DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY

Item 21/44

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	30 September 2021
SUBJECT OF THE REPORT	Treasury Management Annual 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 the actual treasury management performance for 2020-21 and follows on from the six-monthly report presented in December 2020.
RISK ASSESSMENT	No risk issues arise directly from this report of treasury management performance for 2020-21.
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 2020-21, Dorset & Wiltshire Fire and Rescue Authority (February 2020)
APPENDIX	None
REPORT ORIGINATOR AND CONTACT	Name: Ian Cotter, Head of Financial Services & Treasurer Email: ian.cotter@dwfire.org.uk Tel no: 07500 066130

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 2020-21.

1.2 The Authority's 'Treasury Management Policy Statement and Practices', approved in February 2020 (in respect of 2020-21), 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. Capital expenditure

2.1 The Authority undertakes capital expenditure on the purchase and replacement of long-term assets, such as buildings and vehicles. These activities may either be:

- Financed immediately by applying available capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual level of capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	Original Estimate 2020/21 £000	Revised Estimate 2020/21 £000	Actual 2020/21 £000
Capital Expenditure	10,393	7,357	3,380
Financed in year	472	267	542
Unfinanced Capital Expenditure	**9,921**	**7,090**	**2,838**

3. The Authority's overall borrowing need

3.1 The Authority's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

3.2 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. The table below highlights the Authority's gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

	31.03.20 Actual £m	31.03.21 Forecast £m	31.03.21 Actual £m
CFR	**35.823**	**44.568**	**35.268**
Gross borrowing	**26.162**	**37.869**	**24.161**
Under / (over) funding of CFR	**9.661**	**10.699**	**11.107**

3.3 The **authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Authority does not have the power to borrow above this level. The table below demonstrates that during 2020/21 the Authority has maintained gross borrowing within its authorised limit.

3.4 The **operational boundary** – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

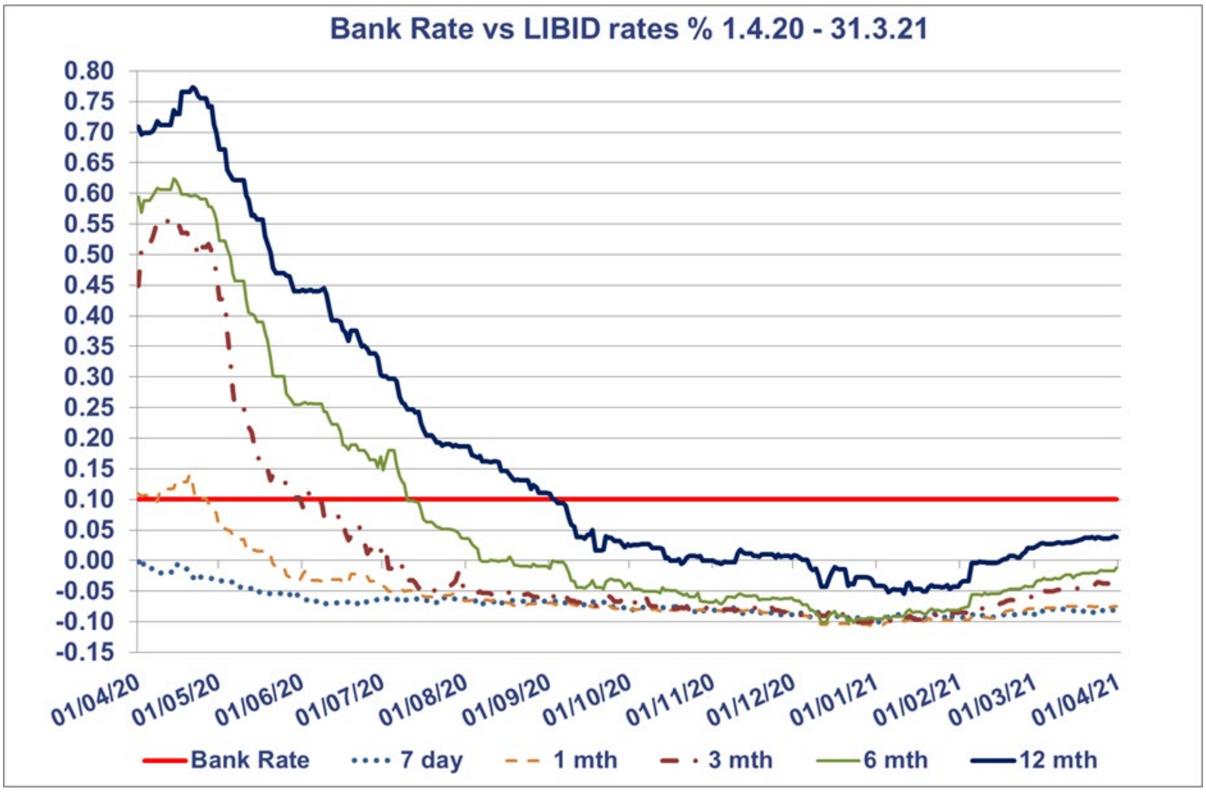
3.5 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	Actual 2020/21
Authorised limit	**41.162**
Maximum gross borrowing position during the year	**26.162**
Operational boundary	**38.662**
Financing costs as a proportion of net revenue stream	**6.15%**

