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

Report to	**Audit Committee**
Date	**16 September 2024**
Lead Officer	**Helen MacArthur – Assistant Chief Fire Officer**
Contact Officer	**Helen Howard**
Subject	**Treasury Management Report Q1 2024/25**

PURPOSE OF REPORT

1 The purpose of this report is to provide members with an update on the treasury management activity and compliance with the treasury management prudential indicators for the period 1^{st} April 2024 – 30^{th} June 2024.

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 2024/25 was approved at a meeting on 18 March 2024. 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.

RECOMMENDATIONS

5 Members are asked to:

i. note the treasury management activities and prudential indicators for the period 1^{st} April – 30 June 2024.

EXTERNAL CONTEXT

6 UK headline consumer price inflation (CPI) continued to decline over the quarter, falling from an annual rate of 3.2% in March to 2% in May, in line with the Bank of England's target. The core measure of inflation, however, only declined from 4.2% to 3.5% over the same period, which, together with stubbornly services price inflation at 5.7% in May, helped contribute to the BoE maintaining Bank Rate at 5.25% during the period, a level unchanged since August 2023.

7 The Bank of England's Monetary Policy Committee voted in June 2024 to maintain the Bank Rate at 5.25%.

8 On 31st July the Base Rate was reduced by .25% to 5%. Interest rates are expected to fall further during the second quarter of 2024 and 2025. The risks over the medium term are deemed to be to the upside as while inflation has fallen to target, it is expected to pick up later in the year and as services price inflation and wage growth are still on the firmer side, the MPC could delay further reductions.

LOCAL CONTEXT

9 On 31st March 2024, the Authority had net borrowing of £14.82m arising from capital expenditure.

10 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.

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

Table 1: Balance Sheet Summary

	31.03.24 Actual £m	30.06.24 Actual £m
General Fund CFR	27.94	28.08
External borrowing	-17.78	-17.76
Internal borrowing	**10.16**	**10.32**
Less: Balance sheet resources	-13.13	-13.57
Less: New Investments	2.97	3.25
New borrowing	**0.00**	**0.00**

12 The treasury management position at 30th June and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £m	Movement £m	30.6.24 Balance £m	30.6.24 Rate %
Long-term borrowing (PWLB)	14.07	0	14.07	1.00 - 4.90
Short-term borrowing	3.71	-0.02	3.69	1.30 - 3.91
Total borrowing	**17.78**	**-0.02**	**17.76**	
Short-term investments	-1.48	1.48	0.00	5.19-5.38
Cash and cash equivalents	-1.48	-1.77	-3.25	4.65- 5.14
Total investments	**-2.96**	**-0.29**	**-3.25**	
Net borrowing	**14.82**	**-0.31**	**14.51**	

BORROWING

13 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.

14 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

15 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.

16 Whilst the cost of short-term borrowing from the other local authorities spiked to around 7% in late March 2024, primarily due to a dearth of LA-LA lending/borrowing activity during the month, as expected shorter term rates reverted to a more normal range and were generally around 5.25% through the quarter.

17 The PWLB certainty rate for 10-year maturity loans was 4.8% at the beginning of the quarter and 4.96% at the end. The lowest available 10-year maturity rate during the quarter was 4.80% and the highest was 5.18%. Rates for 20-

year maturity loans ranged from 5.24% to 5.57% during the quarter, and 50-year maturity loans from 5.06% to 5.40%.

18 At 30th June the Authority held £17.76m of loans, a decrease of £0.02m on 31st March 2024, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans, on 30th June are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.24 Balance £m	Net Movement £m	30.6.24 Balance £m	30.6.24 Weighted Average Rate %	30.6.24 Weighted Average Maturity (years)
Public Works Loan Board	17.78	-0.02	17.76	2.76	5.98
Local authorities (short-term)	0.00	0.00	0.00	0.00	0.00
Total borrowing	**17.78**	**-0.02**	**17.76**		

19 The Authority replaced its short-term borrowings in 2023/24 and as at 31March 2024 no longer held short term loans.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period (Years)
PWLB Maturity Loan	2.00	4.80	28
PWLB EIP Loan	0.65	3.09	13
PWLB EIP Loan	4.72	3.91	17
Total borrowing	**7.37**		

20 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.

21 During 2023/24, two short-term market loans totalling £6m were repaid. £3m was replaced with a long term PWLB loan, which was taken out in 2022/23, following advice from Arlingclose, our treasury management advisors, and undertaken when interest rates were favourable and £3m was funded from internal borrowing, due to the delay in the land purchase for the proposed training centre, thus delaying the need to borrow until the land purchase is complete.

TREASURY INVESTMENT ACTIVITY

22 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. 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.

23 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the quarter, the Authority's investment balances ranged between £2.96m and £3.25m. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.24 Balance £m	Q1 Net Movement £m	31.6.24 Balance £m	30.6.24 Income Return %	30.6.24 Weighted Average Maturity days
Banks & building societies	1.48	1.77	3.25	4.65-5.14	on call
Central Government	1.48	-1.48	0.00	5.19	7
Total investments	**2.96**	**0.29**	**3.25**		

24 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.

25 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.

26 Bank Rates remained at 5.25% through the quarter with short term interest rates largely being around this level. The rates on DMADF deposits during the quarter were 5.19%.

COMPLIANCE

27 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. The Service hold two call accounts that are used to place short term deposits, with Lloyds Bank and Barclays Bank. The interest rates being offered on treasury

deposits was significantly higher with Lloyds Bank and therefore in order to obtain the best return all deposits have been placed with them.

