



**Essex County Fire and Rescue Service
Treasury Management Strategy
2021/22**

Last updated on 23 July 2021

Contents

Background.....	2
Highlights	2
Local Context.....	3
Borrowing Strategy	5
Investment Strategy	7
Treasury Management Indicators.....	12
Related Matters	14
Appendix A – Arlingclose Economic & Interest Rate Forecast – March 2021	16
Appendix B – Economic Background.....	18
Appendix C – Existing Investment & Debt Portfolio Position.....	20
Appendix D – Balance sheet analysis as at 31st March 2021 per Projected Accounts	21

Background

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial 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 financial risk are therefore central to the Authority's prudent financial management.

The Authority has engaged with Arlingclose, treasury management advisors, to provide support in producing this strategy. All decisions relating to treasury management are the responsibility of the Authority. Looking forward, the Authority is seeking a joint procurement with Essex Police to tender for collaborative treasury management advice.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Highlights

1. The Authority is not expected to borrow in the next four years.
2. The Authority is compliant with the recommendations of the CIPFA's Prudential Code for Capital Finance.
3. Loans of £24.5m are held against an approved limit of £40m of debt.
4. The Authority is unable to repay loans early without significant penalties.
5. The Authority aims to maintain an investment portfolio of high credit quality investments with a liquid maturity profile.

Local Context

On 31st March 2021, the Authority held £24.5m of borrowing and £12.0m of investments. This is set out in further detail at **Appendix C**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

[Note - 31.3.21 figures are taken from the draft 2021 accounts]

Table 1: Balance sheet summary and forecast (further detail 31.3.21 at appendix D)

	31.3.21 Draft £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
General Fund CFR	32.7	33.4	34.2	34.2	32.4
Less: External borrowing ¹	(24.5)	(24.5)	(23.5)	(23.5)	(22.5)
Internal Borrowing ²	8.2	8.9	10.7	10.7	9.9
Less: General and Earmarked Reserves	(14.7)	(9.4)	(7.1)	(5.7)	(5.1)
Less: Capital Receipts Reserve	(9.7)	(14.4)	(8.7)	(7.6)	(7.6)
Plus: Working capital ³	6.2	2.0	2.0	2.0	2.0
Investments	10.0	12.9	3.1	0.6	0.8

¹ Shows only loans to which the Authority is committed and excludes optional refinancing.

² Refers to capital expenditure funded through internal resources such as reserves and working capital.

³ Working capital is high in 20/21 but is expected to reduce to £2m and remain flat.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority's capital expenditure plans do not require any further borrowing in the next four years. The liability benchmark and borrowing strategy is set out later in this report. Funds available for investment are forecast to fall due to higher budgeted capital expenditure in later years, which cannot be fully funded by capital receipts.

Investment falls from 21/22 due to the planned use of Earmarked and Capital Receipts Reserves to fund projects.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2021/22.

Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
General Fund CFR	32.7	33.4	34.2	34.2	32.4
Less: Usable reserves	(24.4)	(23.8)	(15.8)	(13.3)	(12.7)
Plus: Working capital	6.2	2.0	2.0	2.0	2.0
Plus: Minimum investments	10.0	10.0	10.0	10.0	10.0
Liability Benchmark	24.5	21.6	30.4	32.9	31.7

The table above shows that the liability benchmark of the Authority could increase to £32.9m by 23/24. This indicates an underlying need to borrow due to a reduction in usable reserves and a stable, but increasing, capital finance requirement.

Table 3: Debt profile

Total capital repayable	£m
Repayable within 1 year	0
Repayable within 2-5 years	3
Repayable within 5-10 years	15
Repayable within 10-15 years	6.5
Total	24.5

The table above shows high debt expiry in 5-10 years of £15m. The Authority will need to refinance to meet these repayments. The borrowing strategy is considered in the next section.

