Appendix 3

Annual Treasury Management Review
2021/22

Cambridgeshire and Peterborough Fire Authority
May 2022

Annual Treasury Management Review 2021/22

1. Introduction

1.1 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).

1.2 During 2021/22 the minimum reporting requirements were that the full Fire 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).

1.3 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.

2. Treasury Position as at 31 March 2022

2.1 At the end of 2021/22 the Authority's treasury (excluding borrowing by Public Finance initiatives (PFI and finance leases) position was as follows;

DEBT PORTFOLIO	31 March 2021 Principal	Rate/ Return	Average Life yrs	31 March 2022 Principal	Rate/ Return	Average Life yrs
Total Debt	***£3.200m***	***4.40%***	***33***	***£5.700m***	***4.40%***	***36***
Capital Financing Requirement	***£5.200m***			***£8.592m***		
Over / (under) Borrowing	***(£2. 000)m***			***(£2. 892)m***		
Total Investments	***£10.681m***	***0.04%***		***£8.508m***	***0.48%***	
Net Investments	**£7.481m**			**£2.808m**		

INVESTMENT PORTFOLIO	Actual 31.03.2021 £000	Actual 31.03.2021 %	Actual 31.03.2022 £000	Actual 31.03.2022 %
Treasury Investments				
Banks	***8,681***	***81.27***	***8,508***	***100***
Building Societies - rated	***2,000***	***18.73***	***£nil***	
TOTAL TREASURY INVESTMENTS	***10,681***	***100***	***8,508***	***100***

2.2 **Investment Outturn**

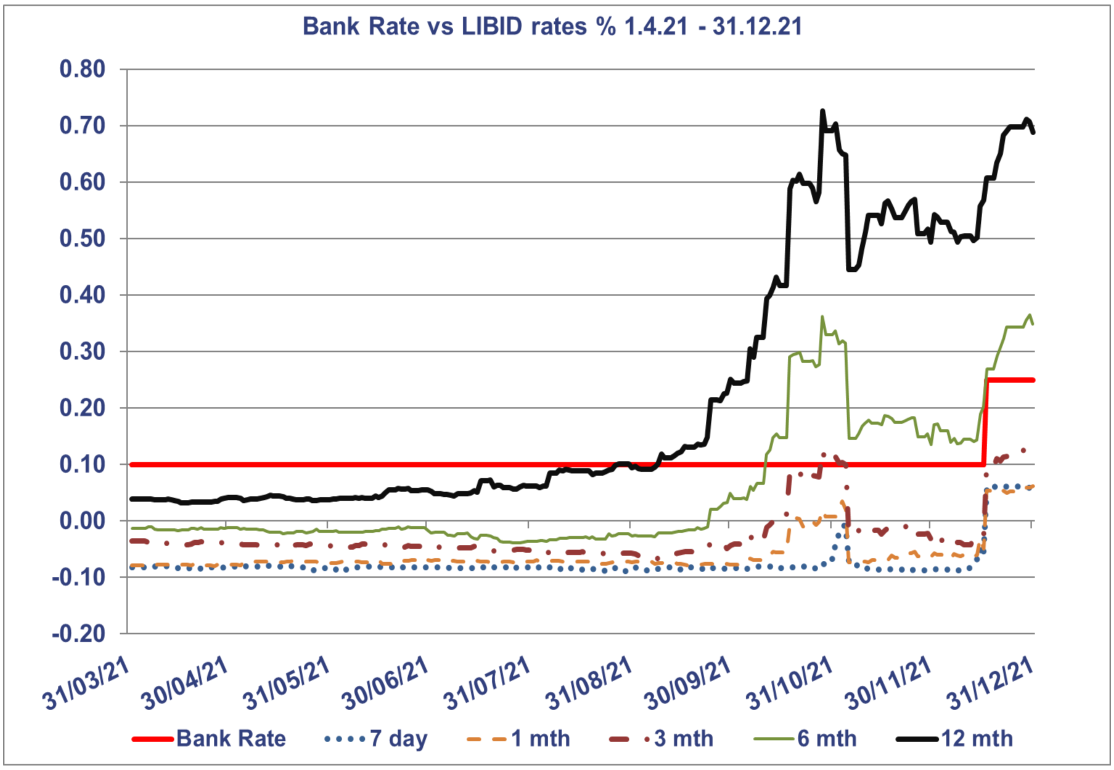
2.2.1 **Investment Policy –** the Authority's investment policy is governed by MHCLG investment guidance which has been implemented in the investment strategy approved by the Authority in February 2018. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data such as rating outlooks, credit default swaps and bank share prices etc. The investment activity during the year conformed to the approved strategy and the Authority had no liquidity difficulties.

