DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 20/27

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	30 September 2020
SUBJECT OF THE REPORT	Treasury Management Annual 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 the actual treasury management performance for 2019-20 and follows on from the six-monthly report presented in December 2019. Whilst the report is primarily focused on last year's treasury performance and activity, it is worth noting at this time the impact that the coronavirus pandemic is having on treasury performance in the current financial year. As a result of lower interest rates, we are already forecasting a reduction in investment income, down from a budgeted £60k to £35k. This trend is likely to continue into future financial years.
RISK ASSESSMENT	No risk issues arise directly from this report of treasury management performance for 2019-20.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	None for the purposes of this report
RECOMMENDATION	Members are asked to note the report.

BACKGROUND PAPERS	Treasury Management Policy Statement and Practices 2019-20, Dorset & Wiltshire Fire and Rescue Authority (February 2019)
APPENDIX	Appendix A - Capital Prudential Indicators
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 purpose of this report is to update Members on the performance of the Dorset & Wiltshire Fire and Rescue Authority's (the Authority) treasury management activity in 2019-20.

1.2 The Authority's 'Treasury Management Policy Statement and Practices', approved in February 2019 (in respect of 2019-20), requires "an annual report on the performance of the treasury management function; on the effects of decisions taken and transactions executed in the past year; and on any circumstances of non-compliance with the Authority's treasury management policy statement and treasury management practices".

1.3 The report meets the requirements of both the CIPFA (Charted Institute of Public Finance and Accountancy) Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

2. Approved Lending List

2.1 During 2019-20, the 'Approved Lending List' was reviewed by Finance staff in April and August 2019, after which time we moved to an approved list which is managed for us by our treasury management advisors, Link Asset Services, who provide a weekly update incorporating any changes made.

2.2 Changes made reflect external risk ratings, assessed financial stability and financial outlook rating, resulting in changes to the eligibility of institutions under our Treasury Management Policy.

2.3 The lending lists applicable in 2019-20 and currently are available to Members on request.

3. Borrowing 2019-20

3.1 Borrowing is undertaken, if required, to fund the ongoing Capital Programme as approved by the Authority, and to address any short-term temporary shortfalls in cash flow. It was not necessary to borrow short-term during the year.

3.2 Up to 2018-19, the Authority had been using surplus cash to fund the Capital Programme, rather than borrowing. At 1 April 2019, the Authority's underlying need to borrow to finance capital expenditure (known as the Capital Financing Requirement) was £23.151 million, while the actual amount of outstanding debt was £9.975 million. The difference of £13.176 million represented the amount of internal borrowing, sometimes known as under-borrowing.

3.3 In August 2019, two new maturity loans were taken out: £3 million borrowed over 25 years at 2.2%, and £1.4 million borrowed over 40 years at 2.13%. Although the Treasury Management Strategy for the year anticipated further borrowing, this was not needed for cash flow purposes and a pause was considered necessary after the Public Works Loan Board (PWLB) raised interest rates without warning in October 2019. While rates are still low in historic terms, it may be prudent to see how the market reacts to the PWLB's actions, and to the current coronavirus pandemic, before making further borrowing decisions.

3.4 In respect of our current borrowing commitments, repayments of £0.202m were made during 2019-20. With the two new loans, the Authority's total amount of long-term debt rose to £14.174m as at 31 March 2020. Total interest paid during 2019-20 was £0.477m equivalent to an average borrowing rate of 3.7%. The level of under-borrowing has reduced to £9.662m.

3.5 In summary:

Loans (number at start/end of year)	**Balance 1 April 2019**	**New loans and repayments**	**Balance 31 March 2020**	**Interest paid 2019-20**
Annuity Loans (2/1)	£331,863	-£80,855	£251,008	£14,694
Maturity Loans (10/12)	£9,821,000	£4,400,000	£13,681,000	£450,987
EIP Loans (1/1)	£362,500	-£120,833	£241,667	£10,844
TOTAL	£9,975,363	£4,198,312	£14,173,675	£476,525

4. Investments

4.1 The Authority has a surplus or deficit of cash on a daily basis, dictated by timing differences between the receipt of income (e.g. grants and precepts) and our need to spend (e.g. for payroll and other purposes). In addition, cash balances arise over the year from the financing of the Capital Programme, the amounts held in reserves and any budget under and overspending.

