Appendix D - Annual Treasury Outturn Report 2021/22

Purpose of the Report

1. Hampshire and Isle of Wight Fire and Rescue Authority has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2021. The CIPFA Code requires the Fire and Rescue Authority to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2021/22.

Summary

2. This report fulfils the Fire and Rescue Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2021/22.

3. The Fire and Rescue Authority's treasury management strategy was most recently updated and approved at a meeting of Hampshire & Isle of Wight Fire & Rescue Authority in February 2022. The Fire and Rescue Authority has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Fire and Rescue Authority's treasury management strategy.

4. Treasury management in the context of this report is defined as: "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5. This annual report sets out the performance of the treasury management function during 2021/22, to include the effects of the decisions taken and the transactions executed in the past year.

6. Overall responsibility for treasury management remains with the Fire and Rescue Authority. No treasury management activity is without risk and the effective identification and management of risk are therefore integral to the Fire and Rescue Authority's treasury management objectives.

7. All treasury activity has complied with the Fire and Rescue Authority's Treasury Management Strategy and Investment Strategy for 2021/22, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the Fire and Rescue Authority's treasury advisers, Arlingclose.

8. The Prudential Code includes the requirement to produce a Capital Strategy, a summary document approved covering capital expenditure and financing, treasury management and non-treasury investments. The most recent Capital and Investment Strategy, complying with CIPFA's requirement, was approved by the Fire and Rescue Authority in February 2022.

External Context

9. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2021/22.

Economic commentary

10. The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over 2021/22.

11. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices as well as the concern about further supply chain disruption due to Russia's invasion of Ukraine and recent Covid-19 developments in China led to elevated inflation expectations and 12-month CPI inflation rose to 9.0% in April 2022.

12. In efforts to bring inflation down the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate from 0.10% to 0.25% in December 2021, with further increases to 0.50% in February 2022, 0.75% in March, 1.00% in May and 1.25% in June. Also, at its meeting in February, the MPC voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

13. In its June 2022 interest rate announcement, the MPC noted that global inflationary pressures have intensified sharply as a result of supply chain bottlenecks exacerbated by war in Ukraine and lockdowns in China. In the UK April saw 12-month CPI inflation rise to 9%, driven by the rising price of

energy, core goods and to some extent the rising price of food and services. Global inflationary pressures are predicted to develop further in the near term, reaching as high as 10% in September 2022 and above 11% in October 2022. Although short term expectations are for inflation to rise, the outlook over the longer term is for inflation to come back under control but remain elevated compared to the historic average.

14. This report is focused on the outturn position for the 2021/22 financial year, however it is worth noting how the forward looking themes have continued to evolve since the Treasury Management Strategy for 2022/23 was approved by the Authority in February 2022.

Financial markets

15. The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period which impacted global stock markets.

16. Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

Credit review

17. Credit default swaps (CDS) are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. In the first half of the financial year CDS spreads were flat and broadly in line with pre-pandemic levels. In September 2021 CDS spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher between January and March, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

18. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Fire and Rescue Authority's counterparty list to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

19. Having completed its full review of its credit advice on unsecured deposits, in September 2021 Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December 2021 for the non-UK banks on this list. As ever, the institutions and durations on the Fire and Rescue Authority's counterparty list recommended by Arlingclose remains under constant review.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

20. In August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB) lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

21. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20 December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

22. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. Due to the timing of publication being towards the end of the budget preparation period for 2022/23 it was agreed that the Fire and Rescue Authority would introduce the revised reporting requirements from 2023/24.

23. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make an investment or spending decision that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

24. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

25. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management (TM) Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

26. The Fire and Rescue Authority will follow the same process as the Prudential Code and so will be reporting in line with the new reporting requirements from

2023/24 other than the new liability benchmark requirement which was implemented from 2022/23.

27. The Fire and Rescue Authority's Capital and Investment Strategy confirms that the Authority will not borrow to invest primarily for financial return and will therefore be in compliance with the requirements of the Prudential Code and will retain access to the PWLB lending facility.

