HIWFRA Full Authority

Purpose: Approval

Date: **27 JULY 2021**

Title: **OUTTURN REPORT**

Report of Chief Financial Officer

SUMMARY

1. This outturn reports covers the final year end position for Hampshire Fire and Rescue Service for the 2020/21 financial year. The final position is an underspend of £2.196m against the budget. This underspend position includes additional COVID related costs of £1.2m offset by government grant.

2. Carry forward requests of £0.551m have been proposed and provisionally agreed by the Chairman of the Fire Authority, which would leave a balance of £1.645m to be transferred to reserves.

3. This report requests Members of the Authority to review the figures as laid out in the appendices and recommends that the outturn report, including carry forwards, reserves and capital financing are approved. In addition, it recommends that the annual treasury outturn for 2020/21 is approved.

BACKGROUND

4. This is an annual report that sets out the financial position for the financial year 2020/21 as per the draft Statement of Accounts.

REVENUE EXPENDITURE 2020/21

5. A summary of the revenue position by area of spend and type of spend is shown at Appendix A. After allowing for carry forward requests, the outturn position is an underspend of £1.645m.

6. During financial year 2020/21 the Authority made a significant contribution to the response to the COVID-19 pandemic, including significant levels of support to partner organisations. This resulted in additional COVID related costs of £1.245m during the financial year. This has been covered by additional COVID related Government grant of £1.840m. The balance of the COVID grant funding (£0.595m) has been transferred to the Revenue Grants Unapplied Reserve to support COVID response and recovery during the next financial year and does not form part of the net underspend of £1.645m quoted above.

7. After carry forward requests, there is a business as usual underspend of £1.645m. A full breakdown is included at Appendix A. The main reasons for this underspend are:

   (a) Vacancies across the service - £0.670m. Underspends on staff and whole time firefighters were partially offset by a small overspend on retained firefighters.

   (b) Lower non-pay spend - £0.625m. This mainly relates to reduced spend on utilities, waste and catering.

   (c) Additional income - £0.451m. This mainly relates to additional investment and rental income.

8. Given the challenges of the past year, this is a strong outturn position and reflects the focus on sound financial management within the service.

CARRY FORWARD REQUESTS

9. Requests have been received from the Operations, Corporate Services and People and Organisational Development Directorates to carry forward budget allocated in 2020/21 for work which was unable to be completed during the year. The main reason for delay in the completion of these activities during the year was the COVID-19 pandemic. These requests are:

   (a) Operations (£0.145m) – purchase of mobile data terminals for the electronic recording of Safe and Well visits. Technical and security issues mean that the purchase has been delayed.

(b) People and Organisational Development (£0.306m) – delayed essential training courses and work to support Mental Health, Equality, Diversity and Inclusion and Organisational Design. This work has been delayed primarily due to COVID-19 and will be progressed urgently in 2021/22 if the carry forward is formally approved.

(c) Corporate Services (£0.100m) – additional IT consultancy support to address a backlog of application and project requests. The backlog has arisen due to recruitment difficulties in the IT team. If approved the carry forward will be used to address the backlog.

10. These carry forward requests were provisionally agreed by the Chairman of HIWFRA in May to enable activity in these areas to continue and have therefore already been reflected in the Statement of Accounts and the figures quoted within this report.

CAPITAL EXPENDITURE 2020/21

11. Capital payments during the year totalled £2.044m compared with the £2.624m forecast. A breakdown of the expenditure against the plan, including the sources of funding for the schemes is given in Appendix B.

12. The lower spend is related to slippage of the schemes. The funding will be required during 2021/22, which has been reflected in the capital forecast.

13. As agreed by the Fire Authority the Redbridge and Cosham schemes will be funded from prudential borrowing. £12,000 of the spend to be funded from prudential borrowing has been incurred this year. This is in line with the agreed funding strategy.

