DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 25/22

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	11 June 2025
SUBJECT OF THE REPORT	Treasury Management Annual 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 the final treasury management performance during 2024-25 and the updated position from the six-monthly report update presented in December 2024.
RISK ASSESSMENT	No risk issues arise directly from this report of treasury management performance for 2024-25.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
ENVIRONMENTAL IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	None for the purposes of this report
RECOMMENDATION	Members are asked to: 1) Note the content of the report 2) Approve the amendment to the Annual Investment Strategy for 2025-26 outlined in section 5.13.
BACKGROUND PAPERS	Treasury Management Strategy 2024-25, Dorset & Wiltshire Fire and Rescue Authority, 8 February 2024.

APPENDIX	None
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1. Introduction

1.1 The purpose of this report is to update Members on the performance of the Authority's treasury management activity in 2024-25.

1.2 The Authority's 'Treasury Management Policy Statement and Practices', approved in February 2024 (in respect of 2024-25), 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 2024-25 £000	Revised Estimate 2024-25 £000	Actual 2024-25 £000
Capital Expenditure	14,028	6,166	3,758
Financed in year	4,189	1,553	1,882
Unfinanced Capital Expenditure	**9,839**	**4,613**	**1,876**

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 2024-25 unfinanced capital expenditure (£1.876m 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 2024-25 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 2024-25 on 8 February 2024.

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 actual borrowing is 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 (2023-24) plus the estimates of any additional capital financing requirement for the current (2024-25) 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.

	31.03.24 Actual £m	31.03.25 Forecast £m	31.03.25 Actual £m
CFR	41.959	43.382	47.516
Gross borrowing	24.434	24.853	30.264
Under / (over) funding of CFR	17.525	18.529	17.252

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 2024-25 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 2023-24	Original 2024-25	Actual 2024-25
Authorised limit	29.582	41.366	**33.973**
Maximum gross borrowing position during the year	26.435	37.863	**30.155**
Operational boundary	27.082	38.866	**31.473**
Financing costs as a proportion of net revenue stream	5.37%	6.46%	**5.12%**

4. The strategy for 2024-25

4.1 <u>Investment strategy and control of interest rate risk</u>

4.1.1 Investment returns remained robust throughout 2024/25 with Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and even at the end of March the yield curve was still relatively flat, which might be considered unusual as further Bank Rate cuts were expected in 2025/26.

4.1.2 Bank Rate reductions of 0.25% occurred in August, November and February, bringing the headline rate down from 5.25% to 4.5%. Each of the Bank Rate cuts occurred in the same month as the Bank of England publishes its Quarterly

Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

4.1.3 As of early April 2025, market sentiment has been heavily influenced of late by President Trump’s wide-ranging trade tariffs policy. Commentators anticipate a growing risk of a US recession, whilst UK GDP is projected by the Office for Budget Responsibility to remain tepid, perhaps achieving 1% GDP growth in 2025/26.

4.1.4 Looking back to 2024/25, investors were able to achieve returns in excess of 5% for all periods ranging from 1 month to 12 months in the spring of 2024 but by March 2025 deposit rates were some 0.75% - 1% lower. Concerns over rising inflation after the Autumn Statement in October led to reduced expectations for Bank Rate to fall. The Consumer Price Index (CPI) measure of inflation is expected to reach c3.75% by the autumn of 2025, which could provide for some presentational issues for a Bank whose primary mandate is to ensure inflation is close to 2% on a two-to-three-year timeframe. At the end of March, only two further rate cuts were priced into the market for 2025 (4% at December 2025). A week later and sentiment changed dramatically in the wake of the equity market sell-off to the extent that markets now expect three Bank Rate reductions between May and December 2025 (Bank Rate to fall to 3.75%).

4.2 Borrowing strategy and control of interest rate risk

4.2.1 During 2024-25, 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 2025 and 2026 in the light of economic growth concerns and the eventual dampening of inflation.

4.2.2 The Authority has sought to minimise the taking on of any long-term borrowing at elevated levels (>5%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

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 gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rates did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated. At the start of April 2025, following the introduction of President Trump's trade tariffs policies, the market now expects Bank Rate to fall to 3.75% by the end of December 2025, which has also led to expected reductions in the 5 and 10 years forecasts as well. This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer-term forecasts.

4.2.5 The Public Works Loan Board (PWLB) is the most used provider of long-term external debt in the public sector market. 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. Furthermore, at present the Fed, European Central Bank and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by tight labour markets and high wage increases relative to what central banks believe to be sustainable.

4.2.7 Gilt yields have been volatile through 2024/25. Indeed, the low point for the financial year for many periods was reached in September 2024. Thereafter, and especially following the Autumn Statement, PWLB Certainty rates have remained elevated at between c5% - 6% with the exception of the slightly cheaper shorter dates.

4.2.8 At the close of 31 March 2025, the 1-year PWLB Certainty rate was 4.82% whilst the 25-year rate was 5.98% and the 50-year rate was 5.67%. 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 Bank Rate falls and inflation (on the Consumer Price Index measure) moves lower.

