DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 24/43

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	1 October 2024
SUBJECT OF THE REPORT	Treasury Management Annual 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 the actual treasury management performance for 2023-24 and follows on from the six-monthly report presented in December 2023.
RISK ASSESSMENT	No risk issues arise directly from this report of treasury management performance for 2023-24.
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 2023-24, Dorset & Wiltshire Fire and Rescue Authority. February 2023.
APPENDIX	None
REPORT ORIGINATOR AND CONTACT	Name: Ryan Maslen, Deputy Assistant Chief Officer - Financial Services and Treasurer Email: ryan.maslen@dwfire.org.uk Tel no: 07500 669442

1. Introduction

1.1 The purpose of this report is to update Members on the performance of the Authority's treasury management activity in 2023-24.

1.2 The Authority's 'Treasury Management Policy Statement and Practices', approved in February 2023 (in respect of 2023-24), 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 2023-24 £000	Revised Estimate 2023-24 £000	Actual 2023-24 £000
Capital Expenditure	7,093	8,552	4,715
Financed in year	1,714	1,714	929
Unfinanced Capital Expenditure	**5,379**	**6,838**	**3,786**

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 2023-24 unfinanced capital expenditure (£3.786m 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 2023-24 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 2023-24 in February 2023.

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.

	31.03.23 Actual £m	31.03.24 Forecast £m	31.03.24 Actual £m
CFR	40.789	44.399	41.959
Gross borrowing	25.081	30.435	24.434
Under / (over) funding of CFR	15.708	13.964	17.525

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 2023-24 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 2022-23	Original 2023-24	Actual 2023-24
Authorised limit	28.839	33.582	**29.582**
Maximum gross borrowing position during the year	25.081	30.435	**26.435**
Operational boundary	26.339	31.082	**27.082**
Financing costs as a proportion of net revenue stream	6.09%	6.86%	**5.37%**

4. The strategy for 2023-24

4.1 Investment strategy and control of interest rate risk

4.1.1 Investment returns picked up throughout the course of 2023-24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

4.1.2 Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases occurred or were anticipated in the immediate future. The Bank Rate subsequently reduced by 0.25% in July 2024.

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.

4.2 <u>Borrowing strategy and control of interest rate risk</u>

4.2.1 During 2023-24, 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 although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall through 2024 and 2025 as inflation concerns are dampened.

4.2.2 The Authority has sought to minimise the taking on of any long-term borrowing at elevated levels (>4%) and has focused on a policy of internal borrowing. Had there been a need for any borrowing during 2023-24, this would have been taken as short-dated borrowing (<5 years).

4.2.3 Interest rates in financial markets were closely monitored and a pragmatic strategy was adopted based on the following principles to manage interest rate risk. If it has been felt there was a significant risk of a sharp fall in long and short-term rates then long-term borrowing would have been postponed until this occurred. If it had been felt that there was a significant risk of a much sharper rise in long and short-term rates than initially expected, then fixed rate funding options would have been drawn whilst interest rates were lower.

4.2.4 Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rates had initially been forecast to peak at 4.5% but are now expected to have peaked at 5.25%. By January 2024 it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. The Bank Rate was reduced to 5% in July 2024.

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 falls and inflation (on the Consumer Price Index measure) moves below the Bank of England's 2% target.

5. Treasury position as at 31 March 2024

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 2023-24, but repayments of existing loans totalling £36k were made. This means that the total amount of long-term loan debt was reduced to £16.225m as at 31 March 2024. Total interest paid during 2023-24 was £0.48m equivalent to an average borrowing rate of 2.95%. The level of under-borrowing was £17.5m as at 31 March 2024.

5.3 Surplus cash is invested where possible. Investments in 2023-24 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 £73.695m, and disinvestment transactions totalled £78.184m. Net investments therefore decreased by £4.489m during the year, bringing the total invested at 31 March 2024 to £1.589m. (Total invested at 1 April 2023 was £6.079m).

5.4 The gross yield from the investments averaged 5.1%. Gross income from investments totalled £478k, compared to the original budget target of only £75k, as investment returns reflected the significantly increased interest rates.

5.5 At the beginning and the end of 2023/24 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 2023	New loans and repayments	Balance 31 March 2024	Interest paid 2023-24
Annuity Loans (1/1)	£153,535	-£35,697	£117,838	£6,848
Maturity Loans (10/12)	£16,107,000	£0	£16,107,000	£471,454
TOTAL DEBT	£16,260,535	-£35,697	£16,224,838	£478,302
CFR	£31,968,952		£33,749,686	
Under / (over) borrowing	£15,708,417		£17,524,848	
Total investments	£6,078,816		£1,589,173	
Net debt	£9,629,601		£15,935,675	

5.6 The maturity structure of borrowing for 2023-24 compared to target limits is as follows:

Maturity Structure	1 Apr 2023 £m	% Total	31 Mar 2024 £m	% Total	Upper Limit %	Lower Limit %
Under 12 months	0.036	0.2%	0.037	0.2%	20%	0%
12 mths and within 24 mths	0.037	0.2%	0.039	0.2%	30%	0%
24 mths and within 5 yrs	0.581	3.2%	0.541	3.4%	40%	0%
5 yrs and within 10 yrs	1.707	9.3%	1.707	10.5%	50%	0%
10 years and above	13.900	87.1%	13.900	85.7%	100%	0%
	16.261		16.225			

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

Investment category	Invested at 31 Mar 2023	Invested at 31 Mar 2024
Banks – Overnight	£3,013,721	£721,787
Banks – Other	£1,011	£1,054
Money Market Funds	£3,064,084	£866,332
Total	**£6,078,816**	**£1,589,173**

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 £16.225m as at 31 March 2024, well below the original forecast position.

6.3 Net investments of surplus funds decreased by £4.489m during the year, bringing the total invested at 31 March 2024 to £1.589m, compared to £6.079m at the beginning of the year. Investment returns totalled £478k, as the Authority took a pro-active approach to maximise returns from the increased interest rates available.