Tyne and Wear Fire and Rescue Authority
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TYNE AND WEAR FIRE AND RESCUE AUTHORITY **Item No. 5**

MEETING: GOVERNANCE COMMITTEE 31ST OCTOBER 2022

TREASURY MANAGEMENT – ANNUAL REVIEW OF PERFORMANCE 2021/2022

REPORT OF THE FINANCE DIRECTOR

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1. Purpose of the Report

1.1 To report on the Treasury Management performance of the Authority for 2021/2022 in line with best practice as prescribed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011).

2. Introduction

2.1 Sunderland City Council, as lead authority, performs the treasury management function on behalf of the Authority.

2.2 This report sets out the annual borrowing and investment performance for the financial year 2021/2022 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by the Authority on 15th March 2021. The Treasury Management Strategy comprises a Borrowing and Investment Strategy which set out the Authority's strategy for borrowing and its policies for managing its investments (which gave priority to the security and liquidity of funds over yield of those investments).

2.3 The Treasury Management Policy Statement and Strategy complies with best practice, including the Ministry of Housing, Communities and Local Government's 'Statutory Guidance on Local Government Investments' updated in February 2018 and also incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, updated in December 2017.

3. Review of Performance 2021/2022 – Summary

3.1 Cost of Borrowing

The performance of the Authority's Treasury Management function continues to contribute financial savings that are used to provide funding to support future years' capital programmes and help to support the Authority's revenue budget. The average rate of the lead authority's borrowing at 2.55% compares favourably when benchmarked against other authorities and has helped to keep the revenue cost of the Authority's borrowing low in comparison. Section 4 of the report sets out more details of the Authority's Borrowing Strategy, for members information.

Covid-19 has had a significant impact on financial markets and economic forecasting throughout 2021/2022 and any respite to the uncertainty from the successful rollout of vaccines has been replaced by the global fallout of Russia's invasion of Ukraine in February 2022. Concerns over Europe's reliance on Russia for its oil and gas supplies has sent wholesale energy prices soaring, despite the UK's exposure being less than its European neighbours. Serious supply-side shocks have fed through to higher energy and food bills placing unprecedented pressure on household incomes with little prospect of this abating in 2022.

3.2 **Rate of Return on Investments**

The Authority has benefitted from the fact that its investment income has been matched to the benchmark rate of 0.14% instead of the average Money Market Fund return that has been used in previous years but which has been adversely impacted by the Covid pandemic. The investment policy continues to reflect the priority to 'protect' the funds of the Authority first and foremost. More details are set out in Section 6 of this report in respect of the Authority's Investment Strategy and Performance.

3.3 **Treasury Management Prudential Indicators**

The Authority has not exceeded any of its Treasury Management Prudential Indicators during 2021/2022. These indicators help to control the day to day Treasury Management activity which is closely monitored to ensure limits set each year by the Authority are not exceeded and which means capital expenditure can be appropriately financed and is affordable within the constraints of the revenue budget.

It is also very important that the Authorised Borrowing Limit for External Debt for the Authority, which is a statutory limit which must be set each year under section 3(1) of the Local Government Act 2003, is not exceeded. This limit was set at £50.272m for 2021/2022 and the highest level reached by the Authority of £35.423m during the year was below this limit. More details of all of the Prudential Indicators are set out in Section 5.

4. **Borrowing Strategy and Performance – 2021/2022**

4.1 The basis of the agreed Borrowing Strategy was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Authority's future borrowing requirement when market conditions were favourable;
- use a benchmark financing rate of 2.60% for long-term borrowing (i.e. all borrowing for a period of one year or more);
- take advantage of debt rescheduling opportunities as appropriate.

4.2 The Borrowing Strategy has been regularly reviewed by this Committee throughout the year and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2021/2022 was based upon the views of the Lead Authority's Finance Officer, supplemented with market data, market information and leading economic forecasts provided by the Authority's treasury management adviser, Link Asset Services.

4.3 The strategy for 2021/2022 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 2.60% for long-term borrowing was set for 2021/2022 in light of the views prevalent at the time the Treasury Management policy was set in March 2021.

4.4 The BoE Monetary Policy Committee (MPC) voted at its meeting on 16th December 2021 to increase the Base Rate by 0.15% to 0.25%, the first increase in the Base Rate since the historic low of 0.10% announced on 19th March 2020. This was followed by two further increases of 0.25% at its meetings on 3rd February and 17th March 2022 respectively, taking the Base Rate to the pre-virus and post-Global Financial Crisis high of 0.75% with more to come if the MPC switches focus to combating inflation than protecting economic growth.

4.5 The continued surge in Consumer Price Index (CPI) inflation to a new 30-year high of 7.0% in March 2022, is more than three times the BoE target of 2% and despite measures announced by the Chancellor in his Spring Fiscal Statement, we are seeing the biggest squeeze on households' living standards for over 50 years.

