DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 22/41

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	29 September 2022
SUBJECT OF THE REPORT	Treasury Management Annual 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 the actual treasury management performance for 2021-22 and follows on from the six-monthly report presented in December 2021.
RISK ASSESSMENT	No risk issues arise directly from this report of treasury management performance for 2021-22.
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 2021-22, Dorset & Wiltshire Fire and Rescue Authority (February 2021)
APPENDIX	None
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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 2021-22.

1.2 The Authority's 'Treasury Management Policy Statement and Practices', approved in February 2021 (in respect of 2021-22), 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 2021-22 £000	Revised Estimate 2021-22 £000	Actual 2021-22 £000
Capital Expenditure	9,068	10,657	9,922
Financed in year	156	408	496
Unfinanced Capital Expenditure	**8,912**	**10,249**	**9,426**

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). The CFR results from the capital activity of the Authority and resources used to pay for the capital spend. It represents the 2021-22 unfinanced capital expenditure (£9.426m as per above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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 must 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.

	31.03.21 Actual £m	31.03.22 Forecast £m	31.03.22 Actual £m
CFR	**35.268**	**46.816**	**42.375**
Gross borrowing	**24.161**	**34.547**	**26.340**
Under / (over) funding of CFR	**11.107**	**12.269**	**16.035**

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 2021-22 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.

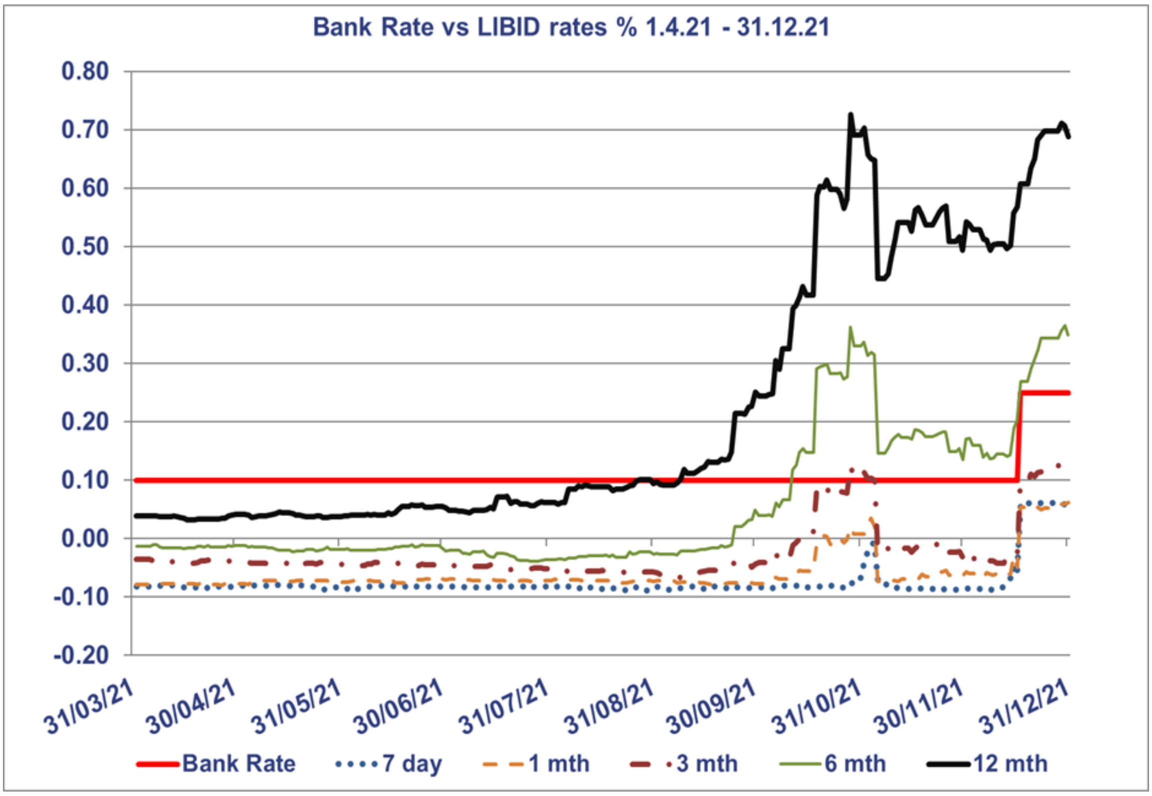
3.5 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	Actual 2021-22
Authorised limit	**39.869**
Maximum gross borrowing position during the year	**26.493**
Operational boundary	**37.369**
Financing costs as a proportion of net revenue stream	**5.96%**

4. The strategy for 2021-22

4.1 Investment strategy and control of interest rate risk

4.1.1 Investment returns remained close to zero for much of 2021-22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021-22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.



