DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 23/39

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	28 September 2023
SUBJECT OF THE REPORT	Treasury Management Annual 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 the actual treasury management performance for 2022-23 and follows on from the six-monthly report presented in December 2022.
RISK ASSESSMENT	No risk issues arise directly from this report of treasury management performance for 2022-23.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	None for the purposes of this report
RECOMMENDATION	Members are asked to note the report
BACKGROUND PAPERS	Treasury Management Policy Statement and Practices 2022-23, Dorset & Wiltshire Fire and Rescue Authority (February 2021)
APPENDIX	None
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1. Introduction

1.1 The purpose of this report is to update Members on the performance of the Dorset & Wiltshire Fire and Rescue Authority's (the Authority) treasury management activity in 2022-23.

1.2 The Authority's 'Treasury Management Policy Statement and Practices', approved in February 2022 (in respect of 2022-23), requires "an annual report on the performance of the treasury management function; on the effects of decisions taken and transactions executed in the past year; and on any circumstances of non-compliance with the Authority's treasury management policy statement and treasury management practices".

1.3 The report meets the requirements of both the CIPFA (Charted Institute of Public Finance and Accountancy) Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

2. Capital expenditure

2.1 The Authority undertakes capital expenditure on the purchase and replacement of long-term assets, such as buildings and vehicles. These activities may either be:

- Financed immediately by applying available capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual level of capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	Original Estimate 2022-23 £000	Revised Estimate 2022-23 £000	Actual 2022-23 £000
Capital Expenditure	4,629	5,863	3,173
Financed in year	300	3,249	1,977
Unfinanced Capital Expenditure	**4,329**	**2,617**	**1,196**

3. The Authority's overall borrowing need

3.1 The Authority's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The CFR results from the capital activity of the Authority and resources used to pay for the capital spend. It represents the 2022-23 unfinanced capital expenditure (£1.196m as per above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.2 **Reducing the CFR** – the Authority's underlying borrowing need (the CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Authority is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Authority's 2022-23 MRP Policy, (as required by Department for Levelling Up, Housing, and Communities (DLUHC) Guidance), was approved as part of the Treasury Management Strategy Report for 2022-23 in February 2022.

The Authority's CFR for the year is shown below and represents a key prudential indicator. It includes the Dorset Emergency Services Partnership Initiative (DESPI) Private Finance Initiative (PFI) scheme on the balance sheet, which increases the borrowing need. No borrowing is actually required against this scheme though as a borrowing facility is included in the contract.

3.3 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority must ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022-23) plus the estimates of any additional capital financing requirement for the current (2023-24) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. The table below highlights the Authority's gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

	31.03.22 Actual £m	31.03.23 Forecast £m	31.03.23 Actual £m
CFR	**42.375**	**44.694**	**40.789**
Gross borrowing	**26.340**	**30.081**	**25.081**
Under / (over) funding of CFR	**16.035**	**14.613**	**15.708**

3.4 The **authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Authority does not have the power to borrow above this level. The table below demonstrates that during 2022-23 the Authority has maintained gross borrowing within its authorised limit.

3.5 The **operational boundary** – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

3.6 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

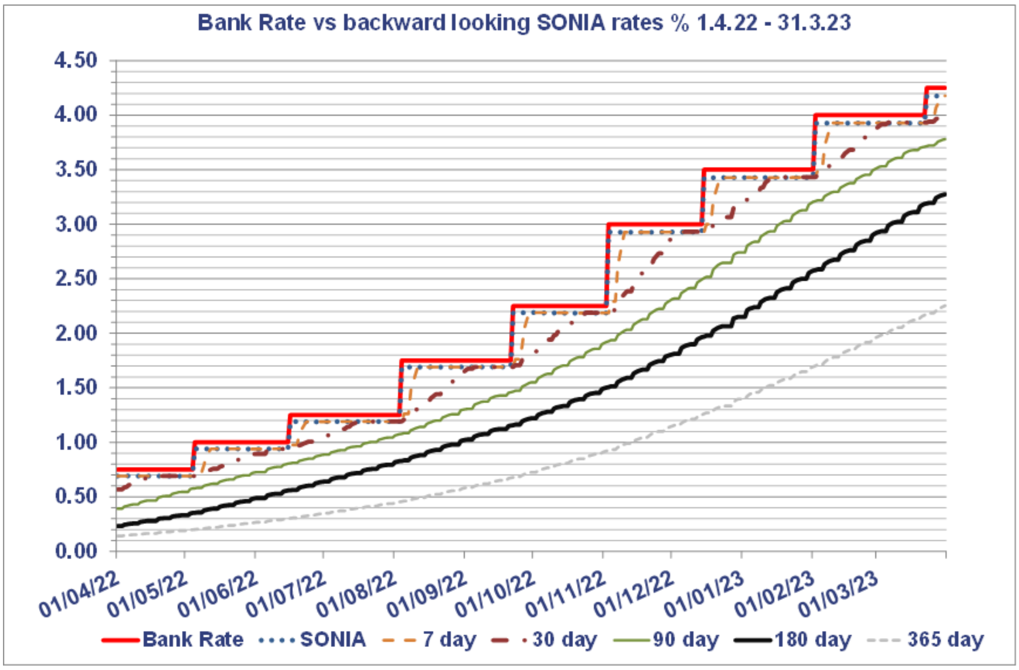
	Actual 2021-22	Original 2022-23	Actual 2022-23
Authorised limit	31.661	33.839	**28.839**
Maximum gross borrowing position during the year	26.339	30.081	**25.081**
Operational boundary	29.161	31.339	**26.339**
Financing costs as a proportion of net revenue stream	5.96%	6.75%	**6.09%**

4. The strategy for 2022-23

4.1 Investment strategy and control of interest rate risk

4.1.1 Investment returns picked up throughout the course of 2022-23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

4.1.2 Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023-24.



