Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 8**

Report to	**Audit Committee**
Date	**18 March 2024**
Lead Officer	**Helen MacArthur – Assistant Chief Fire Officer**
Contact Officer	**Helen Howard – Head of finance & Procurement**
Subject	**Treasury Management Report Q3 2023/24**

PURPOSE OF REPORT

1 The purpose of this report is to provide Members with an update on the treasury management activity and compliance with the treasury management prudential indicators for the period 1 April 2023 – 30 December 2023.

EXECUTIVE SUMMARY

2 In December 2003 the North Wales Fire and Rescue Authority (the Authority) adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice (2021)* (the CIPFA Code) which requires the Authority (or the Audit Committee with delegated authority) to approve, as a minimum, treasury management semi-annual and annual outturn reports. The CIPFA Code also included a new requirement for quarterly reporting of the treasury management indicators from April 2023. The non-treasury prudential indicators are incorporated in the Authority's normal revenue and capital monitoring report.

3 The Authority's treasury management strategy for 2023/24 was approved at a meeting on 20 March 2023. As the Authority borrows and invests significant sums of money there are financial risks that need to be considered including the potential loss of invested funds (cash deposits) and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

4 During the nine-month period between 1 April and 31 December 2023, the Authority's borrowing and investments remained well within the limits originally set. There were no new defaults by banks in which the Authority deposited money. Furthermore, it is estimated that the Authority's actual investment income will be higher than the expected income in the 2023/24 budget.

RECOMMENDATION

5 It is recommended that Members:

i) note the treasury management activities and prudential indicators for the period 1 April – 31 December 2023.

EXTERNAL CONTEXT

6 UK inflation rates finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the Consumer Price Index (CPI) remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August 2023 was indeed the peak for bank rates.

7 The Bank of England's Monetary Policy Committee (MPC) held the bank rate at 5.25% throughout the period, although a substantial minority continued to vote for a 25-basis point rate rise. The BoE continues to tighten monetary policy through asset sales, as it reduces the size of its balance sheet. Financial market bank rate expectations moderated over the period as falling inflation and weakening data showed that higher interest rates were working in the UK, US, and Eurozone.

8 Following the December MPC meeting, Arlingclose, the Authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, but over the remaining part of the time horizon the risks include economic activity weakening more than expected.

9 Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

LOCAL CONTEXT

10 On 31 March 2023, the Authority had net borrowing of £22.48m arising from capital expenditure.

11 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. Further, the Authority's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.23 Actual £m	31.12.23 Actual £m
General Fund CFR	28.88	32.16
External borrowing	-26.65	-21.62
Internal borrowing	0.00	-8.61
Less: Balance sheet resources	-6.40	-9.68
Less: New Investments	4.17	7.75
New borrowing	**0.00**	**0.00**

12 Table 1 confirms that the Authority's net borrowings were below the Capital Financing Requirement (CFR).

13 The treasury management position at 31 December 2023 and the change over the nine months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	31.12.23 Balance £m	31.12.23 Rate %
Long-term borrowing (PWLB)	17.79	-1.09	16.70	1.00 - 4.90
Short-term borrowing	8.86	-3.94	4.92	1.30 - 3.91
Total borrowing	**26.65**	**-5.03**	**21.62**	
Short-term investments	0.00	-6.40	-6.40	5.19 - 5.38
Cash and cash equivalents	-4.17	2.82	-1.35	4.65 - 5.14
Total investments	**-4.17**	**-3.58**	**-7.75**	
Net borrowing	**22.48**	**-8.61**	**13.87**	

BORROWING

14 CIPFA's 2021 Prudential Code outlines that local authorities (including Fire and Rescue Authorities) must not borrow to invest with the primary objective being financial return. It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement requiring new borrowing, unless directly and primarily related to the functions of the Authority.

15 The Authority has not invested in assets for financial return and all expenditure is related to the discharge of the Authority's functions.

BORROWING STRATEGY AND ACTIVITY

16 As outlined in the treasury strategy, the Authority's main objective when borrowing has been to adopt a low risk strategy, balancing low interest costs and achieving cost certainty 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. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

17 There was a substantial rise in the cost of both short and long-term borrowing over the last 18 months. The bank rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of December. The bank rate was 2% higher than September 2022.

18 The Public Works Loan Board (PWLB) borrowing rates fell slightly over the quarter. On 31 December, the PWLB certainty rates for maturity loans were 4.19% for 10-year loans, 4.90% for 20-year loans and 4.67% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.

