1 The ‘Treasury Management Policy Statement and Practices’ defines the policies adopted by the Authority for the year. We have recently moved to an approved lending list that is managed for us by our treasury management advisors, Link Asset Services.

## 3. Borrowing

3.1 Capital expenditure which cannot be immediately financed through revenue or capital resources requires funding through either new borrowing or the use of available cash resources pending borrowing (often referred to as ‘internal borrowing’).

3.2 At the start of the financial year, the Authority had outstanding borrowing totalling £14.174m. The Authority also has an assessed Capital Financing Requirement (CFR) (for capital expenditure purposes), which is the Authority’s underlying need to externally borrow to finance capital expenditure. This stood at £23.836m as at 1 April 2020, with the difference of £9.662m being the level of internal borrowing, commonly referred to as the level of under-borrowing.

3.3 During the first half of the year, principal repayments of £76k have been made in respect of existing loans, with a similar amount repayable in the second half of the year.

3.4 No new loans have been taken out in the first six months of this financial year. Appendix A shows the total for outstanding debt at 30 September 2020 at £14.098m.

3.5 The total of interest payments for the year due on current outstanding borrowing is £501k, compared to a budget of £731k.

3.6 The Treasury Management Strategy assumed that new borrowing of £16.9m would be required across 2019-20 and 2020-21. This included borrowing for cashflow purposes and to reduce the level of under borrowing and borrowing in respect of capital expenditure. So far, only £4.4m has been borrowed (in August 2019) and due to the sudden increase in Public Works Loan Board (PWLB) borrowing rates in October 2019, and the subsequent consultation on PWLB borrowing by HM Treasury - which ended on 31st July 2020 - the Authority has refrained from undertaking new long-term PWLB borrowing for the present time and has met its requirements for funding by borrowing internally until such time as new PWLB rates are finally determined. In addition, the effect of coronavirus on the capital programme objectives are being assessed. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

3.7 A provisional sum of £4m for further borrowing has been included as a working assumption, which would take total new borrowing to £8.4m, and the total of outstanding long-term debt to £18.1m. Any further borrowing will reduce the level of saving shown on the budget for interest payments indicated in paragraph 3.5.

## 4. Investments

4.1 Investments in the first half of 2020-21 were only made in ‘Fixed Term Deposits’, ‘Money Market Funds’ and ‘On-Call Deposits’ with a maturity date less than one year, in accordance with the Authority’s Annual Investment Strategy. Investment transactions totalled £26.581m, and disinvestment transactions totalled £19.290m. Net investments have therefore increased by £7.291m so far during the year, bringing the total invested at 30 September 2020 to £13.131m. (Total invested at 1 April 2020 was £5.840m).

4.2 In the period 1 April 2020 to 30 September 2020, the gross yield from investments averaged 0.062%. Gross income from investments during that period total £3,471. For the purposes of comparison, the average seven-day lending rate for local authorities was 0.129%, therefore investment performance has been marginally worse than the average seven-day rate.

4.3 Details of investments as at 30 September 2020 are shown in Appendix B.

## 5. Rates Forecasts

Link Group – September 2020

| | End Q3 2020 | End Q4 2020 | End Q1 2021 | End Q2 2021 | End Q3 2021 | End Q4 2021 |
|---|---|---|---|---|---|---|
| Bank Rate | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% |
| 5yr PWLB Rate | 1.90% | 1.90% | 2.00% | 2.00% | 2.00% | 2.00% |
| 10yr PWLB Rate | 2.10% | 2.10% | 2.10% | 2.10% | 2.10% | 2.20% |
| 25yr PWLB Rate | 2.50% | 2.50% | 2.50% | 2.50% | 2.60% | 2.60% |
| 50yr PWLB Rate | 2.30% | 2.30% | 2.30% | 2.30% | 2.40% | 2.40% |

5.1 The Authority’s treasury advisor, Link Group, provided the following forecasts on bank and borrowing rates at the end of September 2020:

5.2 The coronavirus pandemic has clearly had a huge economic impact on the UK and economies around the world. After the Bank of England took emergency action in March to cut the Bank Rate to first 0.25%, and then to 0.10%, it left the Bank Rate unchanged at its meeting in September, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. Forecasts further ahead show no increase in Bank Rate is expected in the period ending on 31st March 2023, as economic recovery is expected to be only gradual and, therefore, prolonged.