4.1.2 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. 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 remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

4.1.3 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, and only borrowing externally when necessary and prudent to do so. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates.

4.2 Borrowing strategy and control of interest rate risk

4.2.1 During 2021-22, 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 the 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 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22.

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.

4.2.6 Gilt yields fell sharply from the spring of 2021 through to September, spiked back up before falling again through December, but then increasing from January as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine. There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years with the Bank Rate rising.

5. Treasury position as at 31 March 2022

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 2021, the Authority's underlying need to borrow to finance capital expenditure (the CFR) was £25.129m, while the actual amount of outstanding debt was £14.022m. The difference of £11.107m represented the amount of under-borrowing, or internal borrowing.

5.2 The Treasury Management Strategy for 2021-22 anticipated £12m of further borrowing across 2020-21 and 2021-22, but only £5m has actually been borrowed. This borrowing was undertaken in November 2021 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%. Repayments of £2.153m were made during 2021-22 taking the total amount of long-term debt up to £16.869m as at 31 March 2022. Total interest paid during 2021-22 was £0.491m equivalent to an average borrowing rate of 2.9%. As the increase in CFR is higher than the increase in debt, the level of under-borrowing has also increased, up to £16.035m as at 31 March 2022.

5.3 Surplus cash is invested where possible. Investments in 2021-22 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 £87.760m, and disinvestment transactions totalled £87.935m. Net investments therefore decreased by £0.175m during the year, bringing the total invested at 31 March 2022 to £5.227m. (Total invested at 1 April 2021 was £5.402m).

5.4 The gross yield from the investments averaged just 0.044%. Gross income from investments totalled only £4k, compared to the original budget target of £15k, with investment returns continuing to be severely impacted by the economic response to the Covid-19 pandemic.

5.5 At the beginning and the end of 2021/22 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 2021	New loans and repayments	Balance 31 March 2022	Interest paid 2021-22
Annuity Loans (2/1)	£220,045	-£32,466	£187,579	£10,087
Maturity Loans (10/12)	£13,681,000	£3,000,000	£16,681,000	£477,748
EIP Loans (1/1)	£120,834	-£120,834	£0	£2,773
TOTAL DEBT	£14,021,879	£2,846,700	£16,868,579	£490,608
CFR	£25,129,118		£32,903,613	
Under / (over) borrowing	£11,107,239		£16,035,034	
Total investments	£5,401,601		£5,226,504	
Net debt	£5,705,638		£10,808,530	

5.6 The maturity structure of borrowing for 2021-22 compared to target limits is as follows:

Maturity Structure	1 Apr 2021 £m	% Total	31 Mar 2022 £m	% Total	Upper Limit %	Lower Limit %
Under 12 months	2.153	15%	0.608	4%	20%	0%
12 mths and within 24 mths	0.608	4%	0.036	0%	30%	0%
24 mths and within 5 yrs	0.113	1%	0.118	1%	40%	0%
5 yrs and within 10 yrs	2.248	16%	2.207	13%	50%	0%
10 years and above	8.900	64%	13.900	82%	100%	0%
	14.022		16.869			

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

Investment category	Invested at 31 Mar 2021	Invested at 31 Mar 2022
Banks – Overnight	£2,400,383	£3,725,282
Banks – Other	£989	£993
Money Market Funds	£3,000,228	£1,500,229
Total	**£5,401,601**	**£5,226,504**

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, but also £5m of new borrowing, the Authority's total amount of outstanding long-term debt has increased to £16.869m as at 31 March 2022, although this is well below the forecast position.

6.3 Net investments of surplus funds decreased by £175k during the year, bringing the total invested at 31 March 2021 to £5.2m, compared to £5.4m at the beginning of the year. Investment returns totalled only £4k, but we are now seeing increased returns as a result of the rises in interest rates.