4.2 Surplus cash is invested where possible. Investments in 2019-20 were only made in 'Fixed Term' and 'On-Call' deposits with a maturity date less than one year, in accordance with the Authority's Annual Investment Strategy. Investment transactions totalled £74.862m, and disinvestment transactions totalled £73.425m. Net investments therefore increased by £1.437m during the year, bringing the total invested at 31 March 2020 to £5.840m. (Total invested at 1 April 2019 was £4.403m).

4.3 The gross yield from the investments averaged 0.62%. Gross income from investments totalled £62.4k, compared to the original budget target of £60k. For the purposes of comparison, the average seven-day lending rate for local authorities for the year was 0.61%, therefore investment performance has been better by 0.01% in comparison.

5. Interest rate movements and risk

5.1 The Bank of England base rate was stable at 0.75% from August 2018, before dropping to 0.25% in March 2020 and to 0.1% a week later, both cuts being in response to the coronavirus pandemic.

5.2 Investment returns remained low during 2019-20. Shorter term interest rates remained flat and it was anticipated that there might be a rise after the Brexit issue was settled. However, the cuts in the base rate in March caused a sharp fall in investment returns which is likely to continue for some time.

5.3 The Authority has adopted a cautious approach to investment by considering only low counterparty risks, resulting in relatively low returns compared to borrowing rates. New long-term borrowing which is not used immediately to finance capital expenditure carries a revenue cost (higher borrowing rates against lower investment returns from temporary cash surpluses).

5.4 A degree of certainty has been achieved by investing only at fixed rates and for periods of less than one year.

6. Prudential Indicators

6.1 Under the Local Government Act 2003 and the Prudential Code, local authority capital spending and its borrowing to fund that spending is limited by what is affordable, prudent and sustainable.

6.2 The Prudential Code sets out a number of indicators that enable the Authority to assess affordability and prudence. The Prudential Indicators that relate to Treasury Management in the Public Services are:

- adoption of the CIPFA Code of Practice for Treasury Management in the Public Services
- limits on maturity structure of borrowing
- values of principal sums invested over one year.

6.3 Other Prudential Indicators, aligned to the Treasury Management Strategy in relation to the Capital Programme, are reported in Appendix A.

6.4 The Authority adopted and complied with the CIPFA Code of Practice for Treasury Management in the Public Services by putting in place a policy that makes it clear that the control of risks is a prime objective. It also clearly endorses the importance of the pursuit of best value and the measurement of performance.

6.5 The Authority's Borrowing Strategy for 2019-20, and performance against that strategy, was as follows:

- the Authority planned only to borrow short-term (up to twelve months) for the purpose of maintaining sufficient cash flow. As per paragraph 3.1, no borrowing was required for this purpose during the year

- the limit set on the total amount of outstanding borrowing at any time in 2019-20 i.e. the Operational Boundary was £26.983m and the Authorised Limit was £29.483m. Total outstanding borrowing was maintained within these boundary limits for 2019-20.

6.6 The maturity structure of borrowing for 2019-20 compared to target limits is as follows:

Maturity Structure	1 Apr 2019	% Total	31 Mar 2020	% Total	Upper Limit %	Lower Limit %
Under 12 months	0.202	2%	0.152	1%	15%	0%
12 mths and within 24 mths	0.151	2%	2.153	15%	15%	0%
24 mths and within 5 yrs	2.797	28%	0.681	5%	30%	0%
5 yrs and within 10 yrs	0.618	6%	0.981	7%	50%	0%
10 years and above	6.207	62%	10.207	72%	80%	0%
	9.975		14.174			

6.7 For 2019-20, in line with the Authority's Treasury Management Policy Statement and Practices, no investments were made for a period of more than one year.

7. Summary and key points

7.1 The Authority's treasury management activity is controlled through the Treasury Management Policy Statement and Practices approved in February each year for the new financial year starting in April.

7.2 Taking account of repayments made during the year, and that new borrowing of £4.4m has been undertaken, the Authority's total amount of outstanding long-term debt has increased to £14.174m as at 31 March 2020.

7.3 Net investments of surplus funds increased by £1.4m during the year, bringing the total invested at 31 March 2020 to £5.8m, compared to £4.4m at the beginning of the year. Investment returns totalled £62k compared to an original budget target of £60k.

September 2020