14. The 2020/21 capital programme including major revenue investments has been financed as follows:

Funding source	**£'000**
Capital payments reserve	1,987
Prudential borrowing	12
Capital receipt	45
Total	**2,044**

CAPITAL EXPENDITURE 2021/22 TO 2024/25

15. Appendix B provides an update to the capital programme for the coming years, including the latest forecast of spending requirements and funding sources.

16. Basingstoke Fire Station has been in operation for some time. The project remains in the programme as final works have been delayed due to the use of the site as a mass vaccination centre in 2020/21. Final works will now take place during 2021/22.

17. The final cost of SHQ Phase 2 has now been agreed and the final account will be settled in 2021/22.

18. Significant capital expenditure on the vehicle replacement programme and the Station Investment Programme is planned from 2021/22 - 2023/24.

PROVISIONS

19. Provisions are included in the year end position for future liabilities where the timing or amount is uncertain at the end of the financial year. Increases and decreases in provisions impact on the revenue budget. The following provisions have been adjusted during the 2020/21 financial year:

    (a) **Provision for uninsurable and other claims (£30,000 increase)** This provision covers costs that may arise as a result of the Authority being uninsured for a period (as the Authority's insurers went into liquidation some years ago), possible employment tribunals (together with their associated costs) and other claims made against the Authority. These cases may take a number of years to settle. The increase is based on the latest assessment of outstanding claims.

    (b) **Provision for pension liabilities (-£66,000 decrease)** This provision covers the costs of pension liabilities relating to temporary promotions that the Authority has agreed to fund. The decrease reflects the use of the provision as affected firefighters retire.

RESERVE BALANCES

20. An updated reserves position is included as Appendix D. The 2020/21 underspend has been split between the Transformation Reserve (£0.822m) and Capital Payments Reserve (£0.823m) subject to final approval by the Authority. This proposed use reflects ongoing pressure on the Capital Payments Reserve whilst at the same time providing funds for

transformation activity in this and future years. These amounts have been included within the closing balances of the Transformation Reserve and Capital Payments Reserve respectively.

21. There are two different types of reserve, and these are:

(a) Earmarked Reserves – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

(b) General Reserve – use of this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant on-call pay costs. Generally, this is deemed to be a reserve of 'last resort' and the Authority has never been required to use its General Reserve.

22. The changes to reserves during the year, including the contribution of the underspend to the Transformation and Capital Payments Reserves, can be summarised as follows:

	Earmarked Reserves (£'000)	General Reserve (£'000)
Opening balance	28,819	2,500
Contributions	10,997	-
Draws	(6,515)	-
Closing balance	33,301	2,500

Although the reserve balances are significant, the majority of the balance is committed to the capital and other investment programmes over the next five years. In addition, outstanding debt of £7.1m remains, which is due to be paid off over the next 16 years.

23. A proportion of the Isle of Wight Council reserves relate to the Fire and Rescue service and will be transferred to Hampshire and Isle of Wight Fire and Rescue Service following the conclusion of year end processes in both

organisations. This amount is not yet confirmed but will be transferred to the Capital Payments Reserve when received in light of the property repair requirements for the Isle of Wight building estate.

TREASURY MANAGEMENT

24. The Treasury Management Strategy approved by the Authority in February 2020 was followed throughout the year. All the limits and boundaries set were fully complied with.

25. The year end report for Treasury Management is set out as Appendix D for Members' approval.

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

26. Ensuring that funding is appropriately accounted for is vital for all public sector organisations. 2020/21 has been particularly challenging due to the extra pressures and uncertainty resulting from the COVID 19 pandemic. Strong budget management has meant that an underspend has been achieved in year.

CONSULTATION

27. No consultation is required for this report as it is based on historic information and is a purely factual document. The information contained within this report will be verified by our external auditors.

RESOURCE IMPLICATIONS

28. This report reflects the financial position for the previous financial year and does not contain any requests which would affect the future financial position other than the carry forward requests and the proposed transfer of the underspend to the Transformation and Capital Payments reserves providing for future funding needs.

