

Report to	<b>Audit Committee</b>	
Date	<b>18 September 2023</b>	
Lead Officer	<b>Helen MacArthur – Assistant Chief Fire Officer</b>	
Contact Officer	<b>Helen Howard – Head of Finance and Procurement</b>	
Subject	<b>Treasury Management Report April – June 2023/24</b>	

## 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 June 2023.

## EXECUTIVE SUMMARY

- 2 In December 2003, 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 to approve, as a minimum, treasury management semi-annual and annual outturn reports.
- 3 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.
- 4 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 loss of invested funds 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.

## RECOMMENDATIONS

- 5 It is recommended that Members:
  - i) note the treasury management activities and prudential indicators for the period 1 April – 30 June 2023.

## EXTERNAL CONTEXT

- 6 Inflation fell from its peak of 11.1% reached in October 2022, but annual headline CPI in May 2023 was higher than the consensus forecast at 8.7% (8.4% expected). This was largely driven by services inflation, while the annual measure of underlying core inflation rose to 7.1% from 6.8%.

- 7 The Bank of England's Monetary Policy Committee re-accelerated monetary policy tightening over the period with a 0.25% rise in May to a 0.5% rise in June, taking Bank Rate to 5.0%.
- 8 Interest rate expectations priced in further hikes in policy rates. Arlingclose, the authority's treasury adviser, revised its forecast to forecast a further 0.5% of monetary tightening to take Bank Rate to 5.5%. The risks, however, are that rates could be higher; financial markets are forecasting policy interest rates above 6%.

## LOCAL CONTEXT

- 9 On 31 March 2023, the Authority had net borrowing of £22.48m arising from capital expenditure. 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. These factors are summarised in Table 1 below.

**Table 1: Balance Sheet Summary**

	<b>31.03.23 Actual £m</b>
General Fund CFR	28.88
External borrowing	-26.65
Less: Balance sheet resources	-6.40
Less: New Investments	4.17
<b>31 March 2023</b>	<b>0.00</b>

- 10 The treasury management position at 30 June and the change over the quarter is shown in Table 2 below.

**Table 2: Treasury Management Summary**

	<b>31.3.23 Balance £m</b>	<b>Movement £m</b>	<b>30.6.23 Balance £m</b>	<b>30.6.23 Rate %</b>
Long-term borrowing (PWLB)	17.79	0	17.79	1.00 - 4.90
Short-term borrowing	8.86	-3.42	5.44	1.30 - 3.91
<b>Total borrowing</b>	<b>26.65</b>	<b>-3.42</b>	<b>23.23</b>	
Short-term investments	0.00	0.00	0.00	
Cash and cash equivalents	-4.17	-6.01	-10.18	4.16 - 4.90
<b>Total investments</b>	<b>-4.17</b>	<b>-6.01</b>	<b>-10.18</b>	
<b>Net borrowing</b>	<b>22.48</b>	<b>-9.43</b>	<b>13.05</b>	

## BORROWING

- 11 CIPFA's 2021 Prudential Code outlines that local 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.
- 12 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

- 13 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.
- 14 There has been a substantial rise in the cost of both short and long-term borrowing over the last 18 months. In this quarter, Bank Rate rose from 4.25% at the beginning of April to 5.0% at the end of the quarter and was also significantly higher than its level of 1.25% at the end of June 2022.
- 15 PWLB borrowing rates continued to rise over the quarter. On 30 June, the PWLB certainty rates for maturity loans were 5.25% for 10-year loans, 5.36% for 20-year loans and 4.95% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.
- 16 At 30 June the Authority held £23.23m of loans, a decrease of £3.42m on 31 March 2023, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans, on 30 June are summarised in Table 3A below.

