DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 24/57

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	10 December 2024
SUBJECT OF THE REPORT	Treasury Management Mid-Year report 2024-25
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 2024, Members received and approved the Treasury Management Strategy Statement and Prudential Indicators for 2024-25. This report updates Members on Treasury Management performance for the six months to 30 September 2024. Treasury Management activity is now also reported on a quarterly basis through the financial performance reports that the Finance & 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 £33.75m and this is forecast to decrease to £33.49m based on the current forecasts for capital expenditure and financing. Actual outstanding borrowing at the end of the last financial year was £16.2m. There is no expected need for additional borrowing in the remainder of 2024-25. This will mean an underlying under-borrowing position of £17.3m which is currently supported through internal borrowing from reserves and balances at year end.
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
ENVIRONMENTAL 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 2024.
BACKGROUND PAPERS	Authority paper 24/07 February 2024 – Treasury Management Strategy 2024-25
APPENDICES	Appendix A - Current borrowing Appendix B - Current investments
REPORT ORIGINATOR AND CONTACT	Name: Ryan Maslen, Deputy Assistant Chief Officer - Financial Services and Treasurer to the Fire and rescue Authority Email: ryan.maslen@dwfire.org.uk Tel no: 07500 669442

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 2024-25 was agreed by the Authority on 8 February 2024)
- a 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 & 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 £16.2m. 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 £33.75m as at 1 April 2024, with the difference of £17.55m 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 £9.8m would potentially be required during 2024-25. This included borrowing for cashflow purposes and borrowing in respect of planned capital expenditure. Temporary borrowing of £3m to support cashflow was arranged for 50 days in June 2024 and was subsequently repaid. Appendix A shows the total for outstanding debt at 30 September 2024 at just over £16.2m. The total forecast interest payments for the year are £499k.

3.5 Due to the delays in the progression of some elements of the capital programme within 2024-25, the reduced levels of spend will now mean that no further borrowing is expected to be needed in 2024-25.

4. Investments

4.1 During the second quarter of 2024-25 the Authority received £20m of expected pension related funding from central Government, which significantly boosted cashflow levels and investment activity. Officers worked with our appointed treasury advisors to identify investment opportunities aligned to our Treasury Management Strategy. At the end of July £11m was invested across five different counterparties, with durations of either 3 or 6 months based on the need to support wider cashflow liquidity needs. These fixed term investments will have generated £198k of interest income by the end of January 2025.

4.2 Alongside these fixed term investments, daily cashflow was managed via instant access ‘Money Market Funds’ and ‘On-Call Deposits’. Investment transactions totalled £37.2m and disinvestment transactions totalled £22.4m in the quarter. Net investments therefore increased by £14.8m, bringing the total invested at 30 September 2024 to £18.2m. (Total invested at 1 July 2024 was £3.4m).

4.3 In the period 1 April 2024 to 30 September 2024 gross income from investments totalled £134k.

4.4 Details of investments as at 30 September 2024 are shown in Appendix B.

5. Economics and interest rates

5.1 <u>Economics update and interest rate forecast</u>

5.1.1 The Authority’s treasury advisor, Link Group, most recent update highlighted the following:

- The Bank of England reduced Bank Rate by 0.25% at its November meeting, in line with market expectations. All members of the Monetary Policy Committee bar one voted for the move.

- CPI inflation increased from 1.7% in September to 2.3% in October. It is forecast to increase to 2.5% by the end of the calendar year as weaker energy prices fall out of calculations.

- Forecasts show CPI inflation to be below 3% in three years' time, which tallies with broadly held expectations that interest rates will fall. However, it is likely to be gradual.

- It is believed that there will be no further movement in Bank Rate in December 2024, with the next move pencilled in for the first quarter of 2025. One downward movement per quarter in 2025 is the current forecast.

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 2024, the Authority has operated within the treasury and prudential indicators set out in the Authority's Treasury Management Strategy Statement for 2024-25. 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 £16.2m, against a Capital Financing Requirement (CFR) (need to externally borrow to finance capital expenditure) of £33.75m. This led to an under-borrowing position of £17.55m. The current forecast for March 2025 sees the CFR decreasing to £33.49m and outstanding borrowing remaining at £16.2m, leaving the under-borrowing position at £17.3m.

7.2 Additional investments activity was undertaken in the first half of 2024-25 to maximise returns. Net investments at 30 September 2024 total £18.25m. Investment returns currently exceed expectations as interest rates are being held at levels higher than anticipated at the time of budget setting.

7.3 Expectations are now that interest rates will slowly reduce over a number of years.

Appendix A

Current borrowing

Borrowing forecast as at 30 September 2024

Start Date	Maturity Date	Estimated Balance (£)	Interest Rate	Annual Interest (£)
Annuity Loans				
25/03/2005	11/03/2027	117,837	4.80%	5,109
	less repaid	*-18,493*		
		99,344		**5,109**
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		**16,206,344**		**476,563**

Appendix B

Current investments

Investments as at 30 September 2024

Name of Borrower	Amount Invested (£)	Maturity Date	Interest Rate
Loans			
National Westminster Bank	5,000,000	25/10/2024	5.04%
Goldman Sachs International Bank	1,500,000	25/10/2024	5.10%
National Bank of Kuwait	1,500,000	24/01/2025	5.18%
SMBC Bank International	1,500,000	24/01/2025	5.07%
Standard Chartered Bank	1,500,000	24/01/2025	5.03%
Money Market Funds			
Federated Hermes	3,000,000		5.10%
Black Rock	2,046,280		5.07%
Call Accounts			
Bank of Scotland	575,548		4.88%
Lloyds Bank	1,621,484		4.88%
Santander	715		4.73%
Total	**18,244,027**		