IMPACT ASSESSMENTS

29. This is a factual report that looks back over the financial performance during the last financial year. Any financial decisions taken during that year, or future decisions about the use of the amounts added to reserves will be subject to separate impact assessments.

LEGAL IMPLICATIONS

30. This report is part of the final accounts process. There is a legal requirement that the Statement of Accounts be approved and signed off by external audit. Sign off of the audited accounts is planned for the end September, in line with current legislative requirements.

OPTIONS

31. There are no options for consideration in this report.

RISK ANALYSIS

32. This report covers the draft outturn position prior to the full audit of the accounts. If any significant errors are uncovered during the audit process these will be referred back to the Authority.

CONCLUSION

33. It is requested that the Authority review and approve the financial position for the year ended 31st March 2021 as detailed in this report.

RECOMMENDATION

34. That that the outturn position for 2020/21 (including Appendix A) and the use of reserves set out in paragraph 22 and appendix C of this report be approved by the HIWFRA Full Authority

35. That the carry forward requests totalling £551,000 as set out in paragraph 9 of this report be approved by the HIWFRA Full Authority

36. That the capital outturn position in 2020/21 and the capital spend profile going forwards set out in appendix B be approved by HIWFRA Full Authority

37. That the financing for capital payments set out in paragraph 14 be approved by HIWFRA Full Authority

38. That the annual Treasury outturn report set out in appendix D of this report be approved by HIWFRA Full Authority

APPENDICES ATTACHED

Appendix A – Revenue Outturn by type of spend and service areas

Appendix B – Capital Outturn, forecast and funding

Appendix C – Reserves Position

Appendix D – Treasury Management Outturn

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Appendix A – Revenue Outturn

By type of spend	Budget 2020/21	Outturn 2020/21	Variance 2020/21
	£'000	**£'000**	**£'000**
Whole Time Firefighters	33,289	32,710	(579)
Retained Firefighters	6,771	7,084	313
Staff	12,039	11,588	(451)
Net cost of pensions	1,087	1,122	35
Other Employee Costs	585	597	12
	53,771	**53,101**	**(670)**
Premises	6,204	6,312	108
Transport	1,449	1,512	63
Supplies & Services	8,789	8,180	(609)
Third Party Payments	3,151	3,127	(24)
	19,593	**19,131**	**(462)**
Income	(4,032)	(4,327)	(295)
	(4,032)	**(4,327)**	**(295)**
Contributions to / (from) reserves			
Capital reserve	1,977	1,977	-
Equipment reserve	453	453	-
Grant equalisation reserve	625	625	-
Transformation reserve	(597)	(597)	-
ICT reserve	500	500	-
Carry forward reserve	(219)	(219)	-
Revenue grants unapplied reserve	2	2	-
Princes Trust reserve	25	25	-
SHQ maintenance reserve	70	70	-
	2,836	**2,836**	**-**
Net Cost of Service	72,168	70,741	(1,427)
Change in provisions	0	(36)	(36)
Investment income	(210)	(395)	(185)
Capital Financing	799	812	13
Revenue contribution to capital	1,504	1,504	-
Budget Requirement	**74,261**	**72,626**	**(1,635)**
Funded by:			

Precept	(44,492)	(44,492)	-
Revenue Support Grant	(7,333)	(7,333)	-
Business Rates Top-Up Grant	(7,585)	(7,585)	-
Locally Retained Business Rates	(7,158)	(7,158)	-
Pension grant	(3,443)	(3,443)	-
New Dimensions	(951)	(951)	-
Firelink	(315)	(315)	-
S31 Business rates	(2)	(8)	(6)
CT Collection Fund Balance	(6)	(6)	-
BR Collection Fund Balance	(195)	(195)	-
Government Grant for Covid Losses	(1,584)	(1,584)	-
Other grants	(1,197)	(1,201)	(4)
Funding Gap / (Surplus)	**(74,261)**	**(74,271)**	**(10)**
Surplus transferred to reserves			**(1,645)**

