DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 19/53

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	18 December 2019
SUBJECT OF THE REPORT	Treasury Management Mid-Year Report 2019-20
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 2019, Members received and approved the Treasury Management Strategy Statement and Prudential Indicators for 2019-20. This report updates Members on Treasury Management performance for the six months to 30 September 2019. The general economic picture remains very unstable, particularly given the continuing uncertainties over Brexit and where the UK may be following the forthcoming General Election. There can be sudden unexpected changes impacting on local authorities, and this happened on 9 October when HM Treasury increased borrowing rates from the Public Works Loans Board (PWLB) by 100 basis points overnight and without any prior warning. The Authority will now need to look at alternative sources of debt to finance future capital spend. At the end of the last financial year, the Authority had a Capital Financing Requirement (excluding Private Finance Initiative and leasing) of £23.151 million and actual outstanding borrowing of £9.975 million. This left an underlying under-borrowing position of £13.176 million, which has been supported through internal borrowing from reserves and balances, leading to significant financial savings in recent years.

	£4.4 million of new borrowing has been undertaken this year, with plans to borrow up to an additional £5 million to support cash flow and the capital programme. The reduced capital programme for this year, along with this new borrowing, would see the under-borrowed position significantly reduced by 31 March 2020. Our budget target for investment returns has been reduced from £80k to £60k to take account of continuing low interest rates and for this year we are currently estimating returns of around £50k - £55k.
RISK ASSESSMENT	None for the purposes of this report
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 the Finance & Audit Committee.
RECOMMENDATION	Members are asked to: 1. Note the Treasury Management position as at 30 September 2019.
BACKGROUND PAPERS	Authority report from February 2019 - 19/07 Treasury Management 2019-20
APPENDICES	Appendix A - Borrowing forecast as at 31 March 2020 Appendix B - Investments as at 30 September 2019
REPORT ORIGINATOR AND CONTACT	Name: Ian Cotter, Head of Financial Services & Treasurer Email: ian.cotter@dwfire.org.uk Tel no: 01722 691109

1. Introduction

1.1 The Authority has adopted the Chartered Institute of Public Finance and 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 2019-20 was agreed by the Authority on 12 February 2019);
- 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 £9.975 million. 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 £23.151 million as at 1 April 2019, with the difference of £13.176 million 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 £100k have been made in respect of existing loans, with a similar amount repayable in the second half of the year.

3.4 In early August 2019 the Authority took out two new loans; £3 million borrowed over 25 years at 2.2% and £1.4 million borrowed over 40 years at 2.13%. Both of these loans are aligned to the Treasury Management Policy and the overall structure of the Authority's long term debt. The interest rates are lower than anticipated in the medium-term finance plan, providing ongoing savings. Appendix A shows the forecast for outstanding debt based on the above borrowing and repayments at £14.174 million.

3.5 The total of interest payments for the year due on current outstanding borrowing is £466k, compared to a budget of £709k.

3.6 The Treasury Management Strategy assumed that new borrowing of £15 million would be required across 2018-19 and 2019-20. This included borrowing for cashflow purposes and to reduce the level of under-borrowing and borrowing in respect of capital expenditure. As indicated above, only £4.4 million has been borrowed so far and we are carefully monitoring the cash flow position. A provisional sum of £5 million for further borrowing has been included as a working assumption, which would take total new borrowing to £9.4 million, and the total of outstanding long-term debt to £19.174 million. Any further borrowing will reduce the level of saving shown on the £709k budget for interest payments.

3.7 With a reduced capital programme of £4.7 million, and an increase in borrowing levels, the Authority's level of under-borrowing should reduce by the end of the financial year. It could be down to around £6 million depending on final capital spend and actual borrowing levels.

3.8 Interest rates available from the PWLB have been at historically low levels in recent months, however, on 9 October 2019 the Treasury and PWLB increased borrowing rates by 100 basis points. There was no prior warning that this would happen, and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs due to this unexpected increase in the cost of borrowing.

3.9 This Authority has previously relied on the PWLB as its main source of funding and will now need to reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

4. Investments

4.1 Investments in the first half of 2019-20 were only made in 'Fixed Term Deposits' and 'On-Call Deposits' with a maturity date less than one year, in accordance with the Authority's Annual Investment Strategy. Investment transactions totalled £41.381 million, and disinvestment transactions totalled £34.405 million. Net investments have therefore increased by £6.972 million so far during the year, bringing the total invested at 30 September 2019 to £11.375 million. (Total invested at 1 April 2019 was £4.403 million).

4.2 In the period 1 April 2019 to 30 September 2019 the gross yield from investments averaged 0.618%. Gross income from investments during that period total £27,346. For the purposes of comparison, the average 7-day lending rate for local authorities was 0.6%, therefore investment performance has been marginally better than the average 7-day rate.

4.3 Details of investments as at 30 September 2019 are shown in Appendix B.

5. Investment Rate Movements

5.1 The Bank of England base rate has been stable at 0.75% since August 2018. Future forecasts are difficult at the current time given the uncertainties over Brexit and where the UK may be following the General Election on 12 December 2019.

5.2 The latest forecast from Link Asset Services (dated 11 November) shows base rates holding at their current level through 2020, increasing to 1% from March 2021, and then 1.25% in June 2021.

5.3 The low base rate continues to impact the rates of investment return that we see. Our budget target for investment returns was reduced from £80k to £60k to take account of this and for this year we are currently estimating returns of around £50k - £55k.

6. Non-compliance and Governance

6.1 There are no instances of non-compliance with the Authority's Treasury Management Policy Statement and Practices.

7. Summary & Key points

7.1 £4.4 million of new long-term borrowing has been undertaken so far this year, and the cash flow position is being closely monitored. Further borrowing, up to £5 million, has been assumed in our forecast for the remainder of the year. Following the surprise increase in the cost of PWLB borrowing in October, the Authority will need to look for cheaper alternatives to the PWLB for this additional borrowing.

7.2 Taking account of the new borrowing and principal repayments, the Authority's total amount of outstanding long-term debt could increase to just over £19 million by the end of the financial year. Given the reduced capital programme spend, this would see the under-borrowing position reduce quite significantly.

7.3 Investments in the first half of 2019-20 were only made in 'Fixed Term Deposits' and 'On-Call Deposits' with a maturity date less than one year. Net investments at 30 September 2019 total £11.375 million. (Total invested at 1 April 2019 was £4.403 million).

December 2019

Appendix A

Borrowing forecast as at 31 March 2020

Start Date	Maturity Date	Estimated Balance (£)	Interest Rate	Annual Interest (£)
Annuity Loans				
24/03/2003	11/03/2020	0	4.65%	1,797
25/03/2005	11/03/2027	251,008	4.80%	13,115
		251,008		**14,912**
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	241,667	3.34%	11,098
		241,667		**11,098**
Total	**@ 31/03/2020**	**14,173,675**		**508,979**

Appendix B

Investments as at 30 September 2019

Name of Borrower	Amount Invested (£)	Maturity Date	Interest Rate
Loans			
Goldman Sachs	1,500,000	22/11/2019	0.85%
Sumitomo Mitsui BC Europe	1,500,000	22/11/2019	0.74%
Call Accounts			
Bank of Scotland	780,660		0.60%
Lloyds Bank	4,278,993		0.70%
HSBC Deposit Account	3,314,502		0.55%
Santander	979		
Total Investments	**11,375,134**		