19 At 30 December the Authority held £21.62m of loans, a decrease of £5.03m on 31 March 2023, reflecting the strategy for funding the previous and current years' capital programmes. Outstanding loans, on 30 December are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.23 Balance £m	Net Movement £m	31.12.23 Balance £m	31.12.23 Weighted Average Rate %	31.12.23 Weighted Average Maturity (years)
Public Works Loan Board	20.65	-2.03	18.62	2.46	6.48
Local authorities (short-term)	6.00	-3.00	3.00	4.35	1.00
Total borrowing	**26.65**	**-5.03**	**21.62**		

20 The Authority's short-term borrowing cost has continued to increase with the rise in the bank rate and short-dated market rates. The Authority's short-term loans at 30 December 2023 were £3.00m with a rate of 4.35%, this compares with a rate of 1.3% on £6.00m loans as at the end of March 2023.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period Remaining (Years)
PWLB Maturity Loan	2.00	4.80	29
PWLB EIP Loan	0.67	3.09	14
PWLB EIP Loan	4.86	3.91	17
Loans over 5 years	**7.53**		

21 The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

22 During the period 1 April – 30 December 2023, a short-term market loan of £3m was repaid. This was replaced with a long term PWLB loan, which was taken out in 2022/23. This was undertaken following advice from Arlingclose, our treasury management advisors, and undertaken when interest rates were favourable.

TREASURY INVESTMENT ACTIVITY

23 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 those that arise from the organisation's cash flows and treasury risk management as activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business. In simple terms, the management of cash until it is required for the day to day business, rather than investing cash for the sole purpose of gaining Investment returns.

24 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £4.17m and £10.18m due to timing differences between income and expenditure. The majority of the balance relates to the income received in relation to the Firefighters Pensions Fund, which will be spent throughout the year. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.23 Balance £m	Net Movement £m	31.12.23 Balance £m	31.12.23 Income Return %	31.12.23 Weighted Average Maturity days
Banks & building societies	4.17	-2.82	1.35	4.65 - 5.14	on call
Bank of Scotland		3.00	3.00	5.38	
DMADF		3.40	3.40	5.19	
Total investments	**4.17**	**3.58**	**7.75**		

25 Both the CIPFA Code and Government guidance require the 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 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.

26 As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. This includes using the UK Treasury's Debt Management Account Deposit Facility (DMADF, also known as 'the DMO').

27 The bank rate increased by 1%, from 4.25% at the beginning of April 2023, to 5.25% by the end of December 2023. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. DMADF deposits also rose, ranging between 5.17% and 5.29% by the end of December and Money Market Rates between 4.65% and 5.38%.

COMPLIANCE

28 All treasury management activities undertaken during the quarter complied with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy.

29 Compliance with specific investment limits is demonstrated in table 5 below.

Table 5: Investment Limits

Institution	Description	Limit	31.12.23 Actual	Complied? Yes/No
Banks	All UK banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as long term (BBB)	£5m per bank	£4.35m	yes
Central Government	Debt Management Office (DMO)	Unlimited	£3.4m	yes
Money Market Funds (MMF)	Only in conjunction with advice for Arlingclose	£1m per fund	0	yes
Local Authorities	All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992	£2m	0	yes
Building Societies	Building societies with a rating (as for the banking sector)	£2m	0	yes
Building Societies (Assets £1bn)	Building societies without a rating but with assets of £1billion or more	£2m/9 months	0	yes

30 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 6 below.

Table 6: Debt and the Authorised Limit and Operational Boundary

	31.12.23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied?
Borrowing	21.62	28.99	30.99	Yes
Total debt	**21.62**	**28.99**	**30.99**	

31 Since the operational boundary is a management tool for in-year monitoring, there may be occasions when actual borrowing exceeds this target. This may be due to variations in cash flow and short-term breaches would not count as a compliance failure.