Appendix A – Revenue Outturn

By service area	Budget 2020/21	Outturn 2020/21	Variance 2020/21
	£'000	£'000	£'000
Combined Fire Authority	601	601	-
People and Organisational Development	3,880	3,570	(310)
Risk and Strategy	1,147	1,001	(146)
Operations	38,713	38,583	(130)
Performance and Assurance	1,652	1,496	(156)
Corporate Services	21,206	20,553	(653)
Finance	2,133	2,101	(32)
	69,332	67,905	(1,427)
Contributions to / (from) reserves			
Capital reserve	1,977	1,977	-
Equipment reserve	453	453	-
Grant equalisation reserve	625	625	-
Transformation reserve	(597)	(597)	-
ICT reserve	500	500	-
Carry forward reserve	(219)	(219)	-
Revenue grants unapplied reserve	2	2	-
Princes Trust reserve	25	25	-
SHQ maintenance reserve	70	70	-
	2,836	**2,836**	**-**
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Revenue contributions to capital	1,504	1,504	-
Budget Requirement	**74,261**	**72,626**	**(1,635)**

Funded by:

Precept	(44,492)	(44,492)	-
Revenue Support Grant	(7,333)	(7,333)	-
Business Rates Top-Up Grant	(7,585)	(7,585)	-
Locally Retained Business Rates	(7,158)	(7,158)	-
Pension grant	(3,443)	(3,443)	-
New Dimensions	(951)	(951)	-
Firelink	(315)	(315)	-
S31 Business rates	(2)	(8)	(6)
CT Collection Fund Balance	(6)	(6)	-
BR Collection Fund Balance	(195)	(195)	-
Government Grant for Covid Losses	(1,584)	(1,584)	-
Other grants	(1,197)	(1,201)	(4)
Funding Gap / (Surplus)	**(74,261)**	**(74,271)**	**(10)**
Surplus transferred to reserves			**(1,645)**

Appendix B – Capital outturn, forecast and funding

Project Details	Approved Spend	Previous Years' Spend	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Latest Estimate
	£'000s	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**
Basingstoke Fire Station	6,955	6,644	188	123	-	-	-	-	6,955
Fire control system	729	671	-	58	-	-	-	-	729
Solar photovoltaic panels	1,059	1,059	-	-	-	-	-	-	1,059
Estates Transformation -HQ Phase 2	4,660	4,509	10	141					4,660
Estates Transformation -HQ Phase 1 F&E	260	260							260
Vehicles	40,157	3,654	1,244	10,828	9,094	7,392	3,558	4,387	40,157
Replacement Fire Training Facility	3,500			1,750	1,750				3,500
Fleet Maintenance Centre - Sprinkler Installation	400			400					400
Cosham (SIP)	20,450		0	3,990	11,524	3,107	1,829	0	20,450
Gosport Land Purchase (SIP)	200			200					200
Bishops Waltham Station (SIP)	3,700		107	369	785	2,395	44		3,700
Redbridge Station (SIP)	24,100		12	3,279	5,088	10,352	5,096	273	24,100
Revenue investments	4,975	1,626	483	2,866	0	0	0	0	4,975
Total Programme Cost	**111,145**	**18,423**	**2,044**	**24,005**	**28,241**	**23,245**	**10,527**	**4,660**	**111,145**
Financed by:									
Capital payments reserve		16,299	1,987	16,635	11,629	9,787	3,252	4,387	63,976
Prudential Borrowing			12	7,269	16,612	13,459	6,925	273	44,550
Capital receipts		1,624	45				350		2,019
Capital Grant									0
Partner contributions		500		100					600
Total financing	**111,145**	**18,423**	**2,044**	**24,005**	**28,241**	**23,245**	**10,527**	**4,660**	**111,145**

