DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 21/54

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	15 December 2021
SUBJECT OF THE REPORT	Treasury Management Mid-Year Report 2021-22
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For information and to note
EXECUTIVE SUMMARY	At the meeting of the Authority on 11 February 2021, Members received and approved the Treasury Management Strategy Statement and Prudential Indicators for 2021-22. This report updates Members on Treasury Management performance for the six months to 30 September 2021. 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. At the end of the last financial year, the Authority had a capital financing requirement (excluding PFI and leasing) of £25.129m and this is forecast to increase to £34.623m based on forecast capital expenditure. Actual outstanding borrowing at the end of the last financial year was £14.022m. This reduced to £11.945m at the end of September 2021, but is forecast to increase to £19.869m by the end of the financial year. This will mean an underlying under-borrowing position of £14.754m at the end of the financial year, which is currently supported through internal borrowing from reserves and balances.

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 2021.
BACKGROUND PAPERS	Authority paper 21/10 February 2021 – Treasury Management 2021-22
APPENDICES	Appendix A - Current Borrowing Appendix B - Current Investments Appendix C - Revised Prudential Indicators 2021-22
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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 2021-22 was agreed by the Authority on 11 February 2021)
- 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 £14.022m. 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 £25.129m as at 1 April 2021, with the difference of £11.107m 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 £2.076m have been made in respect of existing loans, with a further £80k repayable in the second half of the year.

3.4 No new loans were taken out in the first six months of this financial year. Appendix A shows the total for outstanding debt at 30 September 2021 at £11.945m. The total of interest payments for the year against this outstanding debt is £460k, compared to a budget of £513k.

3.5 The Treasury Management Strategy assumed that new borrowing of £12m would be required across 2020-21 and 2021-22. This included borrowing for cashflow purposes and to reduce the level of under borrowing and borrowing in respect of capital expenditure. No borrowing was required in 2020-21, but in November 2021 new borrowing of £5m has been undertaken with the Public Works Loan Board (PWLB). This was through two separate loans of £2.5m each, one over 45 years at an interest rate of 1.66% and one over 50 years at an interest rate of 1.61%.

3.6 A provisional sum of £3m for further borrowing has been included as a working assumption, which would take total new borrowing to £8m, and the total of outstanding long-term debt to £19.9m by March 2022.

4. Investments

4.1 Investments in the first half of 2021-22 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 £40.09m, and disinvestment transactions totalled £37.46m. Net investments have therefore increased by £2.63m so far during the year, bringing the total invested at 30 September 2021 to £8.03m. (Total invested at 1 April 2021 was £5.4m).

4.2 In the period 1 April 2021 to 30 September 2021 gross income from investments totalled £734.

4.3 Details of investments as at 30 September 2021 are shown in Appendix B.

5. Rates Forecasts

5.1 The Authority's treasury advisor, Link Group, provided the following forecasts on bank and borrowing rates as at 8 November 2021, following the Bank of England's Monetary Policy Committee decision on 4 November to leave the Bank Rate unchanged at 0.10%:

Link Group Interest Rate View 8.11.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

5.2 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings. There was an expectation that the Bank Rate would be increased in November, but this did not materialise.

5.3 As the table above shows, Link is now forecasting five step increases in Bank Rate, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

5.4 The Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC’s 2% target after the surge to around 4% towards the end of 2021.

5.5 The forecast table also shows that there is likely to be a steady rise in PWLB borrowing rates over the forecast period although there is expected to be some volatility and unpredictability to this as PWLB rates are driven by gilt yields and they will react to action taken by central banks in the US, UK and Eurozone.

5.6 In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

5.7 It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

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 2021, the Authority has operated within the treasury and prudential indicators set out in the Authority's Treasury Management Strategy Statement for 2021-22. 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 2021-22.

7. Summary & key points

7.1 At the start of the financial year, the Authority had outstanding borrowing totalling £14.022m, against a Capital Financing Requirement (CFR) (need to externally borrow to finance capital expenditure) of £25.129m. This leads to an under-borrowing position of £11.107m. The current forecast for March 2022 sees the CFR increasing to £34.623m and outstanding borrowing increasing to £19.869m, leaving the under-borrowing position at £14.754m.

7.2 Investments in the first half of 2021-22 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 2021 total £8.03m (£5.4m 1 April 2021), but investment returns are much lower as a result of the reduction in interest rates.

7.3 The general economic picture will remain uncertain for some time to come. Expectations are that interest rates will gradually increase and inflation will continue to increase through 2022. However, interest rates on long-term borrowing will still be well below historic levels, easing pressure on the Medium-Term Finance Plan.

December 2021

Appendix A

Borrowing forecast as at 30 September 2021

Start Date	Maturity Date	Estimated Balance (£)	Interest Rate	Annual Interest (£)
Annuity Loans				
25/03/2005	11/03/2027	204,004	4.80%	10,177
		204,004		**10,177**
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
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
		11,681,000		**416,969**
EIP loan				
09/03/2010	09/03/2022	60,417	3.34%	3,027
		60,417		**3,027**
Total	**@ 30/09/2021**	**11,945,421**		**501,373**

Appendix B

Investments as at 30 September 2021

Name of Borrower	Amount Invested (£)	Maturity Date	Interest Rate
Loans			
Standard Chartered Bank	1,500,000	9/11/2021	0.06%
National Bank of Kuwait	1,500,000	9/11/2021	0.09%
Money Market Funds			
Federated Hermes	1,500,000		
Black Rock	229		
Call Accounts			
Bank of Scotland	1,249,660		0.09%
Lloyds Bank	2,278,476		0.09%
HSBC Deposit Account	2,385		0.00%
Santander	991		
Total Investments	**8,031,741**		

Appendix C

Revised Prudential Indicators 2021-22

1. Capital Expenditure

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

	Original Estimate 2021-22 £m	Revised Estimate 2021-22 £m
Capital Expenditure		
- Property/Estates	1.136	1.476
- Vehicles	6.382	7.136
- Equipment	0.525	1.690
- Information Communication Technology	1.024	1.252
Total Capital Programme	**9.068**	**11.554**

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 2021-22 £m	Revised Estimate 2021-22 £m
CFR at 1 April (start of year)	**40.522**	**35.268**
Planned Capital expenditure	**9.068**	**11.554**
Less:		
Write down of PFI and Finance leases	**-0.668**	**-0.668**
Revenue Financing	**-0.000**	**-0.301**
Grants/Receipts Applied	**-0.156**	**-0.107**
Statutory Charge to Revenue	**-1.950**	**-1.652**
CFR at 31 March (end of year)	**46.816**	**44.093**

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 2021-22	Revised Estimate 2021-22
Ratio of financing costs to net revenue stream (including PFI)	**6.88%**	**6.30%**
Ratio of financing costs to net revenue stream (excluding PFI)	**4.38%**	**3.80%**

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 2021/22	**Revised Estimate 2021/22**
	£m	**£m**
Debt outstanding 1st April	18.022	14.022
New debt	8.000	8.000
Debt repayment	-2.153	-2.153
Debt outstanding	**23.869**	**19.869**
PFI/Lease Liabilities	11.347	10.139
PFI/Lease written down	-0.668	-0.668
PFI/Lease Liability outstanding	**10.679**	**9.470**
Gross Debt outstanding	**34.548**	**29.339**