For Publication

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

SUBJECT: **TREASURY MANAGEMENT – ANNUAL REPORT FOR 2019/20**

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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 2019/20.

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 2019/20. 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 2019/20 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 Authority's 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 Asset Services, in 2020 at the FRA's request.

2. The Authority's Capital Expenditure and Financing

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 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.

  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	2018/19 Actual £'000	2019/20 Budget £'000	2019/20 Actual £'000
As per Budget Book	1,291	1,736	662

3. The Authority's Overall Borrowing Need

The Authority's 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 (2018/19) plus the estimates of any additional capital financing requirement for the current (2019/20) 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 2019/20.

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

	31 March 2019 Actual £'000	31 March 2020 Budget £'000	31 March 2020 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	8,398	7,969	7,550
Under/(over) borrowing	(1,589)	(2,018)	(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 2019/20 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.

	2019/20 £'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 2020

At the beginning and the end of 2019/20 the Authority's treasury position was as follows:

	31 March 2019 Principal £'000	**Rate/Return**	**Average Life yrs**	**31 March 2020 Principal £'000**	**Rate/Return**	**Average Life yrs**
Fixed rate funding:						
PWLB	9,987	4.27%	38	9,987	4.27%	37
Other long term liabilities	0			0		
Total debt	**9,987**	4.27%	38	9,987	4.27%	37
CFR* (year end position)	**8,398**			**7,969**		
Over/(under) borrowing	**1,589**			**2,018**		
Total investments	**16,791**	**0.99%**		**17,410**	**1.02%**	
Net debt	**(6,804)**			**(7,423)**		

The maturity structure of the debt portfolio was as follows:

	31 March 2019 Actual £'000	**2019/20 Original limits £'000**	**31 March 2020 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 19 £'000	Actual 31 March 19 %	Actual 31 March 30 £'000	Actual 31 March 20 %
Treasury Investments				
UK banks	11,246	78%	10,747	68%
Foreign bank (via Links)	3,250	22%	5,000	32%
Total	**14,496**	**100%**	**15,747**	**100%**

5. The strategy for 2019/20

5.1 Investment strategy and control of interest rate risk

Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the Monetary Policy Committee (MPC) would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

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 2019-20, 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 2019/20 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 2020	End Q3 2020	End Q4 2020	End Q1 2021	End Q2 2021	End Q3 2021	End Q4 2021
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB rate	1.90%	1.90%	1.90%	2.00%	2.00%	2.00%	2.10%
10yr PWLB rate	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%
25yr PWLB rate	2.50%	2.50%	2.50%	2.60%	2.60%	2.60%	2.70%
50yr PWLB rate	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%

6. Borrowing Outturn

6.1 It was anticipated at the beginning of 2019/20 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 2020 the SIBA account is paying a rate of 0.20% up to £999,999 and 0.30% for funds over £1M.

6.2 The Authority's call-account with Barclays Bank has been used during 2019/20. During 2019/20 the Barclays account was paying a rate of 0.45%, however as of 12th March reduced to 0.05% and remained that as at 31st March 2020.

6.3 The Authority's 120-Day Interest account with Santander has continued to be used during 2019/20. During 2019/20 this account was paying a rate of 0.95% and remained that as at 31st March 2020.

6.4 The Authority's 180-Day Interest account with Santander has continued to be used during 2019/10. During 2019/20 this account was paying a rate of 1.00% and remained that as at 31st March 2020.

6.5 This Authority had also placed surplus funds into a 95-Day Interest account with Lloyds Bank at a variable rate of 1.10% as at 19th August. This rate was then reduced twice in March, to 0.60% on 11th March and then 0.45% on 20th March, where it then remained as at 31st March 2020.

6.6 The Authority has invested funds with two foreign banks, Goldman Sachs and Qatar during 2019/20, via our Treasury Agents, Link Asset Services. The Goldman Sachs Bank investment was a fixed term investment for three months at a rate of 0.79%. This has since matured in November 2019 (£2.5M). The Qatar National Bank investments are fixed term investments for six months at a rate of 1.13%, 1.08% and two at 1.10%. Two have since matured in October 2019 (£2.75M) and January 2020 (£2.25M). The remaining two will mature in 2020-21, April and July.

6.7 During 2019/20 the Authority did not use Money Market Funds for short-term investments.

6.8 Borrowing has not been undertaken in 2019/20 to finance the Capital Programme. The funding for the 2019/20 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

The investment outturn was very positive for 2019/20, with £193,117 investment income achieved, compared to a budget of £90,400. This is enabled by the active management of cash flow and the proactive management of investments by the Finance Team.

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 2020. 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 Authority's cash balances comprise revenue and capital resources and cash flow monies. The Authority's core cash resources comprised as follows:

Balance Sheet Resources (£m)	31 March 2019 £'000	31 March 2020 £'000
Balances	2,600	2,600
Earmarked reserves	12,669	12,858
Grants and other Contributions unapplied	189	159
Usable capital receipts	644	564
Total	**16,102**	**16,181**

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 1.02%
- The comparable performance indicator is the average Local Authority 7 Day Rate which was 0.5338%
- Total investment income was £193,117 compared to a budget of £90,400

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