Local Context

28. At 31 March 2022 the Fire and Rescue Authority's underlying need to borrow for capital purposes was £11.0m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £36.5m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/21 Balance £m**	**Movement £m**	**31/03/22 Balance £m**
CFR	10.3	0.7	11.0
Less: External borrowing			
- Public Works Loan Board	(7.1)	0.4	(6.7)
Internal Borrowing	**3.2**	**1.2**	**4.4**
Less: Usable Reserves	(35.8)	(5.6)	(41.4)
Less: Working Capital liability	6.3	(1.4)	4.9
Net Investments	**(26.3)**	**(5.8)**	**(32.1)**

29. The CFR has increased by £0.7m during 2021/22 as a result of expenditure incurred in delivering the Station Investment Programme, offset partly by Minimum Revenue Provision (MRP) charges relating to capital expenditure from previous years. External borrowing reduced by £0.4m as a result of the scheduled repayment of Public Works Loan Board (PWLB) borrowing. Usable reserves rose as contributions were made to the Capital Payments Reserve (CPR), Transformation Reserve, IT Reserve and Equipment Reserve in line with the Medium Term Financial Plan (MTFP), while existing reserves balances were transferred from the Isle of Wight Council as part of creating the new combined authority.

30. In addition, the outturn report recommends that the Authority approves the transfer of the 2021/22 underspend of £2.582m to the CPR, given significant commitments already built into the capital programme and the estates delivery pressures highlighted within the recent MTFP, in addition to emerging inflationary pressures. There were also some delays to planned expenditure to be funded from reserves, particularly vehicle purchases, which also contributed to the increase in reserves during the year. Approximately 94% of

the balance is committed to the capital programme and other investment programmes over the next five years. Although internal borrowing has increased, this has been more than offset by an increase in usable reserves and a reduction in working capital liability, resulting in an increase in net investments reported at 31 March 2022.

31. It is likely that new external borrowing will be required in future years to fund capital expenditure commitments, and the Chief Financial Officer is actively working with Hampshire County Council's Investments and Borrowing team and treasury advisors Arlingclose to ascertain at what point it would be prudent to take out additional borrowing.

32. The Fire and Rescue Authority's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. This has meant that internal funds have been utilised in lieu of taking on external borrowing debt. The treasury management position at 31 March 2022 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	**31/03/21 Balance £m**	**Movement £m**	**31/03/22 Balance £m**	**31/03/22 Rate %**
Long-term borrowing	(6.65)	0.75	(5.90)	(4.66)
Short-term borrowing	(0.45)	(0.30)	(0.75)	(4.88)
Total borrowing	**(7.10)**	**0.45**	**(6.65)**	**(4.69)**
Long-term investments	8.00	-	8.00	4.17
Short-term investments	14.00	(0.99)	13.01	0.32
Cash and cash equivalents	4.79	6.29	11.08	0.53
Total investments	**26.79**	**5.30**	**32.09**	**1.35**
Net investments	**19.69**	**5.75**	**25.44**	

Note: the figures in Table 2 are from the balance sheet in the Fire and Rescue Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

33. The increase in net investments of £5.75m shown in Table 2 reflects an increase in investment balances of £5.30m in combination with the repayment at maturity of borrowing of £0.45m, in line with the Fire and Rescue Authority's policy on internal borrowing. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

Borrowing Update

34. The Fire and Rescue Authority has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

35. The Fire and Rescue Authority is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB.

36. Further, the Fire and Rescue Authority has invested in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the Fire and Rescue Authority's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the Fire and Rescue Authority's aim of protecting reserves from high inflation.

37. The Fire and Rescue Authority is a net investor and as stated in the Treasury Management Strategy 2022/23, the Fire and Rescue Authority expected a negative liability benchmark across the first two years of the forecast period, meaning that there is not currently a requirement to borrow during this period.

38. It is expected that during 2022/23 the CFR will rise as the Authority delivers the Station Investment Programme. Balance sheet resources are anticipated to drop which is expected to result in a positive liability benchmark as at 31 March 2023, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR. Although the Fire and Rescue Authority currently holds external borrowing from its historic capital programme, this is not predicted to be sufficient to meet the CFR and therefore as a result further borrowing will be considered by the Chief Financial Officer in the delivery of the Station Investment Programme, if required.

39. The Chief Financial Officer will review the current pooled fund investments prior to making any external borrowing decisions.

40. Borrowing Strategy

41. At 31 March 2022 the Fire and Rescue Authority held £6.65m of loans (a decrease of £0.45m from 31 March 2021) as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing position	**31/03/21 Balance £m**	**Net movement £m**	**31/03/22 Balance £m**	**31/03/22 Weighted average rate %**	**31/03/22 Weighted average maturity (years)**
Public Works Loan Board	(7.10)	0.45	(6.65)	4.69	9.8
Total borrowing	**(7.10)**	**0.45**	**(6.65)**	**4.69**	**9.8**

Note: the figures Table 3 are from the balance sheet in the Fire and Rescue Authority's statement of accounts but adjusted to exclude accrued interest.

