Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 9**

Report to	**North Wales Fire and Rescue Authority**
Date	**22 January 2024**
Lead Officer	**Helen MacArthur – Assistant Chief Fire Officer**
Contact Officer	**Helen Howard – Head of Finance**
Subject	**Treasury Management Report Q2 2023/24**

PURPOSE OF REPORT

1 The purpose of this report is to provide Members of the North Wales Fire and Rescue Authority (the Authority) with an update on the treasury management activity and compliance with the treasury management prudential indicators for the period 1 April 2023 to 30 September 2023.

EXECUTIVE SUMMARY

2 In December 2003, the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice (2021)* (the CIPFA Code) which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

3 The CIPFA Code also included a new requirement for quarterly reporting of the treasury management indicators from April 2023. The non-treasury prudential indicators are incorporated in the Authority's normal revenue and capital monitoring report.

4 The Authority's treasury management strategy for 2023/24 was approved at a meeting on 20 March 2023. As the Authority borrows and invests significant sums of money there are financial risks that need to be considered including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

OBSERVATIONS FROM AUDIT COMMITTEE

5 The Audit Committee considered the Treasury Management activity for 2023-24 at its meeting of 18 December 2023. The Audit Committee noted new activity and endorsed the approval of the Prudential Indicators for Quarter 2 of 2023-24.

RECOMMENDATIONS

6 Members are asked to:

i) note the treasury management activities and prudential indicators for the period 1 April to 30 September 2023.

EXTERNAL CONTEXT

7 Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

8 The Bank of England's Monetary Policy Committee (the Committee) continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

9 Interest rate expectations priced in further hikes in policy rates. Arlingclose, the Authority's treasury adviser, revised its forecast to a further 0.5% of monetary tightening to take Bank Rate to 5.5%. The risks, however, are that rates could be higher; financial markets are forecasting policy interest rates above 6%.

10 Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

LOCAL CONTEXT

11 On 31 March 2023, the Authority had net borrowing of £22.48m arising from capital expenditure.

12 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.23 Actual £m	30.09.23 Actual £m
General Fund CFR	28.88	32.42
External borrowing	-26.65	-22.20
Internal borrowing	0.00	-9.22
Less: Balance sheet resources	-6.40	-9.94
Less: Investments	4.17	8.94
New borrowing	**0.00**	**0.00**

13 Table 1 confirms that the Authority's net borrowings were below the Capital Financing Requirement (CFR).

14 The treasury management position at 30 September and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	30.9.23 Balance £m	30.9.23 Rate %
Long-term borrowing (PWLB)	17.79	-0.66	17.13	1.00 - 4.90
Short-term borrowing	8.86	-3.79	5.07	1.30 - 3.91
Total borrowing	**26.65**	**-4.45**	**22.20**	
Short-term investments	0.00	-2.00	-2.00	5.20
Cash and cash equivalents	-4.17	-2.77	-6.94	4.65 – 5.14
Total investments	**-4.17**	**-4.77**	**-8.94**	
Net borrowing	**22.48**	**-9.22**	**13.26**	

BORROWING

15 CIPFA's 2021 Prudential Code outlines that local authorities must not borrow to invest with the primary objective being financial return. It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement requiring new borrowing, unless directly and primarily related to the functions of the Authority.

16 The Authority has not invested in assets for financial return and all expenditure is related to the discharge of the Authority's functions.

BORROWING STRATEGY AND ACTIVITY

17 As outlined in the treasury strategy, the Authority's main objective when borrowing has been to adopt a low risk strategy balancing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

18 There was a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022.

19 Public Works Loan Board (PWLB) borrowing rates continued to rise over the quarter. On 30 September, the PWLB certainty rates for maturity loans were 5.26% for 10-year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.

20 At 30 September the Authority held £22.20m of loans, a decrease of £4.45m on 31 March 2023, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30 September are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.23 Balance £m	Net Movement £m	30.9.23 Balance £m	30.9.23 Weighted Average Rate %	30.9.23 Weighted Average Maturity (years)
Public Works Loan Board	20.65	-1.45	19.20	2.46	4.54
Local authorities (short-term)	6.00	-3.00	3.00	3.91	1.00
Total borrowing	**26.65**	**-4.45**	**22.20**		

21 The Authority's short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the Authority's short-term loans at 30 September 2023 on £3.00m was 4.35%, this compares with 1.3% on £6.00m loans 12 months ago.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period Remaining (Years)
PWLB Maturity Loan	2.00	4.80	29
PWLB EIP Loan	0.68	3.09	14
PWLB EIP Loan	4.86	3.91	17
Loans over 5 years	**7.54**		

22 The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

23 During the period 1 April to 30 September 2023, a short-term market loan of £3m was repaid. This was replaced with a long term PWLB loan, which was taken out in 2022/23. This was undertaken following advice from our treasury management advisors and undertaken when interest rates were favourable.