5.3 From the local authority borrowing perspective, HM Treasury imposed a change that led to PWLB rates increasing in 2019-20 without any prior warning. This added an additional 100 basis points to all PWLB rates in October 2019, although this was at least partially reversed in March 2020, but not for funding the types of capital schemes that this Authority would be borrowing for.

5.4 It is possible that these rates could be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently unknown, although it would be likely to be within the current financial year. As indicated in paragraph 3.6, the Authority has refrained from undertaking any new borrowing at the present time, at least in part due to the uncertainty around PWLB rates and the potential for rates to be lowered again.

5.5 As the forecast table above shows there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus pandemic. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

## 6. Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2020, the Authority has operated within the treasury and prudential indicators set out in the Authority's Treasury Management Strategy Statement for 2020. No difficulties are envisaged for the current or future years in complying with these indicators.

6.2 All treasury management operations have also been conducted in full compliance with the Authority's Treasury Management Practices.

6.3 Appendix C outlines the revised prudential indicators for 2020-21.

## 7. Summary & key points

7.1 At the start of the financial year, the Authority had outstanding borrowing totalling £14.174m, against a Capital Financing Requirement (CFR) (need to externally borrow to finance capital expenditure) of £23.836m. This leads to an under-borrowing position of £9.662m. This is likely to increase, even with the £4m of additional borrowing signalled.

7.2 Investments in the first half of 2020-21 were only made in 'Fixed Term Deposits', 'Money Market Funds' and 'On-Call Deposits' with a maturity date less than one year. Net investments at 30 September 2020 total £13.131m (£5.840m 1 April 2020), but investment returns are much lower as a result of the reduction in interest rates.

7.3 The general economic picture is very uncertain and will remain so for some time to come. Expectations are that interest rates and inflation will remain low for the foreseeable future, meaning any significant investment returns will be hard to achieve but, more importantly for this Authority, interest rates on long-term borrowing will be well below historic levels, easing pressure on the Medium-Term Finance Plan.

December 2020

Appendix A

**Borrowing forecast as at 30 September 2020**

| Start Date | Maturity Date | Estimated Balance (£) | Interest Rate | Annual Interest (£) |
|---|---|---|---|---|
| **Annuity Loans** | | | | |
| 25/03/2005 | 11/03/2027 | 235,710 | 4.80% | 11,596 |
| | | **235,710** | | **11,596** |
| **Maturity Loans** | | | | |
| 21/12/2004 | 11/03/2030 | 200,000 | 4.55% | 9,100 |
| 15/02/2005 | 11/03/2030 | 200,000 | 4.50% | 9,000 |
| 01/03/2006 | 11/03/2031 | 1,307,000 | 4.05% | 52,934 |
| 09/03/2007 | 07/04/2022 | 574,000 | 4.75% | 27,265 |
| 23/08/2007 | 11/09/2052 | 1,000,000 | 4.45% | 44,500 |
| 06/09/2007 | 07/10/2027 | 500,000 | 4.90% | 24,500 |
| 04/01/2008 | 11/03/2042 | 1,000,000 | 4.43% | 44,300 |
| 09/01/2008 | 11/09/2042 | 500,000 | 4.39% | 21,950 |
| 10/09/2008 | 11/03/2058 | 2,000,000 | 4.38% | 87,600 |
| 07/11/2011 | 11/09/2021 | 2,000,000 | 3.30% | 66,000 |
| 02/08/2019 | 11/09/2044 | 3,000,000 | 2.20% | 66,000 |
| 02/08/2019 | 11/09/2059 | 1,400,000 | 2.13% | 29,820 |
| | | **13,681,000** | | **482,969** |
| **EIP loan** | | | | |
| 09/03/2010 | 09/03/2022 | 181,250 | 3.34% | 6,808 |
| | | **181,250** | | **6,808** |
| | | | | |
| **Total** | **@ 30/09/2020** | **14,097,960** | | **501,373** |