42. The Fire and Rescue Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Fire and Rescue Authority's long-term plans change is a secondary objective.

43. Short-term interest rates have remained much lower than long-term rates and the Fire and Rescue Authority has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing. In line with this strategy, £0.45m of PWLB loans were allowed to mature without refinancing.

44. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the Fire and Rescue Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

Treasury Investment Activity

45. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

46. The Fire and Rescue Authority holds invested funds representing income received in advance of expenditure plus balances and reserves held. During the year, the Fire and Rescue Authority's investment balances have ranged between £23.3m and £42.4m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4.

Table 4: Treasury investment position	31/03/2021 balance £m	Net movement £m	31/03/2022 balance £m	31/03/22 Income return %	31/03/22 Weighted average maturity (years)
Short term investments:					
Banks and Building Societies:					
- Unsecured	4.84	0.99	5.83	0.44	0.05
- Secured	-	4.00	4.00	0.39	0.35
Money Market Funds	2.95	6.81	9.76	0.53	0.00
Government:					
- Local Authorities	11.00	(10.00)	1.00	0.10	0.25
- Debt Management Office	-	1.50	1.50	0.07	0.09
- UK Gilt	-	1.00	1.00	0.28	0.31
- Treasury Bill	-	1.00	1.00	0.20	0.09
Total	**18.79**	**5.30**	**24.09**	**0.42**	**0.10**
Long term investments:					
Banks and Building Societies:					
- Secured	1.00	-	1.00	0.75	1.03
Total	**1.00**	**-**	**1.00**	**0.75**	**1.03**
Long term investments – higher yielding strategy:					
Pooled Funds					
- Pooled property*	3.25	-	3.25	3.88	N/A
- Pooled equity*	2.00	-	2.00	5.64	N/A
- Pooled multi-asset*	1.75	-	1.75	4.98	N/A
Total	**7.00**	**-**	**7.00**	**4.66**	**N/A**
Total investments	**26.79**	**5.30**	**32.09**	**1.35**	**0.14**

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2022 based on the market value of investments at the start of the year.

Note: the figures in Table 4 are from the balance sheet in the Fire and Rescue Authority’s statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

47. The Fire and Rescue Authority made a payment of £3.9m on 1 April 2020 to prepay its employer’s LGPS pension contributions for 3 years. By making this payment in advance the Fire and Rescue Authority was able to generate an estimated saving of £0.26m over 3 years on its pension contributions.

48. Investment balances have subsequently increased which is in part explained by the Fire and Rescue Authority not having to make monthly employer’s

pension contributions throughout 2020/21 and 2021/22 (having already paid in advance) but also represents the impact of delays on the capital programme, the underspend against the revenue budget in 2021/22 and planned contributions to the Capital Payments Reserve (CPR), Transformation Reserve, IT Reserve and Equipment Reserve in line with the Medium Term Financial Plan (MTFP). The availability of appropriate longer term investments combined with the prudent management of shorter term investment balances during an uncertain economic market meant that additional investment balances were held as short term investments at 31 March 2022, much of it in money market funds to ensure appropriate liquidity was available to pay any capital programme expenditure.

49. The CIPFA Code and government guidance both require the Fire and Rescue Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Fire and Rescue Authority's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside managing the risk of receiving unsuitably low investment income. The Fire and Rescue Authority's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.

50. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The Fire and Rescue Authority invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.

51. In delivering investment returns, the Fire and Rescue Authority has operated against a backdrop in which UK Bank Rate was 0.10% from March 2020 with rises in the final four months of 2021/22. Ultra low short-dated cash rates, which were a feature since March 2020, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds (MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December 2021, February and March 2022. At 31 March 2022, the 1-day return on the Fire and Rescue Authority's MMFs ranged between 0.49% - 0.57% per annum (p.a.).