Borrowing Strategy

The Authority currently holds £24.5 million of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority does not expect to need to borrow in 2021/22. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £40 million. The liability benchmark shows that the Authority may need to borrow to maintain minimum investments of £10m, as required for 'professional' status of the European Union framework "MiFID II" (See MiFID II (europa.eu)).

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

The Authority has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Commissioner.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity, but there is a penalty equal to the outstanding interest on the loan. It is therefore unlikely that the Authority will settle its loans early but may require new loans as existing loans expire.

Investment Strategy

The Authority holds modest levels of invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £7 and £12 million; however, levels are expected to be fall in the forthcoming year and going forward.

Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given that investment balances are projected to fall and then remain low, the Authority aims to maintain an investment portfolio of high credit quality investments with a liquid maturity profile. All of the Authority's surplus cash is currently invested in money market funds.

Business models: Under IFRS 9, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£1m	Unlimited
Secured investments *	20 years	£2m	Unlimited

Banks (unsecured) *	13 months	£1m	Unlimited
Building societies (unsecured) *	13 months	£1m	£1m
Registered providers (unsecured) *	5 years	£1m	£2.5m
Money market funds *	n/a	£3m	Unlimited
Strategic pooled funds	n/a	£2m	£5m
Real estate investment trusts	n/a	£2m	£2.5m

This table must be read in conjunction with the notes below.

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

* **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £1m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Banks unsecured Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and typically low price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wider diversification of investment risks, coupled with the services of a professional fund manager. These funds come under pressure during early 2020 as the demand for liquidity grew due to external factors, and significant withdrawals were required. As it remains unclear how much the Bank of England would be willing to support MMF market participants in future, as well as the potential for further regulations to be introduced, the 50% sector limit has been maintained. Therefore, whilst the investment guidance for money market funds (MMF) is set out in Table 7 the guideline exposure for these funds will also incorporate the following:

- 1) Investment exposure of no more than 0.5% of the total MMF (if a government MMF then this can be 2%).
- 2) Investment exposure is diversified, as far as practical, over multiple MMF's, with a maximum of £3m being invested in a specific fund.
- 3) Overall exposure to MMF's as a whole is limited to 50% of total investments held at any time.

Strategic pooled funds: Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Authority may incur operational exposures, for example, though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-

in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury staff, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are £15 million at 31st March 2021, being General plus Earmarked reserves. In order that no more than 15% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £2 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Limits are also placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 5: Investment limits

	Cash limit
Any group of pooled funds under the same management	£2m per manager
Negotiable instruments held in a broker's nominee account	£2m per broker
Foreign countries	£1m per country

Liquidity management: The Authority uses Microsoft Excel spreadsheets for cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators:

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	A

Should the average portfolio credit rating falls below this measure, the Police, Fire and Crime Commissioner will be notified

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£8.5m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	-£120,000
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	-£120,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	25%	0%
12 months and within 24 months	10%	0%
24 months and within 5 years	10%	0%
5 years and within 10 years	40%	0%

10 years and within 15 years	80%	0%
15 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the 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 for a period longer than a year are:

Price risk indicator	2021/22	2022/23	2023/24
Limit on principal invested beyond one year	£3m	£2m	£2m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Markets in Financial Instruments Directive: The Authority has retained retail client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The forecast for investment income in 2021/22 is £26k, based on an average investment portfolio of £12 million at an interest rate of 0.22%. The forecast for debt interest paid in 2021/22 is £1.15 million, based on an average debt portfolio of £24.5 million at an average interest rate of 4.7%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Commissioner, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be	Higher investment balance leading to a higher impact in the event of a default;

	offset by higher investment income	however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – March 2021