TREASURY INVESTMENT ACTIVITY

24 On 20 December 2021, CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

25 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £4.17m and £10.18m due to timing differences between income and expenditure. The majority of the balance relates to the income received in relation to the Firefighters Pensions Fund, which will be spent throughout the year. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.23 Balance £m	Net Movement £m	30.9.23 Balance £m	30.9.23 Income Return %	30.9.23 Weighted Average Maturity days
Banks & building societies	4.17	2.77	6.94	4.65 - 5.14	on call
DMADF	0.00	2.00	2.00	5.20	54
Total investments	**4.17**	**4.77**	**8.94**		

26 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

27 As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments.

28 Bank Rate increased by 1%, from 4.25% at the beginning of April to 5.25% by the end of September. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on DMADF deposits also rose, ranging between 5.17% and 5.29% by the end of September and Money Market Rates between 4.65% and 5.14%.

COMPLIANCE

29 The Treasurer reports that all treasury management activities undertaken during the quarter complied with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy.

30 During Quarter 2, the Service has opened a Debt Management Office Account, as the Treasury Management Strategy allows for unlimited funds to be placed with the DMO.

31 Compliance with specific investment limits is demonstrated in table 5 below.

Table 5: Investment Limits

Institution	Description	Limit	30.09.23 Actual	Complied? Yes/No
Banks	All UK banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as long term (BBB)	£5m per bank	£6.94m	yes
Central Government	Debt Management Office (DMO)	Unlimited	£2.0m	yes
Money Market Funds (MMF)	Only in conjunction with advice for Arlingclose	£1m per fund	0	yes
Local Authorities	All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992	£2m	0	yes
Building Societies	Building societies with a rating (as for the banking sector)	£2m	0	yes
Building Societies (Assets £1bn)	Building societies without a rating but with assets of £1billion or more	£2m/9 months	0	yes

32 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 6 below.

Table 6: Debt and the Authorised Limit and Operational Boundary

	30.9.23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied?
Borrowing	22.20	28.99	30.99	Yes
Total debt	**22.20**	**28.99**	**30.99**	

33 Since the operational boundary is a management tool for in-year monitoring, there may be occasions when actual borrowing exceeds this target. This may be due to variations in cash flow and short-term breaches would not count as a compliance failure.

TREASURY MANAGEMENT INDICATORS

34 As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

Liability Benchmark

35 This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making.

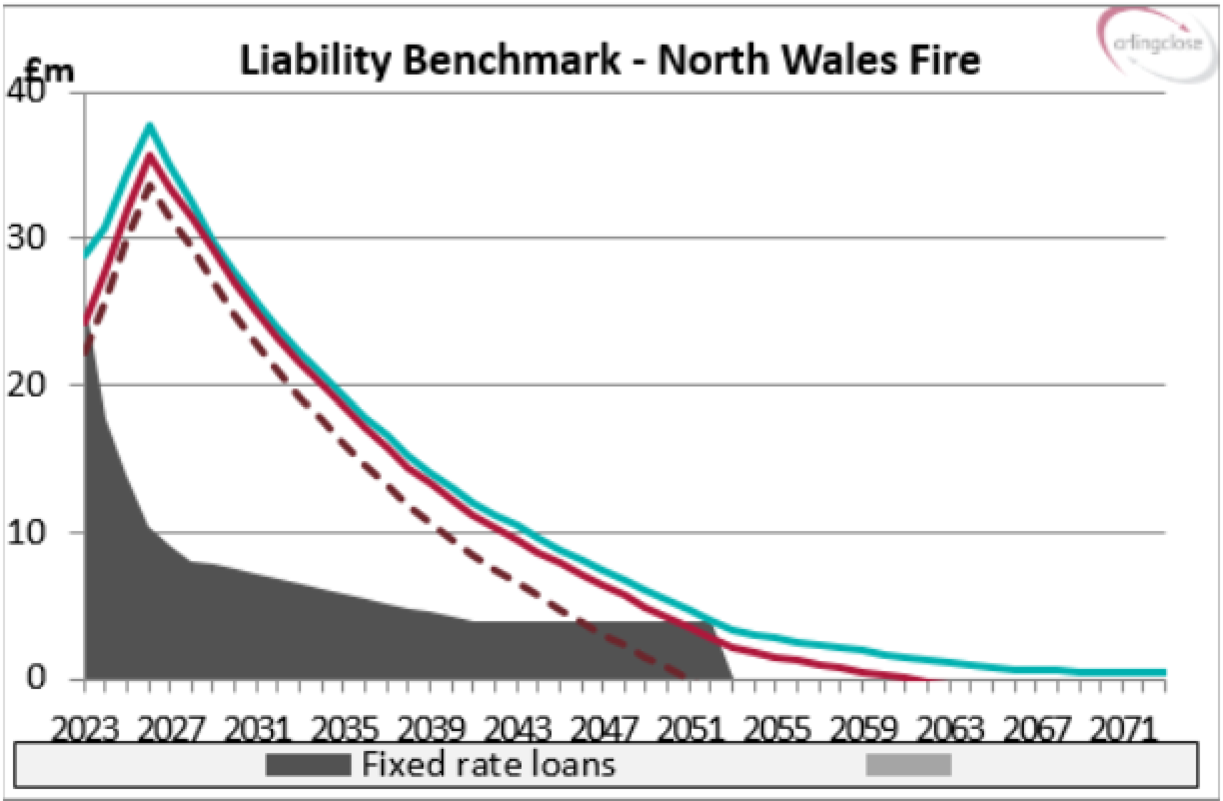
36 It represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £2.0m required to manage day-to-day cash flow.