52. The Fire and Rescue Authority benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5,

providing data for the quarter ended 31 March 2022 and at the same date in 2021 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	Credit rating	Bail-in exposure	Weighted average maturity	Rate of return
		%	(days)	%
31.03.2021	AA-	39%	87	0.22%
31.03.2022	AA-	62%	52	0.43%
Police & Fire Authorities	AA-	72%	18	0.38%
All LAs	AA-	60%	14	0.46%

53. Table 5 shows the average credit rating of the portfolio has remained consistent at AA-. Bail-in exposure has risen in comparison to the same time in 2021, as the Fire and Rescue Authority held a greater investment balance with money market funds, which are technically exposed to bail-in risk however these are diversified products and are considered by Arlingclose to be ‘bail-in risk light’. The weighted average maturity of investments was lower in comparison to the position at 31 March 2021 as the Fire and Rescue Authority held greater liquid balances as a proportion of the raised level of total investment balances. This is due to the availability of suitable investment options providing adequate interest return. The average rate of return (0.43% pa) has increased over the year as a result of the UK Bank Rate rises which have favourably impacted the short term portfolio. The Fire and Rescue Authority compared favourably with all other police and fire authorities included in the benchmarking exercise across all metrics.

Externally managed pooled funds

54. In order to minimise the risk of receiving unsuitably low investment income, the Fire and Rescue Authority has continued to invest a proportion of steady core balances in externally managed pooled funds as part of its higher yielding strategy.

55. The CIPFA Code requires the Fire and Rescue Authority to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the Fire and Rescue Authority’s investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the Fire and Rescue Authority’s investments.

56. In the nine months to December improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the investments in property, equity and multi-asset income funds in the Fire and Rescue Authority's portfolio. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the fourth quarter of the financial year the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

57. In light of Russia's invasion, Arlingclose contacted the fund managers of the Fire and Rescue Authority's MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

58. The Fire and Rescue Authority's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well. This recovery means these investments are now worth more in aggregate than the initial sums invested, as shown in Table 6, demonstrating the importance of taking a longer term approach and being able to ride out periods of market volatility, ensuring the Fire and Rescue Authority is not a forced seller at the bottom of the market.

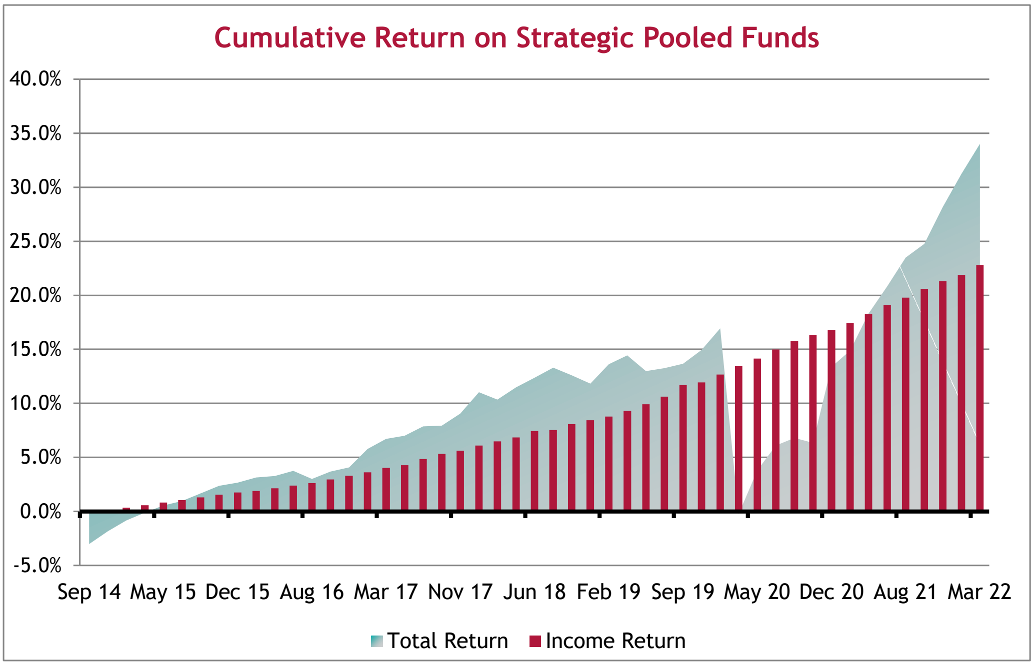
Table 6 – Higher yielding investments – market value performance	**Amount invested***	**Market value at 31/03/22**	**Gain/(fall) in capital value**	
			Since purchase	**2021/22**
	£m	**£m**	**£m**	**£m**
Pooled property funds	3.25	3.75	0.50	0.56
Pooled equity funds	2.00	2.32	0.32	0.26
Pooled multi-asset funds	1.75	1.72	(0.03)	0.00
Total pooled funds	**7.00**	**7.79**	**0.79**	**0.82**

59. The Fire and Rescue Authority's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.41% pa (per annum) since purchase, contributing to a total return of 34.01%.