Underlying assumptions

- The medium-term global economic outlook has improved with the rollout of vaccination programmes, of which the UK remains at the forefront. The Roadmap out of Lockdown has bolstered expectations through March.
- The ONS Q4 2020 growth was higher than expected at 1%, leaving the UK economy 8% smaller than Q4 2019. January GDP fell by 2.9%, but less than Bank of England expectations. Unemployment had risen to 5.1% in the three months to December.
- Support packages such as the Coronavirus Job Retention Scheme were extended in the Government's Budget, reducing the downside risks facing the UK economy. However, the extension of furlough will not totally mitigate an inevitable rise in unemployment when costs start to be shared with employers.
- While restrictive measures are likely to continue in the UK until most of the population is vaccinated by the second half of 2021, the end of the strict lockdowns in Q2 will prompt a sharp increase in GDP. Meanwhile, inflation is set to rise quickly back to target due to weaker base effects as the pandemic hit in 2020. This will be partly offset by the extensions to VAT reductions and the freezing of various duties.
- There remain risks to the more positive narrative that has developed since the turn of the year. This is especially apparent in the Eurozone, where virus cases are once again on the rise due to the slow vaccine rollout, and recent issues in both the UK and Eurozone with vaccine supply.
- The uncertain outlook will maintain pressure on central banks to maintain loose monetary conditions for the foreseeable future. Bank Rate is unlikely to change despite developing market expectations.
- Longer term yields have risen sharply, albeit remaining at low levels. US stimulus and the relaxation of restrictions has boosted global growth and inflation expectations, raising expectations of monetary tightening.
- Upward movement in gilt yields could continue in the short term due to market momentum and rising CPI rates, but this is likely to taper once inflation fears recede as the effect of weak base effects subsides.

Forecast

- Arlingclose expects Bank Rate to remain at the current 0.10% level. The risks of a Bank Rate cut over the medium term have reduced further.
- Gilt yields could continue to increase in the short term but will begin to taper and reduce once the market's expectation of rises in Bank Rate and inflation fears subside.
- Longer term yields may face upward pressure towards the end of our forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.
- Downside risks remain – the damage from the pandemic will have lasting effects and there is the risk of further virus mutations due to the uneven global rollout of vaccines. Downside risks also arise from potential future vaccine shortages as the global demand for vaccines increases.

Appendix B – Economic Background

The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in February 2021 and Quantitative Easing programme at £895 billion having extended it by £150 billion in November 2020.

Lockdowns and other measures implemented to control the spread of Covid-19 have continued to have a dramatic effect on the UK and wider global economy. One of the main changes since the November report is that the Covid vaccinations have begun to be rolled out across the globe. Nevertheless, UK and global activity remains hampered during this period and continues to be set back by newly identified strains of the virus and reimposed restrictions.

In the February Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to rapidly recover towards pre-Covid levels toward the end of 2021. This rebound in activity is supported by the substantial fiscal and monetary policies put in place by the government. As these policies are phased out the pace of recovery in GDP is likely to slow but the MPC forecasts the spare capacity in the economy being eliminated as activity picks up throughout the year.

UK Consumer Price Inflation (CPI) for February 2021 registered 0.4% year on year, down from 0.7% in the previous month. The MPC expects the CPI rate to rise quite sharply towards the 2% target due to the reversal of the VAT cut for certain services and rise in energy prices. The most recent labour market data for the three months to November 2020 showed the unemployment rate rose to 5.0% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021.

GDP growth rebounded by a further 1.0% in Q4 2020 after increasing by 16% in Q3 2020, with the annual rate rising to -7.8% from -8.6%. All sectors rose quarter-on-quarter, with construction continuing to lead the way (4.6%), followed by production (1.8%) and services (0.6%). While the implementation of stricter lockdown restrictions in Q1 2021 will lead to a steep decline in GDP, the rollout of vaccination programmes has improved the medium-term economic outlook and a sharp increase in Q2 GDP can be reasonably expected.