4.1.3 The Authority has continued to adopt a cautious approach to investment by considering only low counterparty risks and investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, and only borrowing externally when necessary and prudent to do so. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. As advised in the six-monthly update report, 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%.

4.2 Borrowing strategy and control of interest rate risk

4.2.1 During 2022-23, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the CFR), was not fully funded with loan debt, as cash supporting the Authority’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

4.2.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

4.2.3 The policy of avoiding new borrowing by running down spare cash balances, has served us well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

4.2.4 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022-23, but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the consumer price index (CPI) measure of inflation is still stubbornly high in the UK but is expected to start falling back towards the end of the year. Nonetheless, there remain significant risks to that central forecast.

Link Group Interest Rate View	7.2.22											
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month ave earnings	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month ave earnings	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month ave earnings	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

4.2.5 Public Works Loan Board (PWLB) rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields.

4.2.6 Since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. The Bank of England has been challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

4.2.7 There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as the Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

5. Treasury position as at 31 March 2023

5.1 Up to 2018-19, the Authority had been using surplus cash to fund the Capital Programme, rather than borrowing. In August 2019, two new maturity loans were taken out: £3m borrowed over 25 years at 2.2%, and £1.4m borrowed over 40 years at 2.13%. A further £5m was borrowed in November 2021 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%.

5.2 No new borrowing was undertaken in 2022-23, but repayments of existing loans totalling £608k were made. This means that the total amount of long-term loan debt was reduced to £16.261m as at 31 March 2023. Total interest paid during 2022-23 was £0.48m equivalent to an average borrowing rate of 2.95%. The level of under-borrowing has reduced, down to £15.7m as at 31 March 2023.

5.3 Surplus cash is invested where possible. Investments in 2022-23 were only made in 'Fixed Term' and 'On-Call' deposits with a maturity date less than one year, in accordance with the Authority's Annual Investment Strategy. Investment transactions totalled £75.816m, and disinvestment transactions totalled £74.964m. Net investments therefore increased by £0.852m during the year, bringing the total invested at 31 March 2023 to £6.079m. (Total invested at 1 April 2022 was £5.227m).

5.4 The gross yield from the investments averaged just 2.2%. Gross income from investments totalled £175k, compared to the original budget target of only £15k, as investment returns increased significantly with the rise in interest rates.

5.5 At the beginning and the end of 2022/23 the Authority's treasury position, (excluding borrowing by PFI and finance leases), is summarised as follows:

Loans (number at start/end of year)	Balance 1 April 2022	New loans and repayments	Balance 31 March 2023	Interest paid 2022-23
Annuity Loans (1/1)	£187,579	-£34,044	£153,535	£8,506
Maturity Loans (10/12)	£16,681,000	-£574,000	£16,107,000	£471,976
TOTAL DEBT	£16,868,579	-£608,044	£16,260,535	£480,482
CFR	£32,903,613		£31,968,952	
Under / (over) borrowing	£16,035,034		£15,708,417	

Total investments	£5,226,504		£6,078,816	
Net debt	£10,808,530		£9,629,601	

5.6 The maturity structure of borrowing for 2022-23 compared to target limits is as follows:

Maturity Structure	1 Apr 2022 £m	% Total	31 Mar 2023 £m	% Total	Upper Limit %	Lower Limit %
Under 12 months	0.608	3.6%	0.036	0.2%	20%	0%
12 mths and within 24 mths	0.036	0.2%	0.037	0.2%	30%	0%
24 mths and within 5 yrs	0.118	0.7%	0.581	3.2%	40%	0%
5 yrs and within 10 yrs	2.207	13.1%	1.707	9.3%	50%	0%
10 years and above	13.900	82.4%	13.900	87.1%	100%	0%
	16.869		16.261			

5.7 Investments were held in the following categories at year end:

Investment category	Invested at 31 Mar 2022	Invested at 31 Mar 2023
Banks – Overnight	£3,725,282	£3,013,721
Banks – Other	£993	£1,011
Money Market Funds	£1,500,229	£3,064,084
Total	**£5,226,504**	**£6,078,816**

6. Summary and key points

6.1 The Authority's treasury management activity is controlled through the Treasury Management Policy Statement and Practices approved in February each year for the new financial year starting in April.

6.2 Taking account of repayments made during the year, and no new long-term borrowing, the Authority's total amount of outstanding long-term debt has reduced to £16.261m as at 31 March 2023, well below the original forecast position.

6.3 Net investments of surplus funds decreased by £852k during the year, bringing the total invested at 31 March 2023 to £6.08m, compared to £5.23m at the beginning of the year. Investment returns totalled £175k, but we are now seeing increased returns as a result of the rises in interest rates.