Table 7 – Higher yielding investments – income and total returns since purchase	**Annualised income return**	**Total return**
	%	**%**
Pooled property funds	4.10	41.02
Pooled equity funds	4.99	42.46
Pooled multi-asset funds	4.42	11.33
Total pooled funds	**4.41**	**34.01**

60. The Fire and Rescue Authority's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments and in line with the Fire and Rescue Authority's agreed objective of targeting income of 4% pa from its higher yielding strategy.

61. The cumulative total return from the Fire and Rescue Authority's investments in pooled equity, property and multi-asset funds since purchase is shown in the following graph. This highlights that the Fire and Rescue Authority has benefited from strong and steady income returns over time and the way that capital values have recovered since the onset of the global pandemic in March 2020.



62. The IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five year statutory override was put in place for local authorities that exempts them from complying with this requirement.

63. Pooled fund investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the Fire and Rescue Authority's investment objectives is monitored regularly and discussed with Arlingclose.

Financial Implications

64. The outturn for debt interest paid in 2021/22 was £329,000 on an average debt portfolio of £7.0m, against a budgeted £538,000. Actual interest costs were lower than budgeted due to the delay in the need to take on new external borrowing to fund the Station Investment Programme.

65. The outturn for investment income received in 2021/22 was £350,000 on an average investment portfolio of £34.2m, therefore giving a yield of 1.02%, against a budgeted £210,000. By comparison investment income received in 2020/21 was £370,000 on an average investment portfolio of £29.8m with a yield of 1.24%.

Non-Treasury Investments

66. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Fire and Rescue Authority as well as other non-financial assets which the Fire and Rescue Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

67. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

68. This could include the direct purchase of land or property and any such loans and investments will be subject to the Fire and Rescue Authority's normal approval processes for revenue and capital expenditure and need not comply with the treasury management strategy. The Fire and Rescue Authority does not have any existing non-treasury investments.

Compliance Report

69. The Fire and Rescue Authority confirms compliance of all treasury management activities undertaken during 2021/22 with the CIPFA Code of Practice and the Fire and Rescue Authority's approved Treasury Management Strategy.

70. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 8.

Table 8 – Debt limits	2021/22 Maximum £m	31/03/22 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied?
Borrowing	8.60	6.65	16.60	21.70	✓
Other long-term liabilities	-	-	5.00	5.00	✓
Total debt	**8.60**	**6.65**	**21.60**	**26.70**	✓

71. As reported in the Treasury Management Mid Year Monitoring Report 2021/22 the total actual debt as measured by the debt limits was £8.6m on 30 September 2021 which represents the use of £1.5m of the Fire and Rescue Authority's overdraft facility in addition to the £7.1m PWLB debt. On 30 September 2021 £1.5m principal was due to be returned to the Fire and Rescue Authority on maturity of a secured bond, however in error it was not released due to counterparty error and so the Fire and Rescue Authority was forced to use its overdraft facility with NatWest for one night.

72. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However this limit was not breached during the financial year.

Treasury Management Indicators

73. The Fire and Rescue Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

74. The following indicator shows the sensitivity of the Fire and Rescue Authority's current investments and borrowing to a change in interest rates:

Table 9 – Interest rate risk indicator	31/03/22 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates		
Investment	£22.2m	+/- £0.2m
Borrowing	£0.0m	+/-£0.0m

75. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

76. This indicator is set to control the Fire and Rescue Authority's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement:

Table 10 – Refinancing rate risk indicator	31/03/22 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	11%	50%	0%	✓
12 months and within 24 months	5%	50%	0%	✓
24 months and within 5 years	7%	50%	0%	✓
5 years and within 10 years	8%	75%	0%	✓
10 years and within 20 years	69%	75%	0%	✓
20 years and above	0%	100%	0%	✓

Principal sums invested for periods longer than a year

77. The purpose of this indicator is to control the Fire and Rescue Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 11 – Price risk indicator	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£8m	£7m	£7m
Limit on principal invested beyond year end	£10m	£12m	£10m
Complied?	✓	✓	✓

78. The table includes investments in strategic pooled funds of £7m as although these can usually be redeemed at short notice, the Fire and Rescue Authority intends to hold these investments for at least the medium-term.

Other

CIPFA consultations – IFRS 16

79. The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022, however following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard - a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Fire and Rescue Authority intends to adopt the new standard on 1st April 2023 or later.