Appendix C

Movement in Reserves 2020/21	Earmarked Reserves										
	Transformation Reserve	Capital Payments Reserve	Equipment Reserve	IT Reserve	Grant Equalisation Reserve	Earmarked underspends	Revenue Grants Unapplied Reserve	SHQ maintenance reserve	Princes Trust Reserve	**Earmarked Reserves**	**General Reserve**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	**£'000**
Opening balance	(2,243)	(22,981)	(344)	(75)	0	(770)	(1,756)	(551)	(99)	**(28,819)**	**(2,500)**
Draws	1,884	1,987	497	0	0	770	1,377	0	0	**6,515**	**0**
Contributions	(2,108)	(4,788)	(950)	(500)	(625)	(551)	(1,380)	(70)	(25)	**(10,997)**	**0**
Closing balance	**(2,467)**	**(25,782)**	**(797)**	**(575)**	**(625)**	**(551)**	**(1,759)**	**(621)**	**(124)**	**(33,301)**	**(2,500)**

Appendix D - Annual Treasury Outturn Report 2020/21

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 2017. 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 2020/21.

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 2020/21.

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 (Shadow Authority) in February 2021. 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 2020/21, 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 2020/21, 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 2017 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 latest iteration of the Fire and Rescue Authority's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by the Fire and Rescue Authority in February 2021.

External Context

9. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2020/21.

Economic commentary

10. The coronavirus pandemic dominated 2020/21, resulting in significant levels of government borrowing and expenditure to support the economy, with the UK also agreeing a Brexit trade deal within the period.

11. The Bank of England (BoE) held Bank Rate at 0.1% throughout the year and extended its Quantitative Easing programme by £150bn to £895bn in November 2020. The Bank expects Gross Domestic Product (GDP) to remain low in the near-term but believes that the easing of restrictions is likely to lead to a strong recovery in growth later in 2021, with inflation forecast to increase in the near-term. The economic outlook has improved but downside risks remain, such as a further increase in unemployment when the furlough scheme ends.

12. Inflation remained low during 2020/21, with the annual headline rate of UK Consumer Price Inflation (CPI) rising to 0.7% year-on-year in March 2021, below expectations and below the BoE's 2% target. Unemployment was higher for the three months to March 2021 than for the same period the previous year, while periods of GDP contractions and growth over the year largely mirrored the tightening and easing of restrictions, creating some significant quarterly swings.

Financial markets

13. Monetary and fiscal stimulus helped provide support for equity markets which rose over the period. In the UK, the FTSE indices performed reasonably well during the period to November 2020 before being buoyed in December by both the vaccine approval and Brexit deal.

14. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of

vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

Credit review

15. After spiking in March 2020, credit default swap spreads subsequently declined to broadly pre-pandemic levels. Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks.

16. Moody's downgraded the UK sovereign rating to Aa3 with a stable outlook during the period and this change had an impact on a number of other UK institutions, banks and local government.

17. The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the pandemic and the effects of lockdowns and restrictions. This uncertainty means the Fire and Rescue Authority's treasury management advisors, Arlingclose, continue to recommend maximum durations of 35 days for unsecured investments with banks and building societies on their list of recommended counterparties.

Local Context

18. At 31 March 2021 the Fire and Rescue Authority's underlying need to borrow for capital purposes was £10.3m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £29.5m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/20 Balance £m**	**Movement £m**	**31/03/21 Balance £m**
CFR	10.8	(0.5)	10.3
Less: External borrowing			
- Public Works Loan Board	(8.3)	1.2	(7.1)
Internal Borrowing	**2.5**	**0.7**	**3.2**
Less: Usable Reserves	4.4	1.9	6.3
Less: Working Capital	(31.3)	(4.5)	(35.8)
Net Investments	**(24.4)**	**(1.9)**	**(26.3)**

19. The CFR has reduced by £0.5m during 2020/21. External borrowing reduced by £1.2m 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, Transformation Reserve and Equipment Reserve in line with the Medium Term Financial Plan. There were some delays to expenditure, particularly vehicle purchases which meant the overall levels of reserves increased during the year. Increased internal borrowing and an increase in usable reserves have been partially offset by an increase in the working capital liability, resulting in a small rise in net investments reported at 31 March 2021.