4.6 There have been high levels of volatility in the financial markets during 2021/2022. The war in Ukraine has contributed to financial conditions being as tight as after the Brexit vote in 2016. Whilst the economy has proven resilient to the effects of the war in its early stages, this position is likely to change if it becomes a long and protracted conflict. 50-year PWLB interest rates started the financial year in April 2021 at 2.03% (inclusive of the 0.20% discount available to Local Authorities), dropping to 1.49% in August 2021 before reaching a peak of 2.17% on 11th October 2021. From then rates gradually fell to a low of 1.25% on 9th December 2021 before steadily rising to end the financial year at 2.39%

4.7 The table below shows the average PWLB borrowing rates for each quarter in 2021/2022.

2021/2022	**Qtr 1 (Apr - June) %**	**Qtr 2 (July – Sept) %**	**Qtr 3 (Oct – Dec) %**	**Qtr 4 (Jan – Mar) %**
SONIA Overnight Rate	0.05	0.05	0.07	0.39
1 year	0.81*	0.87*	1.11*	1.71*
5 year	1.18*	1.15*	1.47*	2.01*
10 year	1.68*	1.52*	1.75*	2.19*
25 year	2.14*	1.90*	1.99*	2.38*
50 year	1.94*	1.68*	1.68*	2.09*

* Rates take account of the 0.2% discount to PWLB rates available to eligible authorities from 1st November 2012.

4.8 In line with discussions with the Authority's Treasury Management adviser, Sunderland City Council took advantage of low borrowing rate troughs that have occurred and which will benefit the revenue budget over the longer term. £100 million of new borrowing was taken out during the financial year as the rate was considered opportune. The new borrowing is summarised in the following table:

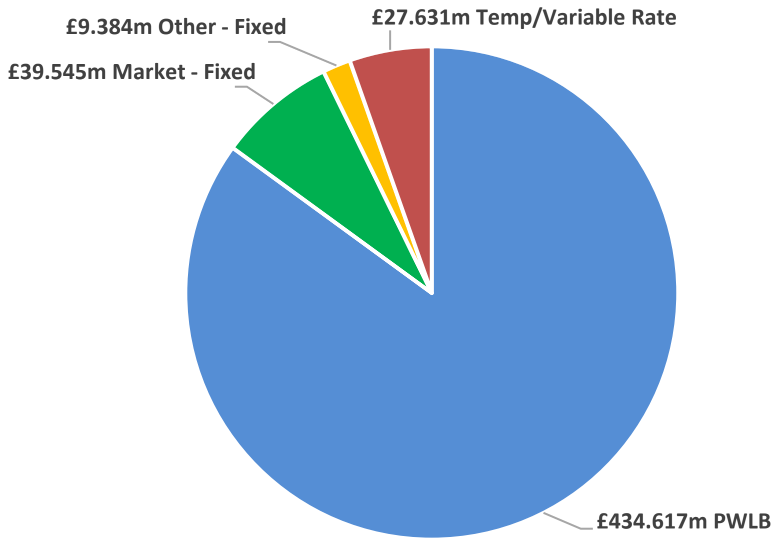
Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	30/11/2021	07/12/2021	07/12/2071	1.40*	100.0

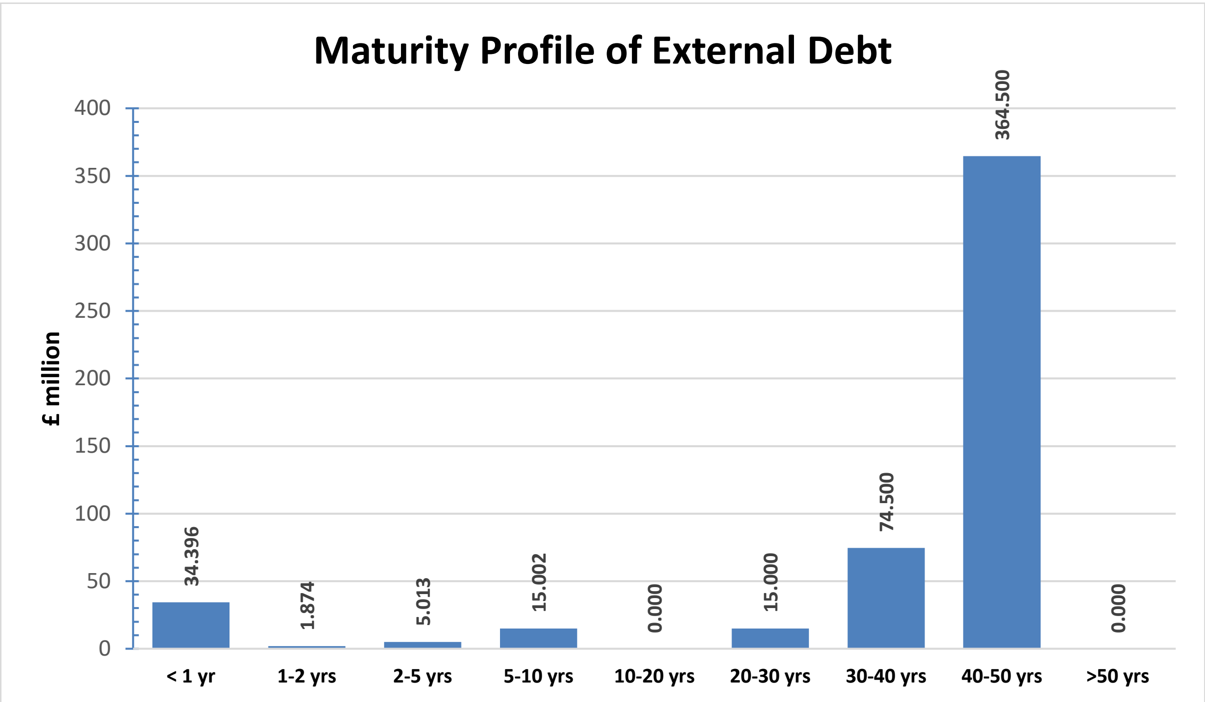
*rate takes account of the 0.20% discount to PWLB rates available to the Council.