TREASURY MANAGEMENT INDICATORS

32 As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

Liability Benchmark

33 This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making.

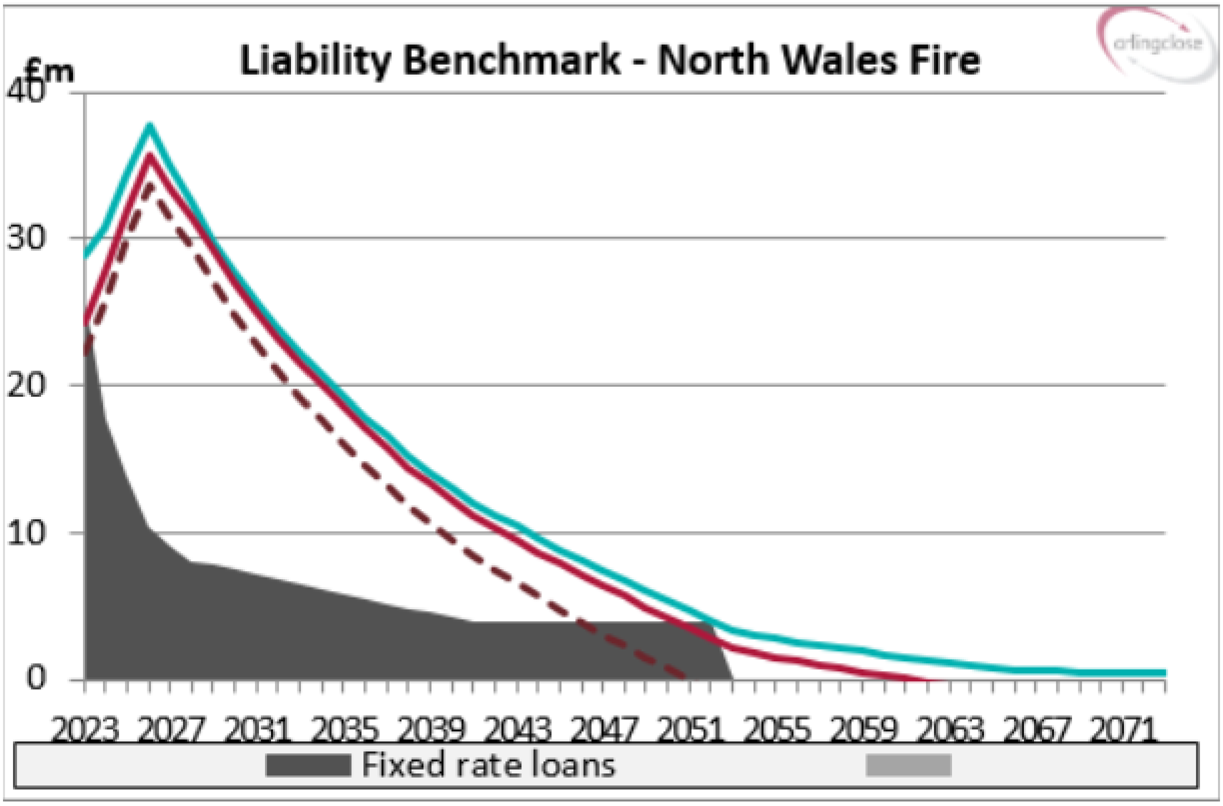
34 It represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £2.0m required to manage day-to-day cash flow.

	31.3.23 Actual £m	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**
Loans CFR	28.88	32.42	34.50	37.70
Less: Balance sheet resources	-6.40	-5.00	-4.50	-4.00
Net loans requirement	22.48	27.42	30.00	33.70
Plus: Liquidity allowance	2.00	2.00	2.00	2.00
Liability benchmark	**24.48**	**29.42**	**32.00**	**35.70**
Existing borrowing	**-26.65**	**-17.80**	**-14.10**	**-10.50**

35 The above forecast does not include any costs for the proposed training centre, as it is yet to be agreed by the Authority.

36 The liability benchmark is a long-term measure of the underlying need to borrow for <u>all</u> purposes over the long term and is based on the current capital programme and other forecast cash flow movements. It is a tool to compare the current loans portfolio against the current and planned need to borrow, in terms of both the level and term of borrowing. It indicates whether long term borrowing is more appropriate.

37 Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £4m - £6m between 2023/24 and 2025/26, minimum revenue provision on new capital expenditure based on the current asset lives, as per the accounting policy, income and expenditure increasing by inflation of [2.5]% p.a. and a reduction in reserves. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



38 The graph shows the Authority is expecting to need to borrow in future years. The Authority will always have a borrowing requirement as it does not hold significant cash or reserves and only has limited access to capital grant funding.

39 The blue line represents the need to fund capital expenditure through borrowing (the Capital Financing Requirement or CFR). The red lines represent the need to fund capital expenditure through borrowing once reserves and working capital surplus' (or deficits) have been taken into account – this is actually the real need to borrow which CIPFA have defined as being the Liability Benchmark. The dashed red line represents the position at year end and the solid line represents the average mid-year position. The grey shaded areas show actual loans. When the grey area falls below the red lines this infers a borrowing need.

Maturity Structure of Borrowing

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

	31.12.23 Actual	Actual Limit	Upper Limit	Lower Limit	Complied Y/N
Under 12 months	5.61	25.95%	60.00%	0.00%	Y
12 months and within 24 months	2.38	11.01%	45.00%	0.00%	Y
24 months and within 5 years	6.10	28.21%	45.00%	0.00%	Y
5 years and within 10 years	0.67	3.10%	75.00%	0.00%	Y
10 years and above	6.86	31.73%	100.00%	0.00%	Y

41 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.

Long-term Treasury Management Investments

42 The Authority does not hold any long-term treasury investments.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA's long-term well-being objectives. Ensures that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. Ensures there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	Budget is set annually for capital financing in line with the Treasury report.
Legal	The regulatory framework is set out in paragraph 1.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	Investment of surplus funds – there is a risk that the financial institution in which the service's funds are invested could fail with a loss of part of the principal invested. However, one of the purposes of the report is to mitigate this risk.