2.2.2 **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 2021	31 March 2022
Balances	***2,098***	***2,133***
Earmarked Reserves	***7,007***	***8,460***
Usable Capital Receipts	***1,319***	***1,319***
Useable Capital Grants	***2,587***	**-**
TOTAL	***13,011***	***11,912***

3. The Strategy for 2021/22

3.1 Investment Strategy and Control of Interest Rate Risk



3.1.1 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.

3.1.2 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).

3.1.3 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.

3.1.4 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.

3.2 Borrowing Strategy and Control of Interest Rate Risk

3.2.1 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.

3.2.2 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.

3.2.3 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was 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.

3.2.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasurer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks;

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

3.2.5 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.

Appendix 1

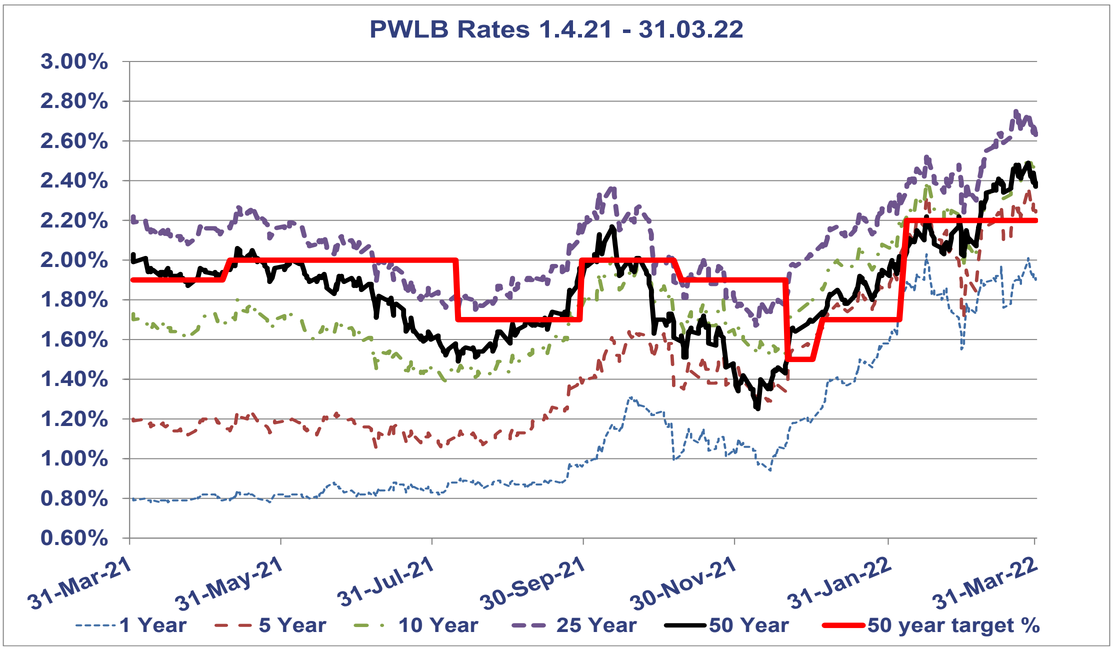
Prudential and Treasury Indicators

-	Budget 2021/22 £m
	£m
Capital Financing Requirement	6.003
Operational Boundary	9.587
Actual External Debt as at 31 March 2022	
Authorised Limit	11.087
Upper limit for fixed interest rate exposure	
Net principal fixed rate borrowing / investments	100%
Upper limit for variable interest rate exposure	100%
Net principal variable rate borrowing / investments	
Upper limit for total principal sums invested for over 364 days	0%
Maturity structure of new fixed rate borrowing during 2021/22:	
	Upper Limit
under 12 months	100%
12 months and with 24 months	100%
24 months and within 5 years	100%
5 years and within 10 years	100%
10 years and above	100%

Appendix 2

Borrowing and Investment Rates

PWLB Rates 2021/22



Investment Rates and Forecasts

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