20. 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. The treasury management position at 31 March 2021 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	**31/03/20 Balance £m**	**Movement £m**	**31/03/21 Balance £m**	**31/03/21 Rate %**
Long-term borrowing	(7.10)	0.45	(6.65)	4.69
Short-term borrowing	(1.15)	0.70	(0.45)	4.50
Total borrowing	**(8.14)**	**1.15**	**(7.10)**	**4.68**
Long-term investments	9.00	(1.00)	8.00	4.53
Short-term investments	4.01	9.99	14.00	0.26
Cash and cash equivalents	12.50	(7.71)	4.79	0.01
Total investments	**25.51**	**1.28**	**26.79**	**1.49**
Net investments	**17.26**	**2.43**	**19.69**	

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.

21. The increase in net investments of £2.5m shown in Table 2 reflects a small increase in investment balances of £1.3m in combination with the repayment at maturity of borrowing of £1.2m, in line with the Fire and Rescue Authority's policy on internal borrowing. Further details are provided in the Borrowing Activity and Treasury Investments Activity sections of this report.

Borrowing Update

22. In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. The rate at which local authorities could borrow from the PWLB is defined by a margin above gilts; following the response to the consultation the margin above gilts on PWLB loans was reduced from 1.8% to 0.8%, however restrictions were introduced meaning that this rate would only be available to authorities not planning to purchase investment assets primarily for yield. 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.

23. As part of the borrowing process authorities are now required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

24. The Fire and Rescue Authority is not planning to purchase any investment assets primarily for yield and so is able to take advantage of the reduction in the PWLB borrowing rate if required.

Borrowing Activity

25. At 31 March 2021 the Fire and Rescue Authority held £7.1m of loans (a decrease of £1.2m from 31 March 2020) 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	**31/03/20 Balance £m**	**Net movement £m**	**31/03/21 Balance £m**	**31/03/21 Weighted average rate %**	**31/03/21 Weighted average maturity (years)**
Public Works Loan Board	(8.3)	1.2	(7.1)	4.68	10.2
Total borrowing	**(8.3)**	**1.2**	**(7.1)**	**4.68**	**10.2**

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.

26. 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.

27. 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, £1.2m of PWLB loans were allowed to mature without refinancing.

28. 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

29. 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 £19.5m and £38.5m 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	**31/03/2020 Balance £m**	**Net movement £m**	**31/03/2021 balance £m**	**31/03/21 Income return %**	**31/03/21 Weighted average maturity (years)**
Short term investments					
- Banks and Building Societies:					
- Unsecured	2.97	1.87	4.84	0.02	0.04
- Secured	1.00	(1.00)	-	N/A	N/A
- Money Market Funds	9.54	(6.59)	2.95	0.01	0.00
- Local Authorities	3.00	8.00	11.00	0.32	0.23
Total	**16.51**	**2.28**	**18.79**	**0.19**	**0.14**
Long term investments					
- Banks and Building Societies:					
- Secured	1.00	-	1.00	0.45	2.03
- Local Authorities	1.00	(1.00)	-	N/A	N/A
Total	**2.00**	**(1.00)**	**1.00**	**0.45**	**2.03**
Long term investments – higher yielding strategy					
- Pooled Funds					
- Pooled property*	3.25	-	3.25	4.34	N/A
- Pooled equity*	2.00	-	2.00	6.54	N/A
- Pooled multi-asset*	1.75	-	1.75	4.95	N/A
Total	**7.00**	**-**	**7.00**	**5.12**	**N/A**
Total investments	**25.51**	**1.28**	**26.79**	**1.49**	**0.24**

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2021 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.

30. 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.

31. 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 (having already paid in advance) but also represents the impact of underspends in 2020/21 and the balance of grants received but not yet applied.

32. 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.

33. 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.

