For Publication	**Bedfordshire Fire and Rescue Authority** **20 July 2022**

REPORT AUTHOR:	**ASSISTANT CHIEF OFFICER/FRA TREASURER**
SUBJECT:	**TREASURY MANAGEMENT – ANNUAL REPORT FOR 2021/22**
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Background Papers:	Treasury Management Strategy 2021/22

PURPOSE:

To consider the Authority's Annual Report for Treasury Management for 2021/22.

RECOMMENDATION:

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

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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 2021/22. 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 2021/22 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 can be provided to Members by our Treasury Advisor's, Link Treasury Services, in 2022 at 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:

Capital Expenditure by Service	**2020/21 Actual £'000**	**2021/22 Budget £'000**	**2021/22 Actual £'000**
As per Statement of Accounts & Budget Book	1,078	1,038	748

3. The Authorities Overall Borrowing Need

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 (2021/22) 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 2021 Actual £'000	**31 March 2022 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	7,550	7,273	7,273
Under/(over) borrowing	(2,437)	(2,714)	(2,714)

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.

	2021/22 **£'000**
Authorised Limit	11,987
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	**2.03%**

4. Treasury Position as at 31 March 2022

At the beginning and the end of 2021/22 the Authorities treasury position was as follows:

	31 March 2021 Principal £'000	Rate/Return	Average Life yrs	31 March 2022 Principal £'000	Rate/Return	Average Life yrs
Fixed rate funding:						
PWLB	9,987	4.27%	36	9,987	4.27%	35
Other long term liabilities	0			0		
Total debt	9,987	4.27%	36	9,987	4.27%	35
CFR* (year-end position)	**7,550**			**7,273**		
Over/(under) borrowing	**2,437**			**2,714**		
Total investments	**17,951**	**0.26%**		**17,975**	**0.45%**	
Net debt	**(7,964)**			**(7,988)**		

The maturity structure of the debt portfolio was as follows:

	31 March 2021 Actual £'000	2021/22 Original limits £'000	31 March 2022 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 21 £'000	Actual 31 March 21 %	Actual 31 March 22 £'000	Actual 31 March 22 %
Treasury Investments				
UK banks	12,951	72%	13,225	74%
Foreign bank (via Links)	5,000	28%	4,750	26%
Total	**17,951**	**100%**	**17,975**	**100%**

5. The strategy for 2021/22

5.1 Investment strategy and control of interest rate risk

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.

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).

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 counterparty risk exposure, by having fewer investments placed in the financial markets.

5.2 Borrowing strategy and control of interest rate risk

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

Forecasts at the time of approval of the Treasury Management Strategy Report for 2021/22 were as follow:

Link Group Interest Rate View	8.2.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
Bank Rate													
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate													
Link	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
Capital Economics	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.00	-	-	-	-	-
10yr PWLB Rate													
Link	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate													
Link	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate													
Link	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

Link Group Interest Rate forecast review as at time of writing this report are as follows:

	End Q2 2022	End Q3 2022	End Q4 2022	End Q1 2023	End Q2 2023	End Q3 2023	End Q4 2023
Bank Rate	1.75%	2.25%	2.75%	2.75%	2.75%	2.75%	2.50%
5yr PWLB rate	3.20%	3.30%	3.30%	3.30%	3.30%	3.20%	3.10%
10yr PWLB rate	3.40%	3.50%	3.50%	3.50%	3.50%	3.40%	3.30%
25yr PWLB rate	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.60%
50yr PWLB rate	3.40%	3.40%	3.50%	3.50%	3.40%	3.40%	3.30%

6. Borrowing Outturn

It was anticipated at the beginning of 2021/22 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 2022 the SIBA account is paying a rate of 0.1%.

The Authority's call-account with Barclays Bank has been used during 2021/22. As at 31st March 2022 the Barclays account is paying a rate of 0.1%.

The Authority's 120-Day Interest account with Santander has continued to be used during 2021/22. During 2021/22 this account was paying a rate of 0.50% but increased to 0.55% as at 1st January and then increased again to 0.65% as at 1st March and had increased to 0.65% by 31st March 2022.

The Authority's 180-Day Interest account with Santander has continued to be used during 2021/22. During 2021/22 this account was paying a rate of 0.58% but increased to 0.63% as at 1st January and then increased again to 0.73% as at 1st March and had increased to 0.87% by 31st March 2022.

The Authority's 95-Day Interest account with Lloyds Bank has been continued to be used during 2021/22. During 2021/22 this account was paying a rate of 0.05%. Notice was given in mid-February with monies due to be returned 23rd May. At the time of writing this report the deposits had been received and the Lloyds 95 Day Account is currently Nil.

The Authority has re-invested two maturing deposits with Qatar National Bank during 2021/22, via our Treasury Agents, Link Treasury Services. The two fixed term investments were for six months at a rate of 0.32% and 0.25% and matured in July 2021 and August 2021. (£2.25M and £2.75M). Both of these deposits were then re-invested with Qatar National Bank for six months at a rate 0.39%, and matured in January 2022 and February 2022. These were then re-invested with Qatar National Bank for six months at a rate of 0.67% and 0.87% (£2.25M and £2.5M)

During 2021/22 the Authority did not use Money Market Funds for short-term investments.

Borrowing has not been undertaken in 2021/22 to finance the Capital Programme. The funding for the 2021/22 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 23rd March 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 2021** **£'000**	**31 March 2022** **£'000**
Balances	2,400	2,400
Earmarked reserves	13,505	12,724
Grants and other Contributions unapplied	159	159
Usable capital receipts	507	548
Total	**16,571**	**15,831**

Investments held by the Authority

- The Authority maintained an average balance of £21M of internally managed funds.(including fixed term investments)
- The internally managed funds earned an average rate of return of 0.27%
- The comparable performance indicator is the average Local Authority 7 Day SONIA compounded rate which was 0.1392%
- Total investment income was £56,043 lower than the set budget of £65,400

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