28 To help mitigate this in future, the Service applied for a Debt Management Office Account, as the Treasury Management Strategy allows for unlimited funds to be placed with the DMO.

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

Table 5: Investment Limits

Institution	Description	Limit	30.06.24 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	**£3.25m**	yes
Central Government	Debt Management Office (DMO)	Unlimited	**0**	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

30 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

	30.6.24 Actual £m	2024/25 Operational Boundary £m	2024/25 Authorised Limit £m	Complied?
Borrowing	17.76	28.99	30.99	Yes
Total debt	**17.76**	**28.99**	**30.99**	

31 Since the operational boundary is a management tool for in-year monitoring there may be occasions when actual borrowing exceed 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

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

Liability Benchmark

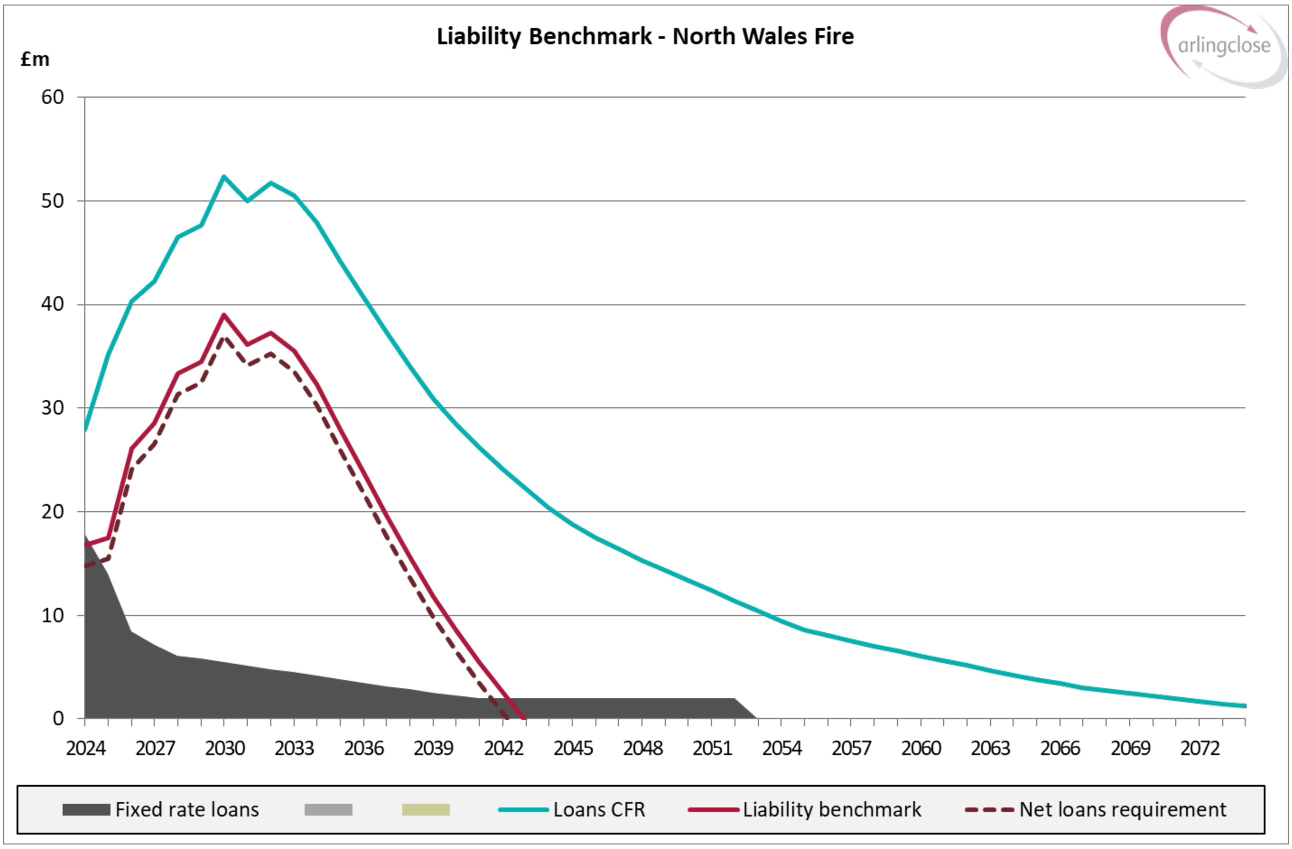
33 This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term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

34 The indicator 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.

	31.3.24 Actual £m	**30.06.24 Actual £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**
Loans CFR	27.94	28.08	35.10	40.30
Less: Balance sheet resources	-13.12	-13.57	-19.70	-16.20
Net loans requirement	14.82	14.51	15.40	24.10
Plus: Liquidity allowance	2.00	2.00	2.00	2.00
Liability benchmark	**16.82**	**16.51**	**17.40**	**26.10**
Existing borrowing	**-17.78**	**-17.76**	**-14.10**	**-8.50**

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

36 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.



37 The graph shows 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.

38 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

39 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:

	30.6.24 Actual	Actual Limit	Upper Limit	Lower Limit	Complied Y/N
Under 12 months	2.20	12.39%	60.00%	0.00%	Y
12 months and within 24 months	4.49	25.28%	45.00%	0.00%	Y
24 months and within 5 years	3.70	20.83%	45.00%	0.00%	Y
5 years and within 10 years		0.00%	75.00%	0.00%	Y
10 years and above	7.37	41.50%	100.00%	0.00%	Y

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

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

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA'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 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.