5. Treasury position as at 31 March 2025

5.1 The Authority's treasury position for 2024-25, excluding borrowing for PFI and finance leases, is summarised as follows:

	Balance 1 April 2024	In year movement	Balance 31 March 2025	Interest 2024-25
Annuity Loans (1/1)	£117,837	-£37,431	£80,406	£5,109
Maturity Loans (12/12)	£16,107,000	£0	£16,107,000	£471,454
1. Total Debt	**£16,224,837**	**-£37,431**	**£16,187,406**	**£476,562**
Banks – overnight	£721,787	£1,817,271	£2,539,058	£219,270
Banks – other	£1,054	-£1,054	£0	£261,502
Local Authority Lending	£0	£5,000,000	£5,000,000	£59,905
Money Market Funds	£866,332	£3,115,259	£3,981,591	£149,779
2. Total investments	**£1,589,173**	**£9,931,476**	**£11,520,649**	**£690,456**
3. Net debt (1-2)	£14,635,664		£4,666,757	
4. CFR	£33,749,686		£33,440,481	
5. Under / (over) borrowing (4-1)	£17,524,849		£17,253,075	

5.2 Prior to August 2019 the Authority was able to fully fund capital expenditure as it was incurred from cashflow balances, rather than having a requirement to borrow. External borrowing of £4.4m was required in 2019-20 and £5m in 2021-22 to support cashflow needs. Due to the borrowing rates available at those times, long-term arrangements were put in place for durations between 25 and 50 years with fixed interest rates between 1.61% and 2.20%.

5.3 No long-term new borrowing was undertaken in 2024-25. Planned short-term borrowing for a period of 50 days was utilised in June 2024 to support cashflow needs on a temporary basis.

5.4 The total amount of long-term loan debt held on 31 March 2025 was £16.187m. More than £16.1m of this debt is repayable upon maturity. The next repayment date is October 2027, with the last scheduled for September 2071. There is one annuity loan held, which requires annual repayments; £37k was repaid in 2024-25. This reduced the outstanding debt balance to £80k and this will mature fully in March 2027.

5.5 The maturity structure of borrowing for 2024-25 compared to target limits is as follows:

Maturity Structure	1 Apr 2024 £m	% Total	31 Mar 2025 £m	% Total	Upper Limit %	Lower Limit %
Under 12 months	0.037	0.2%	0.039	0.2%	40%	0%
12 mths and within 24 mths	0.039	0.2%	0.041	0.3%	40%	0%
24 mths and within 5 yrs	0.541	3.4%	0.900	5.6%	40%	0%
5 yrs and within 10 yrs	1.707	10.5%	1.307	8.1%	50%	0%
10 years and above	13.900	85.7%	13.900	85.8%	100%	0%
	16.225		16.187			

5.6 A pro-active approach has been undertaken throughout 2024-25 to maximise the returns on investments whilst also maintaining the underlying security and liquidity of our resources and adherence to the Authority's Annual Investment Strategy.

5.7 Cash balances have remained higher than previously anticipated throughout the year for two main reasons. Firstly, delays in capital projects across various departments have meant reserves and budget allocations have not been utilised as expected. Secondly, the Authority always receives a significant cash flow boost in July each year in the form of a pension top up grant from the Home Office. This was enhanced in 2024-25 with an additional £9.5m of funding received to reflect the expected financial impact of the McCloud and Matthews remedy pension cases and the expected remedy payments due. This enabled the Authority to maximise fixed term investment opportunities in the short-term, which coincided with higher interest rates and therefore an enhanced return.

5.8 During 2024-25 investment transactions totalled £119.4m, and disinvestment transactions totalled £109.5m. Net investments therefore increased by £9.9m during the year, bringing the total invested at 31 March 2025 to £11.521m. (Total invested at 1 April 2024 was £1.589m).

5.9 The gross yield from the investments averaged 4.9%. Gross income from investments totalled £690k in 2024/25, increased from £478k in 2023-24.

5.10 In quarter 4 of 2024-25 an opportunity to invest £5m with a Local Authority was identified for a two-month period at an enhanced rate of 5.45%. Throughout the financial year several fixed term investments were made with a number of banks, which attracted interest rates between 4.61% and 5.18%.

5.11 The Authority's Annual Investment Strategy for 2024-25 set a limit of £3m for investments with other local authorities, but delegated authority to the Treasurer to vary limits as circumstances dictate, with a requirement to report this to the Authority. This scenario was identified as a good investment opportunity, from a yield and counterparty risk perspective, and the investment was made. This report informs the Authority of this action as required.

5.12 The expectation was that investment options such as this would be unusual and the Annual Investment Strategy for 2025-26 approved by the Authority in February 2025 included the same £3m limit for local authority investments. However, since April a number of investment opportunities have been investigated in the local authority market which would maximise return and ensure compliance with the £3m limit, but the options are extremely limited. Most of the available deals with attractive rates typically require a minimum £5m investment.

5.13 Approval is requested to amend the 2025-26 Annual Investment Strategy to a £5m limit for local authority investments. This would align with the limit for most banks, which fall under the highest quality financial institutions definition.

5.14 Any investment opportunities which are pursued will continue to be assessed on a case-by-case basis to ensure the ongoing security of the investment.

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 £16.187m as at 31 March 2025, well below the original forecast position.

6.3 Net investments of surplus funds increased by £9.9m during the year, bringing the total invested at 31 March 2025 to £11.521m. Investment returns totalled £690k, as the Authority took a pro-active approach to maximise returns from the increased interest rates available.