34. In delivering investment returns, the Fire and Rescue Authority has operated against a backdrop in which the UK Bank Rate was cut to 0.10% in March 2020 in response to the coronavirus pandemic. It has remained at this rate throughout the year, having an impact on rates across the market. Returns had been at or around 0% for liquid investment options such as Money Market Funds (MMFs), bank call accounts and the UK Government's Debt Management Account Deposit Facility (DMADF) and have not been significantly higher for other short-term options like fixed duration loans to other local authorities and bank notice accounts. Investment income has therefore largely come from investments arranged at fixed rates of interest prior to the pandemic and through the Fire and Rescue Authority's investments in pooled funds.

35. 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 2021 and at the same date in 2020 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	**Credit rating**	**Bail-in exposure**	**Weighted average maturity (days)**	**Rate of return %**
31.03.2020 31.03.2021	AA- AA-	68% 39%	99 87	0.61% 0.22%
Police & Fire Authorities All LAs	AA- A+	70% 63%	26 14	0.09% 0.15%

36. Table 5 shows the average credit rating of the portfolio has remained consistent at 31 March 2021 in comparison to the previous year. Bail-in exposure was lower than at the same time in 2020, as the Fire and Rescue Authority held a greater investment balance with other local authorities, who are not subject to bail-in risk, while the weighted average maturity of investments was lower as the Fire and Rescue Authority held lower long-term balances due to the availability of appropriate longer term investments combined with the prudent management of liquid investment balances during an uncertain economic market. The average rate of return (0.22%) was lower than at 31 March 2020, but with the benefit of higher rates for fixed investments made prior to the pandemic helping to offset returns at or close to 0% for many investments across the market. The Fire and Rescue Authority compared favourably with the other police and fire authorities and also the other local authorities included in the benchmarking exercise across all metrics.

Externally managed pooled funds

37. 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.

38. 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.

39. 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 only marginally less 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.

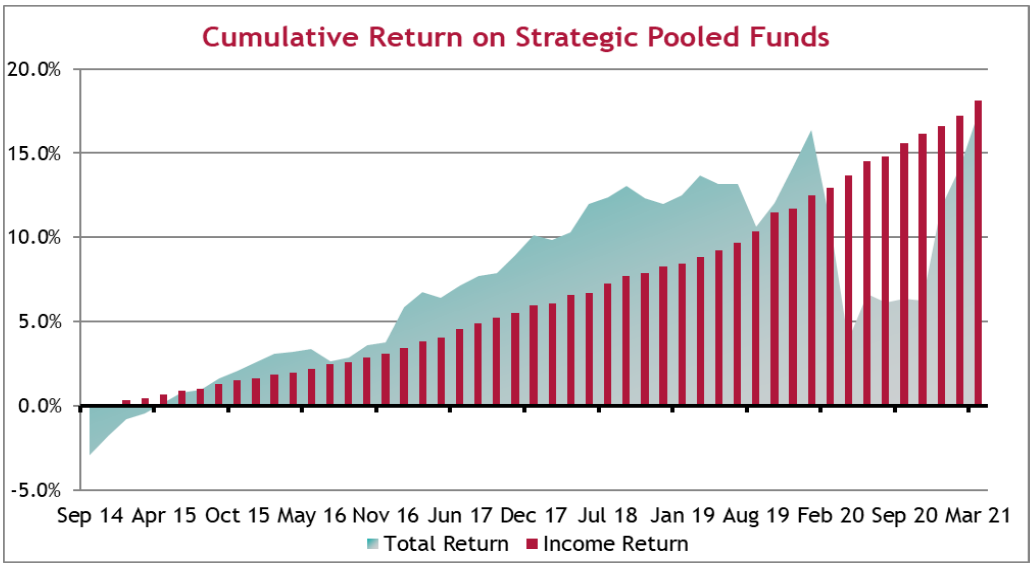
Table 6 – Higher yielding investments – market value performance	**Amount invested***	**Market value at 31/03/21**	**Gain/(fall) in capital value**	
			Since purchase	**2020/21**
	£m	**£m**	**£m**	**£m**
Pooled property funds	3.25	3.19	(0.06)	(0.02)
Pooled equity funds	2.00	2.06	0.06	0.50
Pooled multi-asset funds	1.75	1.72	(0.03)	0.27
Total pooled funds	**7.00**	**6.97**	**(0.03)**	**0.75**

40. 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 4.57% pa (per annum) since purchase, contributing to a total return of 17.28%.