GDP growth in the euro zone fell by 0.5% in Q4 2020 after rebounding by 12.7% in Q3 2020. Headline inflation was reported at 1.3% in March 2021, up from 0.9% in February 2021, and recovering from several negative readings in 2020. Core inflation registered at 1.0% y/y, below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy increased at an annualised rate of 4.0% in Q4 2020, after rebounding by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and

0.25%. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in March 2020 as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Majority of the UK's largest banks and building societies managed to generate a profit in 2020 despite the challenges of COVID-19. However, general bank profitability may be significantly lower in 2021 than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: Arlingclose, a local authority treasury management advisor, is forecasting that BoE Bank Rate will remain at 0.1% until at least the second quarter of 2024. The risks of a Bank Rate cut over the medium term have reduced further. The BoE extended its asset purchase programme to £895 billion in November 2020 while keeping Bank Rate on hold and maintained this position in February 2021.

Gilt yields could continue to increase in the short term but will begin to taper and reduce once the market's expectation of rises in Bank Rate and inflation fears subside. Longer term yields may face upward pressure towards the end of our forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.

Downside risks remain – the damage from the pandemic will have lasting effects and there is the risk of further virus mutations due to the uneven global rollout of vaccines. Downside risks also arise from potential future vaccine shortages as the global demand for vaccines increases.

Appendix C – Existing Investment & Debt Portfolio Position

	31/03/2021 Actual Portfolio £m	31/03/2021 Average Rate %
External borrowing:		
Public Works Loan Board	24.5	4.7
Total external borrowing	24.5	4.7
Treasury investments		
Money Market Funds	10.0	0.04
Bank Accounts	2.0	0.02
Total treasury investments	12.0	0.03
Net debt	12.5	

Appendix D – Balance sheet analysis as at 31st March 2021

(Based on unaudited financial statements and excludes any Year End Pension Scheme Valuations)

Balance Sheet Analysis 31st March 2021	Balance 31/03/2021	Capital Financing Requirement	Usable Reserves	Working Capital	Investments	External Borrowing	Balance 31/03/2021
Property, Plant & Equipment							
Land and buildings	125,232	125,232					-
Vehicles, plant and equipment	11,404	11,404					-
Assets under construction	751	751					-
Long Term Assets	137,387	137,387	-	-	-	-	-
Inventories	642			642			-
Short term debtors	6,441			6,441			-
Cash and cash equivalents	17,693			7,599	10,094		-
Assets held for sale	912	912					-
Current Assets	25,688	912	-	14,682	10,094	-	-
Short term borrowing	(250)			(250)			-
Short term creditors	(6,522)			(6,522)			-
Grant receipts in advance	(1,049)			(1,049)			-
Current Liabilities	(7,821)	-	-	(7,821)	-	-	-
Long term borrowing	(24,500)					(24,500)	-
Provisions	(1,052)			(1,052)			-
Other long term liabilities	(753,217)			(753,217)			-
Long Term Liabilities	(778,769)	-	-	(754,269)	-	(24,500)	-
Net Liabilities	(623,515)	138,299	-	(747,408)	10,094	(24,500)	-
General reserves	4,351		4,351				-
Earmarked general reserves	10,462		10,462				-
Usable capital receipts reserve	9,669		9,669				-
Usable Reserves	24,482	-	24,482	-	-	-	-
Revaluation reserve	38,180	38,180					-
Capital adjustment account	67,401	67,401					-
Holiday pay account	(828)			(828)			-
Collection fund adjustment account	467			467			-
Pension reserve	(753,217)			(753,217)			-
Unusable Reserves	(647,997)	105,581	-	(753,578)	-	-	-
Total Reserves	(623,515)	105,581	24,482	(753,578)	-	-	-
Analysis Total	-	32,718	(24,482)	6,170	10,094	(24,500)	-

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents – none.	
Proper Officer:	Chief Financial Officer (S151)
Contact Officer:	Neil Cross Essex County Fire and Rescue Service, Kelvedon Park, London Road, Rivenhall, Witham CM8 3HB Tel: 01376 576100