**Table 3A: Borrowing Position**

	<b>31.3.23 Balance £m</b>	<b>Net Movement £m</b>	<b>30.6.23 Balance £m</b>	<b>30.6.23 Weighted Average Rate %</b>	<b>30.6.23 Weighted Average Maturity (years)</b>
Public Works Loan Board	20.65	-0.42	20.23	2.46	4.74
Local authorities (short-term)	6.00	-3.00	3.00	4.35	1.00
<b>Total borrowing</b>	<b>26.65</b>	<b>-3.42</b>	<b>23.23</b>		

- 17 The Authority's short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the Authority's short-term loans at 30 June 2023 on £6.00m was 4.35%, this compares with 1.3% on £6.00m loans 12 months ago.

**Table 3B: Long-dated Loans borrowed**

	<b>Amount £m</b>	<b>Rate %</b>	<b>Period (Years)</b>
PWLB Maturity Loan	2.60	4.80	29.00
PWLB EIP Loan	4.70	3.91	18.00
<b>Total borrowing</b>	<b>7.30</b>	<b>4.23</b>	

- 18 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.
- 19 During the period 1 April – 30 June 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 our treasury management advisors and undertaken when interest rates were favourable.

### **TREASURY INVESTMENT ACTIVITY**

- 20 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 21 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**

	<b>31.3.23</b>	<b>Q1</b>	<b>31.6.23</b>	<b>30.6.23</b>	<b>30.6.23</b>
	<b>Balance</b>	<b>Net</b>	<b>Balance</b>	<b>Income</b>	<b>Weighted</b>
	<b>£m</b>	<b>Movement</b>	<b>£m</b>	<b>Return</b>	<b>Average</b>
		<b>£m</b>		<b>%</b>	<b>Maturity</b>
					<b>days</b>
Banks & building societies	4.17	6.01	10.18	4.16-4.90	on call
<b>Total investments</b>	<b>4.17</b>	<b>6.01</b>	<b>10.18</b>		

- 22 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.
- 23 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.
- 24 Bank rates increased by 0.75%, from 4.25% at the beginning of April to 5% by the end of June, with the prospect of further increases to come. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%.

## COMPLIANCE

- 25 The Treasurer reports that 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, apart from the limit for investments held with one bank. The Service hold two call accounts that are used to place short term deposits, with Lloyds Bank and Barclays Bank. The interest rates being offered on treasury deposits, was significantly higher with Lloyds Bank and therefore in order to obtain the best return all deposits have been placed with them.
- 26 To help mitigate this in future, the Service have applied for a Debt Management Office Account, as the Treasury Management Strategy allows for unlimited funds to be placed with the DMO.
- 27 Compliance with specific investment limits is demonstrated in table 5 below.

**Table 5: Investment Limits**

Institution	Description	Limit	30.06.23 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	£10.18m	no
Central Government	Debt Management Office (DMO)	Unlimited	0	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 £1 billion or more	£2m/9 months	0	yes

28 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**

	30.6.23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied?
Borrowing	23.23	28.99	30.99	Yes
<b>Total debt</b>	<b>23.23</b>	<b>28.99</b>	<b>30.99</b>	