Table 7 – Higher yielding investments – income and total returns since purchase	**Annualised income return**	**Total return**
	%	**%**
Pooled property funds	4.30	20.01
Pooled equity funds	5.15	21.86
Pooled multi-asset funds	4.36	6.58
Total pooled funds	**4.57**	**17.28**

41. Following advice from Arlingclose, the Fire and Rescue Authority made prudent income forecasts for 2020/21 to reflect the impact of the pandemic and the challenging market conditions being faced by the investment managers of its pooled funds, identifying the potential impact in its forecasting. Actual income returns from pooled fund investments were more positive than this prudent forecast resulting in income of £0.31m, which was about 3.5% lower than in 2019/20. This is compared with the 25% to 30% reduction that could reasonably have been anticipated given the pandemic's impact on property rental income, company dividends and bond yields. 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 accounted for 85% of the Fire and Rescue Authority's total income from its treasury investments, despite making up only 26% of the average investment balance.

42. 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 March 2020.



43. 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.

44. 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

45. The outturn for debt interest paid in 2020/21 was £383,000 on an average debt portfolio of £7.7m, against a budgeted £388,000 on an average debt portfolio of £7.7m.

46. The outturn for investment income received in 2020/21 was £370,000 on an average investment portfolio of £29.8m, therefore giving a yield of 1.24%, against a budgeted £210,000. By comparison investment income received in 2019/20 was £510,000 on an average investment portfolio of £28.2m with a yield of 1.81%.

Non-Treasury Investments

47. Although not classed as treasury management activities the Fire & Rescue Authority may also make loans and investments for service purposes, for example the direct purchase of land or property. Such loans and investments will be subject to the Fire & Rescue Authority's normal approval processes for revenue and capital expenditure and need not comply with the treasury management strategy. The Fire & Rescue Authority does not have any existing non-treasury investments.

Compliance Report

48. The Fire and Rescue Authority confirms compliance of all treasury management activities undertaken during 2020/21 with the CIPFA Code of Practice and the Fire and Rescue Authority's approved Treasury Management Strategy.

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

Table 8 – Debt limits	**2020/21 Maximum £m**	**31/03/21 Actual £m**	**2020/21 Operational Boundary £m**	**2020/21 Authorised Limit £m**	**Complied?**
Borrowing	8.7	7.1	14.3	18.0	✓
Other long-term liabilities	-	-	5.0	5.0	✓
Total debt	**8.7**	**7.1**	**19.3**	**23.0**	✓

Treasury Management Indicators

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

Interest rate exposures

51. 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	**31/03/21 Actual**	**Impact of +/-1% interest rate change**
Sums subject to variable interest rates		
Investment	£26.8m	+/- £0.2m
Borrowing	£2m	+/-£0.0m

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

52. 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	31/03/21 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	6%	50%	0%	✓
12 months and within 24 months	11%	50%	0%	✓
24 months and within 5 years	10%	50%	0%	✓
5 years and within 10 years	1%	75%	0%	✓
10 years and within 20 years	72%	75%	0%	✓
20 years and above	0%	100%	0%	✓

Principal sums invested for periods longer than a year

53. 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	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£8m	£8m	£7m
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied?	✓	✓	✓

54. 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

55. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year. The Fire and Rescue Authority must follow both the Prudential Code and the Treasury Management Code and therefore any changes to either Code will be applicable to the Fire and Rescue Authority. Its views on the initial phase of the consultation were represented in the responses submitted by Hampshire County Council and Arlingclose. Hampshire County Council provide the treasury management service to the Fire and Rescue Authority and Arlingclose are its advisors.

56. In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, such as recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

57. Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

IFRS 16

58. CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2022/23.