Appendix B

## Investments as at 30 September 2020

| Name of Borrower | Amount Invested (£) | Maturity Date | Interest Rate |
|---|---|---|---|
| **Loans** | | | |
| Standard Chartered Bank | 1,500,000 | 6/11/2020 | 0.19% |
| Sumitomo Mitsui BC Europe | 1,500,000 | 6/11/2020 | 0.05% |
| | | | |
| **Money Market Funds** | | | |
| Federated Hermes | 3,000,000 | | |
| Black Rock | 3,000,140 | | |
| | | | |
| **Call Accounts** | | | |
| Bank of Scotland | 4,660 | | 0.05% |
| Lloyds Bank | 4,122,785 | | 0.05% |
| HSBC Deposit Account | 2,385 | | 0.00% |
| Santander | 986 | | |
| | | | |
| **Total Investments** | **13,130,956** | | |

Appendix C

# Revised Prudential Indicators 2020-21

## 1. Capital Expenditure

This indicator is a summary of the Authority's capital programme requirement.

| | Original Estimate 2020/21 | Revised Estimate 2020/21 |
|---|---|---|
| | £m | £m |
| **Capital Expenditure** | | |
| - Property/Estates | 2.087 | 1.059 |
| - Vehicles | 5.495 | 3.295 |
| - Equipment | 1.640 | 1.740 |
| - Information Communication Technology | 1.172 | 1.264 |
| **Total Capital Programme** | **10.394** | **7.358** |

## 2. Capital Financing Requirement

The capital financing requirement (CFR) measures the Authority's underlying need to borrow for capital purposes. It is simply the total historic capital expenditure, including financing that is implicit in Private Finance Initiative schemes and finance leases, which has not yet been paid for from either revenue or capital resources.

| | Original Estimate 2020/21 £m | Revised Estimate 2020/21 £m |
|---|---|---|
| **CFR at 1 April (start of year)** | **36.958** | **35.823** |
| **Planned Capital expenditure** | **10.394** | **7.358** |
| **Less:** | | |
| Write down of PFI and Finance leases | **-0.641** | **-0.641** |
| Revenue Financing | **-0.000** | **-0.000** |
| Grants/Receipts Applied | **-0.472** | **-0.267** |
| Statutory Charge to Revenue | **-1.670** | **-1.544** |
| | | |
| **CFR at 31 March (end of year)** | **44.569** | **40.729** |

## 3. Ratio of Financing Cost to the Net Revenue Stream

This indicator shows the net cost of financing the capital programme as a percentage of the funding receivable from the Government and council tax payers, expressed as a ratio. The net cost of financing includes interest and principal repayments, netted off by interest receivable in respect of any cash investments held.

| | Original Estimate 2020/21 | Revised Estimate 2020/21 |
|---|---|---|
| **Ratio of financing costs to net revenue stream** | **5.74%** | **6.14%** |

## 4. External Debt

The Authority needs to ensure that its long term gross debt does not exceed, except in the short term, the projected Capital Financing Requirement (CFR) for the forthcoming year and the following two financial years. This prevents the Authority from over borrowing in the long term and thereby taking on excessive levels of debt.

The current estimates for gross debt are shown in the table below:

| | **Original Estimate 2020/21** | **Revised Estimate 2020/21** |
|---|---|---|
| | **£m** | **£m** |
| Debt outstanding 1st April | 17.174 | 14.174 |
| New debt | 9.500 | 4.000 |
| Debt repayment | -0.152 | -0.152 |
| **Debt outstanding** | **26.522** | **18.022** |
| PFI/Lease Liabilities | 11.988 | 11.988 |
| PFI/Lease written down | -0.641 | -0.641 |
| **PFI/Lease Liability outstanding** | **11.347** | **11.347** |
| **Gross Debt outstanding** | **37.869** | **29.369** |