DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 22/55

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	14 December 2022
SUBJECT OF THE REPORT	Treasury Management Mid-Year report 2022-23
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For information and to note
EXECUTIVE SUMMARY	At the meeting of the Authority on 9 February 2022, Members received and approved the Treasury Management Strategy Statement and Prudential Indicators for 2022-23. This report updates Members on Treasury Management performance for the six months to 30 September 2022. The general economic picture continues to be very unstable and fast changing at times. The Bank Rate has increased significantly over the course of 2022 in response to high levels of inflation. Expectations are for further increases in the coming months, before rates are expected to ease from the middle of 2023. At the end of the last financial year, the Authority had a capital financing requirement (excluding Public Finance Initiative (PFI) and leasing) of £32.9m and this is forecast to increase to £33.3m based on forecast capital expenditure and financing. Actual outstanding borrowing at the end of the last financial year was £16.9m. This reduced to £16.3m at the end of September 2022. The end of year forecast ranges from £16.3m to £18.3m depending on the need for any further borrowing. This will mean an underlying under-borrowing position of £15m to £17m at the end of

	the financial year, which is currently supported through internal borrowing from reserves and balances.
RISK ASSESSMENT	Borrowing and lending by the Authority always carries some financial risk. This is managed in accordance with the Treasury Management Strategy approved by the Authority on an annual basis.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	All treasury and budget implications are reported as part of the financial reports presented to Finance & Audit Committee.
RECOMMENDATIONS	Members are asked to note the Treasury Management position as at 30 September 2022.
BACKGROUND PAPERS	Authority paper 22/07 February 2022 – Treasury Management 2022-23
APPENDICES	Appendix A - Current borrowing Appendix B - Current investments
REPORT ORIGINATOR AND CONTACT	Name: Ian Cotter, Head of Financial Services & Treasurer Email: ian.cotter@dwfire.org.uk Tel no: 07500 066130

1. Introduction

1.1 The Authority has adopted the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Sector and operates its treasury management function in compliance with this Code. This requires that the primary objective of the treasury management function is the effective management of risk, and that its borrowing activities are undertaken on a prudent, affordable and sustainable basis.

1.2 The Code requires regular reporting of treasury management activities to include, as a minimum:

- a forecast of the likely activity for the forthcoming year (the Treasury Management Strategy for 2022-23 was agreed by the Authority on 9 February 2022)
- a mid-year update on treasury management activity (this report); and
- an annual review of the capital activity for the preceding year.

2. Approved lending list

2.1 The 'Treasury Management Policy Statement and Practices' defines the policies adopted by the Authority for the year. We have recently moved to an approved lending list that is managed for us by our treasury management advisors, Link Asset Services.

3. Borrowing

3.1 Capital expenditure which cannot be immediately financed through revenue or capital resources requires funding through either new borrowing or the use of available cash resources pending borrowing (often referred to as 'internal borrowing').

3.2 At the start of the financial year, the Authority had outstanding borrowing totalling £16.9m. The Authority also has an assessed Capital Financing Requirement (CFR) (for capital expenditure purposes), which is the Authority's underlying need to externally borrow to finance capital expenditure. This stood at £36.9m as at 1 April 2022, with the difference of £16m being the level of internal borrowing, commonly referred to as the level of under-borrowing.

3.3 During the first half of the year, principal repayments of £591k have been made in respect of existing loans, with a further £17k repayable in the second half of the year.

3.4 The Treasury Management Strategy assumed that new borrowing of £12m would potentially be required across 2021-22 and 2022-23. This included borrowing for cashflow purposes and to reduce the level of under-borrowing and borrowing in respect of capital expenditure. In November 2021 new borrowing of £5m was undertaken with the Public Works Loan Board (PWLB). This was through two separate loans of £2.5m each, one over 45 years at an interest rate of 1.66% and one over 50 years at an interest rate of 1.61%. In June 2022 £3m of short-term borrowing was required for cashflow purposes. This was through a 31-day loan with Newport City Council at an interest rate of 1.07%. Appendix A shows the total for outstanding debt at 30 September 2022 at £16.3m. The total of interest payments for the year against this outstanding debt is £480k, compared to a budget of £541k.

3.5 A provisional sum of £2m for further borrowing this year has been included as a working assumption. This may be required as further short-term borrowing for cashflow purposes but any long-term borrowing will be avoided given the recent increases in long-term borrowing rates.

4. Investments

4.1 Investments in the first half of 2022-23 were only made in ‘Fixed Term Deposits’, ‘Money Market Funds’ and ‘On-Call Deposits’ with a maturity date less than one year, in accordance with the Authority’s Annual Investment Strategy. Investment transactions totalled £41.1m, and disinvestment transactions totalled £36.5m. Net investments have therefore increased by £4.6m so far during the year, bringing the total invested at 30 September 2022 to £9.8m. (Total invested at 1 April 2022 was £5.2m).

4.2 In the period 1 April 2022 to 30 September 2022 gross income from investments totalled £44k.

4.3 Details of investments as at 30 September 2022 are shown in Appendix B.

5. Economics and interest rates

5.1 <u>Economics update</u>

5.1.1 The Authority’s treasury advisor, Link Group, provided an update for the second quarter of 2022/23 showing:

- Gross domestic product (GDP) revised upwards in Q1 2022/23 to +0.2% quarter over quarter (q/q) from -0.1%, which meant the UK economy avoided recession at that time

- Signs of economic activity losing momentum as production fell due to rising energy prices
- Consumer price index (CPI) inflation ease to 9.9% year-over-year (y/y) in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term
- The unemployment rate fell to a 48-year low of 3.5% due to a large shortfall in labour supply
- Bank Rate rise by 100 basis points (bps) over the quarter, taking Bank Rate to 2.25% with further rises to come
- Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23 September.