4.9 The Treasury Management Strategy for 2021/2022 included provision for debt rescheduling but also stated that because of the proactive approach taken by the Authority in recent years, and because of the very low underlying rate of the total long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

4.10 The Lead Authority's borrowing portfolio position (of which £10.346m belongs to the Fire Service) as at 31st March 2022 is set out below:

Borrowing Summary at:	**31 March 2022**	
	Principal	**Ave rate %**
Fixed		
PWLB	434,616,667	2.59
Market - Fixed	39,545,000	4.41
Other - Fixed	9,383,570	0.00
	483,545,237	2.69
Variable		
Temporary/Other - Variable	27,631,243	0.14
	27,631,243	0.14
TOTAL BORROWING:	**511,176,480**	**2.55**





5. Prudential Indicators – 2021/2022

5.1 All external borrowing and investments undertaken in 2021/2022 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other Prudential Indicators as follows.

5.2 The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2021/2022 in total as £50.272m which is detailed as follows:

	£m
Borrowing	34.454
Other Long-Term Liabilities	15.818
Total	**50.272**

The Operational Boundary for External Debt for 2021/2022 was set at £45.272m as follows:

	£m
Borrowing	29.454
Other Long-Term Liabilities	15.818
Total	**45.272**

5.3 Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

5.4 The Authority's maximum external debt in 2021/2022 was £35.306 million and is within the borrowing limits set by both of these indicators.

5.5 The table below shows that all other Treasury Management Prudential Indicators for the lead authority have been complied with during 2021/2022.

	Prudential Indicators	**2021/2022**	
		Limit	**Actual (max)**
P9	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	8.89%
	12 months and within 24 months	60%	1.80%
	24 months and within 5 years	80%	1.34%
	5 years plus	100%	91.93%
	A lower limit of 0% for all periods		
P10	**Upper limit for total principal sums invested for over 365 days**	£75m	0

5.6 The Lead Authority is currently within the limits set for all of its TM Prudential Indicators.

6. Investment Strategy and Performance – 2021/2022

6.1 The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:

a) The **security** of capital;
b) The **liquidity** of its investments and then;
c) The Authority aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

6.2 The Annual Investment Strategy has been fully complied with in 2021/2022.

6.3 At 31st March 2022 the Authority had outstanding investments of £27.514 million. The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Authority uses to assess its performance. The 7-Day LIBID (London Interbank Bid) rate previously used by the Authority ceased being published at the end of December 2021 and the SONIA rate is the closest comparable rate.

	2021/2022 Return %	**2021/2022 Benchmark %**
In-house Managed Funds	**0.14**	**0.14**

6.4 All investments placed in 2021/2022 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List set by the Authority on 15th March 2021.

6.5 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Authority. As reported during the year, the rate of return available on investments has remained at very low levels.

6.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management adviser is to continue to restrict investments to shorter term periods.

6.7 As Members will be aware, the regular updating of the Authority's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. The Lead Authority Finance Officer has the delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported via the Finance Director to the Authority and the Governance Committee retrospectively, in accordance with normal Treasury Management reporting procedures. Changes made during 2021/2022 have been reported to Members previously.

7. Reasons for Decision

7.1 To note the Treasury Management performance for 2021/2022 in accordance with agreed protocols within the CIPFA Code of Practice on Treasury Management.

8. Alternative Options

8.1 No alternatives are submitted for Members consideration.

9. Recommendation

9.1 The Committee is requested to note and comment upon the Treasury Management performance of the Authority for 2021/2022.