	31.3.23 Actual £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loans CFR	28.88	32.42	34.50	37.70
Less: Balance sheet resources	-6.40	-5.00	-4.50	-4.00
Net loans requirement	22.48	27.42	30.00	33.70
Plus: Liquidity allowance	2.00	2.00	2.00	2.00
Liability benchmark	**24.48**	**29.42**	**32.00**	**35.70**
Existing borrowing	**-26.65**	**-17.80**	**-14.10**	**-10.50**

37 The above forecast does not include any costs for the proposed training centre, as it is yet to be agreed by the Authority.

38 The liability benchmark is a long-term measure of the underlying need to borrow for all purposes over the long term and is based on the current capital programme and other forecast cash flow movements. It is a tool to compare the current loans portfolio against the current and planned need to borrow, in terms of both the level and term of borrowing. It indicates whether long term borrowing is more appropriate.

39 Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £4m - £6m between 2023/24 and 2025/26, minimum revenue provision on new capital expenditure based on the current asset lives, as per the accounting policy, income and expenditure increasing by inflation of [2.5]% p.a and a reduction in reserves. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



40 The graph shows that the Authority is expecting to need to borrow in future years. The Authority will always have a borrowing requirement as it does not hold significant cash or reserves and only has limited access to capital grant funding.

41 The blue line represents the need to fund capital expenditure through borrowing (the Capital Financing Requirement or CFR). The red lines represent the need to fund capital expenditure through borrowing once reserves and working capital surplus' (or deficits) have been taken into account – this is actually the real need to borrow which CIPFA have defined as being the Liability Benchmark. The dashed red line represents the position at year end and the solid line represents the average mid-year position. The grey shaded areas show actual loans. When the grey area falls below the red lines this infers a borrowing need.

Maturity Structure of Borrowing

42 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	30.9.23 Actual	Actual Limit	Upper Limit	Lower Limit	Complied Y/N
Under 12 months	3.78	17.03%	60.00%	0.00%	Y
12 months and within 24 months	2.48	11.17%	45.00%	0.00%	Y
24 months and within 5 years	8.40	37.84%	45.00%	0.00%	Y
5 years and within 10 years	0.68	3.06%	75.00%	0.00%	Y
10 years and above	6.86	30.90%	100.00%	0.00%	Y

43 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term Treasury Management Investments

44 The Authority does not hold any long-term treasury investments.

IMPLICATIONS

Wellbeing Objectives	This report links to the Authority's long-term well-being objectives. Ensures that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. Ensures there is sufficient investment in infrastructure to enable North Wales Fire and Rescue Service (the Service) to provide emergency responses and prevention work well in to the future.
Budget	Budget is set annually for capital financing in line with the Treasury report.
Legal	The regulatory framework is set out in paragraph 1.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	Investment of surplus funds – there is a risk that the financial institution in which the Service's funds are invested could fail with a loss of part of the principal invested. However, one of the purposes of the report is to mitigate this risk.