DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 23/52

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	12 December 2023
SUBJECT OF THE REPORT	Treasury Management Mid-Year report 2023-24
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For information and to note
EXECUTIVE SUMMARY	At the meeting of the Authority on 8 February 2023, Members received and approved the Treasury Management Strategy Statement and Prudential Indicators for 2023-24. This report updates Members on Treasury Management performance for the six months to 30 September 2023. Treasury Management activity is now also reported on a quarterly basis through the financial performance reports that the Finance and Audit Committee receive. At the end of the last financial year, the Authority had a capital financing requirement (excluding Public Finance Initiative (PFI) and leasing) of £32m and this is forecast to increase to £35.6m based on the current forecasts for capital expenditure and financing. Actual outstanding borrowing at the end of the last financial year was £16.3m. This reduced to £16.2m at the end of September 2023. The end of year forecast ranges between £16.3m to £21.2m depending on the need for any short-term borrowing to support cashflow. This will mean an underlying under-borrowing position of £14.4m to £19.4m 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 2023.
BACKGROUND PAPERS	Authority paper 23/08 February 2023 – Treasury Management 2023-24
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 2023-24 was agreed by the Authority on 8 February 2023)
- a new requirement for quarterly reporting as part of an authority's general revenue and capital monitoring. This is covered through quarterly financial performance reports to the Finance and Audit Committee
- 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 use 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 £16.3m. 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 £32m as at 1 April 2023, with the difference of £15.7m 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 £18k have been made in respect of existing loans, with a further £18k repayable in the second half of the year.

3.4 The Treasury Management Strategy assumed that new borrowing of £6m would potentially be required across 2022-23 and 2023-24. This included borrowing for cashflow purposes and borrowing in respect of previous capital expenditure. No new borrowing has been required in the first six months of the financial year. Appendix A shows the total for outstanding debt at 30 September 2023 at just over £16.2m. The total of interest payments for the year against this outstanding debt is £478k, compared to a budgeted figure of £618k.

3.5 It is expected that some short-term borrowing will be required to support cashflow and a provisional sum of £5m has been included as a working assumption. Any long-term borrowing will be avoided given current long-term borrowing rates.

4. Investments

4.1 Investments in the first half of 2023-24 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 £37.9m, and disinvestment transactions totalled £35.4m. Net investments have therefore increased by £2.5m so far during the year, bringing the total invested at 30 September 2023 to £8.6m. (Total invested at 1 April 2023 was £6.1m).

4.2 In the period 1 April 2023 to 30 September 2023 gross income from investments totalled £146k.

4.3 Details of investments as at 30 September 2023 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 first half of 2023/24 showing:

- Interest rates rise by a further 100 basis points (bps), taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.

- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.

- A 0.5% month over month (m/m) decline in real Gross Domestic Product (GDP) in July, mainly due to more strikes, which suggests that underlying growth has lost momentum since earlier in the year.

- Consumer price index (CPI) inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.

- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.

- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3-month year over year growth of average earnings rose to 7.8% in August, excluding bonuses).

5.2 Interest rates

5.2.1 Link provided the following forecasts on bank and borrowing rates as at 7 November 2023, following the Bank of England's Monetary Policy Committee (MPC) meeting on 2 November which kept rates on hold for the second month in a row.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

5.2.2 As the table above shows, Link is now forecasting rates to be held at the current level for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. They do not think that the MPC will increase the Bank Rate above 5.25%, but clearly that is possible. They expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

5.2.3 Link forecast the Public Works Loan Board (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 2023, the Authority has operated within the treasury and prudential indicators set out in the Authority's Treasury Management Strategy Statement for 2023-24. 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 £16.3m, against a Capital Financing Requirement (CFR) (need to externally borrow to finance capital expenditure) of £32m. This leads to an under-borrowing position of £15.7m. The current forecast for March 2024 sees the CFR increasing to £35.6m and outstanding borrowing ranging from £16.2m to £19.2m, leaving the under-borrowing position at £14.4m to £19.4m.

7.2 Investments in the first half of 2023-24 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 2023 total £8.6m (£6.1m 1 April 2023). Investment returns are significantly higher than originally budgeted for as a result of the increases in interest rates.

7.3 The general economic picture will continue to remain uncertain for some time to come. Expectations are that interest rates have now peaked but will are unlikely to start falling until the second half of 2024. The Bank of England expects CPI inflation to fall to 5% by the end of 2023.

Appendix A

Current borrowing

Borrowing forecast as at 30 September 2023

Start Date	Maturity Date	Estimated Balance (£)	Interest Rate	Annual Interest (£)
Annuity Loans				
25/03/2005	11/03/2027	153,535	4.80%	6,754
	less repaid	*-17,637*		
		135,898		**6,754**
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
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		**471,454**
Total	**@ 30/09/2023**	**16,242,898**		**478,208**

Appendix B

Current investments

Investments as at 30 September 2023

Name of Borrower	Amount Invested (£)	Maturity Date	Interest Rate
Loans			
Goldman Sachs	1,500,000		5.52%
SMBC (Sumitomo Mitsui)	1,500,000		5.36%
Money Market Funds			
Federated Hermes	2,135,000		5.12%
Black Rock	2,824,574		5.07%
Call Accounts			
Bank of Scotland	14,022		0.70%
Lloyds Bank	5,739		0.70%
HSBC Deposit Account	592,000		5.05%
Santander	1,030		
Total Investments	**8,572,365**		