29 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

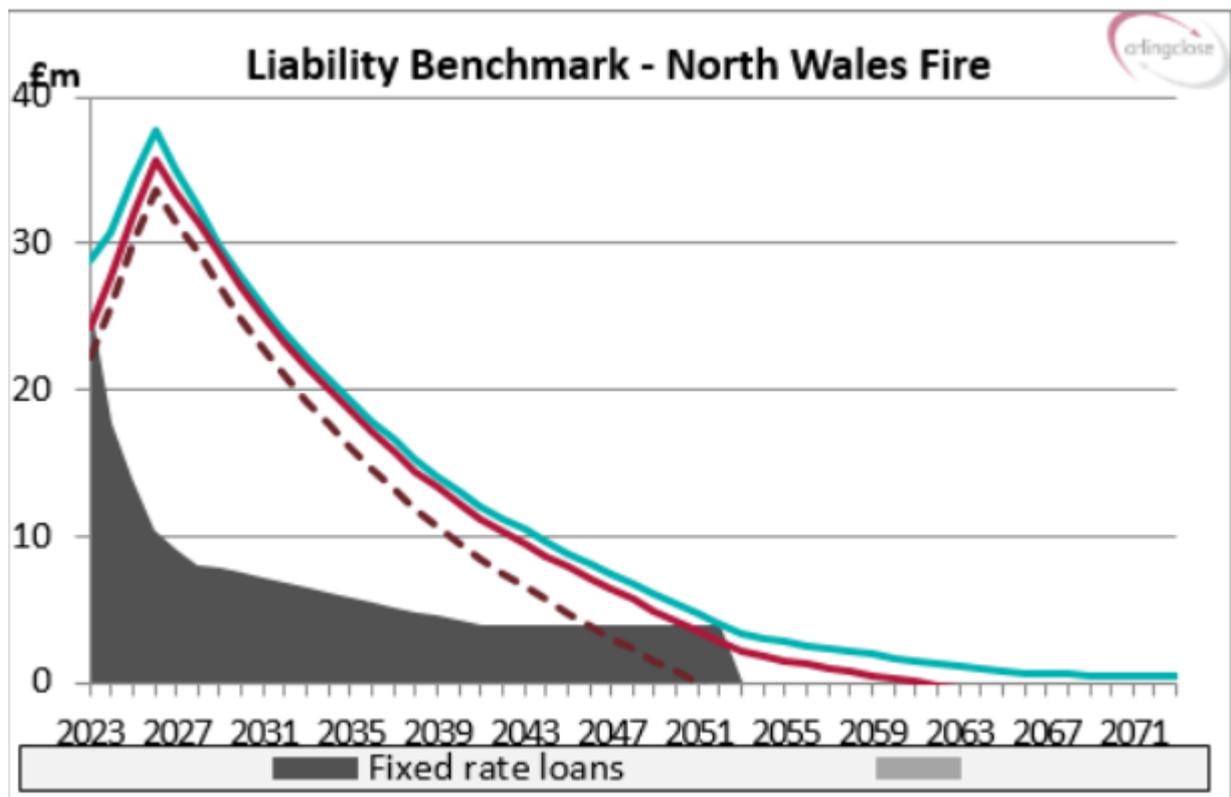
30 As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

## Liability Benchmark

- 31 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.
- 32 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.

	<b>31.3.23 Actual £m</b>	<b>31.3.24 Forecast £m</b>	<b>31.3.25 Forecast £m</b>	<b>31.3.26 Forecast £m</b>
Loans CFR	28.88	30.70	34.50	37.70
Less: Balance sheet resources	-6.40	-5.00	-4.50	-4.00
<b>Net loans requirement</b>	<b>22.48</b>	<b>25.70</b>	<b>30.00</b>	<b>33.70</b>
Plus: Liquidity allowance	2.00	2.00	2.00	2.00
<b>Liability benchmark</b>	<b>24.48</b>	<b>27.70</b>	<b>32.00</b>	<b>35.70</b>
<b>Existing borrowing</b>	<b>-26.65</b>	<b>-17.80</b>	<b>-14.10</b>	<b>-10.50</b>

- 33 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.



- 34 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.
- 35 Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.
- 36 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**

- 37 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:

	<b>30.6.23 Actual</b>	<b>Actual Limit</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied Y/N</b>
Under 12 months	2.44	10.50%	60.00%	0.00%	Y
12 months and within 24 months	6.71	28.89%	45.00%	0.00%	Y
24 months and within 5 years	5.62	24.19%	45.00%	0.00%	Y
5 years and within 10 years	1.32	5.68%	75.00%	0.00%	Y
10 years and above	7.14	30.74%	100.00%	0.00%	Y

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**

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

### **IMPLICATIONS**

<b>Wellbeing Objectives</b>	This report links to NWFRAs 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.
<b>Budget</b>	Budget is set annually for capital financing in line with the Treasury report.
<b>Legal</b>	The regulatory framework is set out in paragraph 1.
<b>Staffing</b>	None
<b>Equalities/Human Rights/Welsh Language</b>	None
<b>Risks</b>	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.