For Publication

Bedfordshire Fire and Rescue Authority
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REPORT AUTHOR: **ASSISTANT CHIEF OFFICER/FRA TREASURER**

SUBJECT: **TREASURY MANAGEMENT – ANNUAL REPORT FOR 2020/21**

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Background Papers: Treasury Management Strategy 2019/20.

Implications (tick ✓):

LEGAL		FINANCIAL	✓
HUMAN RESOURCES		EQUALITY IMPACT	
ENVIRONMENTAL		POLICY	
ORGANISATIONAL RISK	✓	OTHER (please specify)	

Any implications affecting this report are noted at the end of the report.

PURPOSE:

To consider the Authority's Annual Report for Treasury Management for 2020/21.

RECOMMENDATION:

That Members review and consider the information presented in the report.

1. Introduction

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2020/21 the minimum reporting requirements were that the full Authority should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year (minimum) treasury update report
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authorities policies previously approved by members.

This Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the full authority. Training will be provided to Members by our Treasury Advisor's, Link Asset Services, in 2021 as per the FRA's request.

2. <u>The Authorities Capital Expenditure and Financing</u>

The Authority undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authorities 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.

  The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how it was financed as per Statement of Accounts & Budget Book:

Capital Expenditure by Service	**2019/20 Actual £'000**	**2020/21 Budget £'000**	**2020/21 Actual £'000**
Funded by Capital Receipts, Capital Reserve & RCCO (Revenue Contributions to Reserve)	662	1,505	1,078

3. <u>The Authorities Overall Borrowing Need</u>

The Authorities underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

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 (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allowed the Authority some flexibility to borrow in advance of its immediate capital needs in 2020/21.

The table below highlights the Authorities gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

	31 March 2020 Actual £'000	**31 March 2021 Budget £'000**	**31 March 2022 Actual £'000**
Prudential Indicator – Capital Financing Requirement			
Borrowing	9,987	9,987	9,987
Other long term liabilities	0	0	0
Total Debt	9,987	9,987	9,987
TOTAL CFR	7,969	7,550	7,550
Under/(over) borrowing	(2,018)	(2,437)	(2,437)

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.

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.

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.

	2020/21 £’000
Authorised Limit	11,887
Maximum gross borrowing position during the year	9,987
Operational Boundary	9,987
Average gross borrowing position	9,987
Financing costs as a proportion of net revenue stream	**2.19%**

4. Treasury Position as at 31 March 2021

At the beginning and the end of 2020/21 the Authorities treasury position was as follows:

	31 March 2020 Principal £'000	**Rate/Return**	**Average Life yrs**	**31 March 2021 Principal £'000**	**Rate/Return**	**Average Life yrs**
Fixed rate funding:						
PWLB	9,987	4.27%	37	9,987	4.27%	36
Other long term liabilities	0			0		
Total debt	**9,987**	4.27%	37	9,987	4.27%	36
CFR* (year end position)	**7,969**			**7,550**		
Over/(under) borrowing	**2,018**			**2,437**		
Total investments	**17,410**	**1.02%**		**17,951**	**0.26%**	
Net debt	**(7,423)**			**(7,964)**		

The maturity structure of the debt portfolio was as follows:

	31 March 2020 Actual £'000	**2020/21 Original limits £'000**	**31 March 2021 Actual £'000**
Under 12 months	0	0	0
12 months to 2 years	0	0	0
2 years to 5 years	0	0	0
5 years to 10 years	0	0	0
10 years and above	9,987	9,987	9,987

Investment Portfolio	Actual 31 March 20 £'000	Actual 31 March 20 %	Actual 31 March 21 £'000	Actual 31 March 21 %
Treasury Investments				
UK banks	12,430	71%	12,951	72%
Foreign bank (via Links)	5,000	29%	5,000	28%
Total	**17,430**	**100%**	**17,951**	**100%**

5. The strategy for 2020/21

5.1 Investment strategy and control of interest rate risk

Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. 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 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, 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.

While the Authority has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

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. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

5.2 Borrowing strategy and control of interest rate risk

During 2020-21, the Authority maintained an over-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), has been exceeded by loan debt. The strategy for the CFR and the under/over borrowed position going forward will be discussed at the next meeting with our Treasury advisors.

The policy of avoiding new borrowing by funding capital from revenue and using reserves, has served well over the last few years. However, this will be 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.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The ACO therefore monitored interest rates in financial markets and adopted a pragmatic strategy.

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.

	End Q2 2021	End Q3 2021	End Q4 2021	End Q1 2022	End Q2 2022	End Q3 2022	End Q4 2022
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB rate	1.20%	1.20%	1.30%	1.30%	1.30%	1.40%	1.40%
10yr PWLB rate	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%
25yr PWLB rate	2.20%	2.20%	2.30%	2.40%	2.40%	2.40%	2.50%
50yr PWLB rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.20%	2.30%

6. Borrowing Outturn

6.1 It was anticipated at the beginning of 2020/21 that the Authority would have surplus funds available for short-term investment, either within its Special Interest Bearing Account (SIBA) at its bankers or through the money market. As at the 31st March 2021 the SIBA account is paying a rate of 0.01%.

6.2 The Authority's call-account with Barclays Bank has been used during 2020/21. As at 31st March 2021 the Barclays account is paying a rate of 0.01%.

6.3 The Authority's 120-Day Interest account with Santander has continued to be used during 2020/21. During 2020/21 this account was paying a rate of 0.55% but reduced to 0.50% as at 2nd November and remained that as at 31st March 2021.

6.4 The Authority's 180-Day Interest account with Santander has continued to be used during 2020/21. During 2020/21 this account was paying a rate of 0.60% but reduced to 0.58% as at 2nd November and remained that as at 31st March 2021.

6.5 The Authority’s 95-Day Interest account with Lloyds Bank has been continued to be used during 2020/21. During 2020/21 this account was paying a rate of 0.30% but reduced to 0.10% as at 2nd November. Notice was given in mid-August and monies returned. However, funds were then replaced at a continued rate of 0.10% but reduced to 0.05% and remained that as at 31st March 2021.

6.6 The Authority has re-invested two maturing deposits with Qatar National Bank during 2020/21, via our Treasury Agents, Link Asset Services. The two fixed term investments were for six months at a rate of 0.47% and 0.32% and matured in January 2021 and February 2021. (£2.25M and £2.75M). Both of these deposits were then re-invested with Qatar National Bank for six months at a rate 0.32% and 0.25%, due to mature in July 2021 and August 2021.

6.7 During 2020/21 the Authority did not use Money Market Funds for short-term investments.

6.8 Borrowing has not been undertaken in 2020/21 to finance the Capital Programme. The funding for the 2020/21 Capital Programme was through Grant and revenue contributions.

No debt rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Investment Outturn

Investment Policy – the Authorities investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by Members on 11th February 2021. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

Resources – the Authorities cash balances comprise revenue and capital resources and cash flow monies. The Authorities core cash resources comprised as follows:

Balance Sheet Resources (£m)	**31 March 2020** **£'000**	**31 March 2021** **£'000**
Balances	2,600	2,400
Earmarked reserves	12,858	13,505
Grants and other Contributions unapplied	159	159
Usable capital receipts	564	507
Total	**16,181**	**16,571**

Investments held by the Authority

- the Authority maintained an average balance of £15M of internally managed funds
- The internally managed funds earned an average rate of return of 0.26%
- The comparable performance indicator is the average Local Authority 7 Day LIBID uncompounded rate which was -0.08%
- Total investment income was £83,993 lower than the set budget of £115,400

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