5.1.2 Things have clearly moved on quite quickly from then.

5.2 Interest rates

5.2.1 Link provided the following forecasts on bank and borrowing rates as at 8 November 2022, following the Bank of England’s Monetary Policy Committee Decision on 3 November to increase the Bank Rate to 3%.

Link Group Interest Rate View 08.11.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

5.2.2 As the table above shows, Link is now forecasting three step increases in Bank Rate, one in December 2022 to 3.5%, then March 2023 to 4.25% and finally in June 2023 to 4.5%. It then expects the rate to remain at that level for the remainder of 2023 before beginning to drop back from March 2024 onwards.

5.2.3 Although Link see rates peaking from June of 2023, they believe there are several challenges to the Bank of England that could see them leave rates at this level until early 2024.

5.2.4 The first of those challenges is the tight labour market (unemployment is at a 48 year low 3.5%), which shows no signs of dissipating, and that could mean wage increases continue to be north of 5% well into 2023 (the Bank would broadly want wages to be in the range of 3% - 3.5%). There is also the prospect that unless the workforce participation rate increases and/or immigration policies are relaxed, there is no clear route that would give rise to sustainable increases in economic growth. And, of course, inflation could be somewhat “sticky” if the Russian invasion of Ukraine remains unresolved and puts continued pressure on global energy prices and staple foods (e.g., wheat), among the many areas negatively impacted.

5.3 Link forecast the PWLB borrowing rates will remain high for now before dropping back to lower rates as inflation begins to fall. Their advice on borrowing is that there is better value currently in shorter period loans and short-dated loans with other local authorities, with temporary borrowing rates likely to remain close to the bank rate.

6. Compliance with treasury and prudential limits

6.1 It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2022, the Authority has operated within the treasury and prudential indicators set out in the Authority’s Treasury Management Strategy Statement for 2022-23. No difficulties are envisaged for the current or future years in complying with these indicators.

6.2 All treasury management operations have also been conducted in full compliance with the Authority's Treasury Management Practices.

7. Summary & key points

7.1 At the start of the financial year, the Authority had outstanding borrowing totalling £16.9m, against a Capital Financing Requirement (CFR) (need to externally borrow to finance capital expenditure) of £32.9m. This leads to an under-borrowing position of £16m. The current forecast for March 2023 sees the CFR increasing to £33.3m and outstanding borrowing ranging from £16.3m to £18.3m, leaving the under-borrowing position at £15m to £17m.

7.2 Investments in the first half of 2022-23 were only made in ‘Fixed Term Deposits’, ‘Money Market Funds’ and ‘On-Call Deposits’ with a maturity date less than one year. Net investments at 30 September 2022 total £9.8m (£5.2m 1 April 2022). Investment returns are much improved as a result of the recent increases in interest rates.

7.3 The general economic picture will remain uncertain for some time to come. Expectations are that interest rates will increase a little further before gradually reducing from the second half of 2023. The Bank of England expects inflation to remain above 10% into the start of 2023 before falling back sharply although they acknowledge that there are risks to this projection.

Appendix A

Current borrowing

Borrowing forecast as at 30 September 2022

Start Date	Maturity Date	Estimated Balance (£)	Interest Rate	Annual Interest (£)
Annuity Loans				
25/03/2005	11/03/2027	187,579	4.80%	8,506
		187,579		**8,506**
Maturity Loans				
21/12/2004	11/03/2030	200,000	4.55%	9,100
15/02/2005	11/03/2030	200,000	4.50%	9,000
01/03/2006	11/03/2031	1,307,000	4.05%	52,934
09/03/2007	07/04/2022	574,000	4.75%	523
	less repaid	(574,000)		
23/08/2007	11/09/2052	1,000,000	4.45%	44,500
06/09/2007	07/10/2027	500,000	4.90%	24,500
04/01/2008	11/03/2042	1,000,000	4.43%	44,300
09/01/2008	11/09/2042	500,000	4.39%	21,950
10/09/2008	11/03/2058	2,000,000	4.38%	87,600
02/08/2019	11/09/2044	3,000,000	2.20%	66,000
02/08/2019	11/09/2059	1,400,000	2.13%	29,820
12/11/2021	11/09/2066	2,500,000	1.66%	41,500
12/11/2021	11/09/2071	2,500,000	1.61%	40,250
		16,107,000		**471,976**
Total	**@ 30/09/2022**	**16,277,759**		**480,482**

Appendix B

Current investments

Investments as at 30 September 2022

Name of Borrower	Amount Invested (£)	Maturity Date	Interest Rate
Loans			
Lloyds Corporate	1,500,000	28/10/2022	1.85%
SMBC	1,500,000	28/10/2022	2.02%
National Bank of Kuwait	1,500,000	27/01/2023	2.57%
Money Market Funds			
Federated Hermes	2,600,000		
Black Rock	2,507,366		
Call Accounts			
Bank of Scotland	94,007		0.15%
Lloyds Bank	85,648		0.15%
HSBC Deposit Account	20,000		2.05%
Santander	997		1.12%
Total Investments	**9,808,018**		