4. The strategy for 2020-21

4.1 Investment strategy and control of interest rate risk

4.1.1 Investment returns which had been low during 2019/20, plunged during 2020/21. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75%, and that there may then be a small increase to 1% by March 2021, before ending at 1.25% in June 2022. This forecast was invalidated by the impact of the Covid-19 pandemic from March 2020 which caused the Monetary Policy Committee to cut the Bank Rate in March 2020, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.



4.1.2 The Authority has adopted a cautious approach to investment by considering only low counterparty risks and investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets.

4.2 Borrowing strategy and control of interest rate risk

4.2.1 During 2020-21, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Authority's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

4.2.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

4.2.3 The policy of avoiding new borrowing by running down spare cash balances, has served us well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

4.2.4 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

4.2.5 Public Works Loan Board (PWLB) rates are based on, and are determined by, gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

5. Treasury position as at 31 March 2021

5.1 Up to 2018-19, the Authority had been using surplus cash to fund the Capital Programme, rather than borrowing. In August 2019, two new maturity loans were taken out: £3m borrowed over 25 years at 2.2%, and £1.4m borrowed over 40 years at 2.13%. At 1 April 2020, the Authority's underlying need to borrow to finance capital expenditure (the CFR) was £23.836m, while the actual amount of outstanding debt was £14.174m. The difference of £9.662m represented the amount of under-borrowing, or internal borrowing.

5.2 Although the Treasury Management Strategy for 2020-21 anticipated further borrowing, this was not needed for cash flow purposes. Repayments of £0.152m were made during 2020-21 bringing the total amount of long-term debt down to £14.022m as at 31 March 2021. Total interest paid during 2020-21 was £0.501m equivalent to an average borrowing rate of 3.5%. As a result of the increase in CFR and repayment of debt, the level of under-borrowing has increased to £11.107m as at 31 March 2021.

5.3 Surplus cash is invested where possible. Investments in 2020-21 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 £58.982m, and disinvestment transactions totalled £59.420m. Net investments therefore decreased by £0.438m during the year, bringing the total invested at 31 March 2021 to £5.402m. (Total invested at 1 April 2020 was £5.840m).

5.4 The gross yield from the investments averaged 0.044%. Gross income from investments totalled only £5k, compared to the original budget target of £60k, with investment returns severely impacted by the economic response to the Covid-19 pandemic.

5.5 At the beginning and the end of 2020/21 the Authority's treasury position, (excluding borrowing by PFI and finance leases), is summarised as follows:

Loans (number at start/end of year)	Balance 1 April 2020	New loans and repayments	Balance 31 March 2021	Interest paid 2020-21
Annuity Loans (2/1)	£251,008	-£30,963	£220,045	£11,596
Maturity Loans (10/12)	£13,681,000	£0	£13,681,000	£482,969
EIP Loans (1/1)	£241,667	-£120,833	£120,834	£6,808
TOTAL DEBT	£14,173,675	-£151,796	£14,021,879	£501,373
CFR	£23,835,365		£25,129,118	
Under / (over) borrowing	£9,661,690		£11,107,239	
Total investments	£5,839,742		£5,401,601	
Net debt	£3,821,948		£5,705,638	

5.6 The maturity structure of borrowing for 2020-21 compared to target limits is as follows:

Maturity Structure	1 Apr 2020 £m	% Total	31 Mar 2021 £m	% Total	Upper Limit %	Lower Limit %
Under 12 months	0.152	1%	2.153	15%	15%	0%
12 mths and within 24 mths	2.153	15%	0.608	4%	15%	0%
24 mths and within 5 yrs	0.681	5%	0.113	1%	30%	0%
5 yrs and within 10 yrs	0.981	7%	2.248	16%	50%	0%
10 years and above	10.207	72%	8.900	64%	80%	0%
	14.174		14.022			

5.7 Investments were held in the following categories at year end:

Investment category	Invested at 31 Mar 2020	Invested at 31 Mar 2021
Banks – Overnight	£5,838,759	£2,400,383
Banks – Other	£983	£989
Money Market Funds	£0	£3,000,228
Total	**£5,839,742**	**£5,401,601**

6. Summary and key points

6.1 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.

6.2 Taking account of repayments made during the year and that no new borrowing was required, the Authority’s total amount of outstanding long-term debt has decreased to £14.022m as at 31 March 2021.

6.3 Net investments of surplus funds decreased by £438k during the year, bringing the total invested at 31 March 2021 to £5.4m, compared to £5.84m at the beginning of the year. Investment returns totalled only £5k.

September 2021