CHESHIRE FIRE AUTHORITY

MEETING OF:	**CHESHIRE FIRE AUTHORITY**
DATE:	**26 JUNE 2024**
REPORT OF:	**HEAD OF FINANCE**
AUTHOR:	**JAMES CUNNINGHAM**

SUBJECT: **TREASURY MANAGEMENT ANNUAL REPORT 2023-24**

Purpose of Report

1. To present a review of the Authority's treasury management activities undertaken during 2023/24.

Recommended: That

[1] the report on treasury management activity for 2023-24 be noted; and

[2] the performance against the Prudential and Treasury indicators be noted; and

[3] the ongoing strategy to avoid committing to long term high interest loans by temporarily funding the capital financing requirement through internal borrowing be noted.

Background

2. The Chartered Institute of Public Finance and Accountancy (CIPFA) define treasury management as 'The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.'

3. The associated Code of Practice for Treasury Management recommends that those charged with governance are updated on treasury management activities regularly by way of a strategy at the start of the year, a mid-year review and an outturn report. In addition to these three major reports, from 2023-24, additional quarterly reporting (end of June/end of December) is also required. This new reporting requirement is fulfilled by the inclusion of updated and forecast Treasury/Prudential Indicators within the main First Quarter and Third Quarter financial review reports considered by Performance and Overview Committee.

4. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report

provides Members with details of the treasury management activities undertaken in 2023-24. It also covers compliance with the Authority’s policies previously approved by Members.

5. This report includes details of:

   a. the Authority's loans portfolio position at 31 March 2024;
   b. the Authority's investment portfolio position at 31 March 2024;
   c. a summary of performance for the year 2023/24;
   d. the Authority’s performance in 2023/24 set against the key Prudential and Treasury Indicators

6. Members should be aware that all of the 2023/24 figures in this report remain subject to audit.

The Economy and Interest Rates

7. The year has been marked by the continued battle against inflation. With the UK unable to manage supply side factors we have been exposed to global impacts on fuel prices, the continued war in Ukraine driving further impacts on food pricing and volatility in the markets. The Bank of England continue with the very blunt tool of raising domestic interest rates as a mechanism to curb demand side factors. The Bank of England Interest rate started the year at 4.25%, with three rises in the year to 5.25% and has been held at this rate since August 2023. However high interest rates also have the impact of reducing appetite for taking on loan funded capital investment programmes, and can lead to the economy shrinking or as was evidenced by the “technical” recession at the end of 2023.

8. The CPI inflation rate at the end of March 2023 was a mere 3.2% compared to 10.1% at the end of March 2022.

9. The table below sets out the current interest rates on PWLB loans over a range of maturity dates, all rates are in excess of 5%. By comparison the interest rate on a 50 year loan at the end of March 2023 was 4.60% and at March 2022 was 2.58%.

Table 1

Maturity	1 Year	5 Year	10 Year	25 Year	50 Year
rate	5.61	5.08%	5.19%	5.61%	5.38%

<u>Outlook for 2024/25</u>

10. Whilst high interest rates have been painful and slowed investment, inflation figures have slowly dropped, with the most recent published CPI rate of 2.2%. Forecasts suggest it may remain relatively low during the rest of 2024.

11. A general election was called on 22 May 2024 for 4th July. This has also dampened expectations for interest rate cuts in the summer. Economic forecast now suggest small rate cuts may be seen toward the end of 2024,

when the outcome of the election is known and the impact of whichever Government economics policies are put into effect.

12. Gas and electricity prices have dropped, although they are still significantly higher than 2 years ago. Whilst the Authority does not benefit from the domestic price cap, forecasters indicate that there may a small rise in the winter quarter on the price cap. However there is a general consensus that the pressures on wholesale prices over the last few years have eased.

13. Not withstanding the above, the war in Ukraine continues, we recognise the terrible human cost it has on Ukraine, but the effects have been and could continue to be felt across the global economy.

14. The PWLB loan rates remain high and forecasts indicate these will remain relatively high through this year. Interest rates of 3% are unlikely to be seen on the PWLB loans for a further 2 years.

15. The Authority has also benefitted from the high interest rates on cash deposits. However, while we continue to defer taking on high interest rate PWLB loans we are utilising our cash balances to temporarily fund the capital programme. Obviously less interest will be earned in the future.

Portfolio Position at 31 March 2024

16. A summary of the Authority's long-term borrowing and investments at 31 March 2024 is shown in Table 2, including the equivalent treasury portfolio position at 31 March 2023 for reference.

Table 2 – Portfolio Position		
	31 March 2023 £000	31 March 2024 £000
Long Term Borrowing	12,012	11,586
Treasury Investments	(12,940)	(8,975)
Net Borrowing / (Investments)	(928)	2,611

Note: All investments held relate to Treasury Management activities. The Authority has not engaged in any commercial investments and has no non-treasury investments.

17. Long-term borrowing as at 31 March 2024 is made up entirely of maturity loans from the Public Works Loans Board (PWLB). This includes borrowing of £11m to finance the Training Centre project, secured from PWLB at favourably low fixed rates in March 2021 (£4m at 1.99%), July 2021 (£4m at 1.65%) and November 2021 (£3m at 1.63%). No new borrowing was entered into during 2023/24.

18. Investment balances (including cash on deposit in Money Market Funds) have reduced during 2023/24. This is due to funding expenditure on major estates projects during the year through the agreed use of Capital Reserves and Internal borrowing – to avoid committing to long-term high interest PWLB loans, until the Bank of England base rate starts to fall.

Treasury Management Performance 2023/24

Investments

19. The increases to the Bank Rate during 2023/24 and proactive cashflow management, have enabled the Authority to secure significantly increased short to medium term rates of return across the year. Investment income for 2023/24 was £732k, an increase from £417k in 2022/23.

20. The Authority has continued with a cautious approach to its choice of counterparties. As at 31 March 2024, the Authority's investments were with UK Debt Management Office, Aberdeen Standard Liquidity Money Market Fund, Federated Hermes Money Market and in its National Westminster Bank Liquidity account, which the Authority continues to use regularly to manage day-to-day cashflows. An investment was also held with Santander earlier in the year. The current investment counterparty criteria selection approved in the Treasury Management Strategy is meeting the requirement of the treasury management function.

21. There have been no instances of non-compliance with approved Annual Investment Strategy limits during the year.

Borrowing

22. The amount of borrowing as at 31 March 2023 was £ 11,586k. During 2022/23 interest rates have been monitored and no debt rescheduling took place during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

23. As previously reported to Members and in line with the currently approved Treasury Management Strategy, £11m of this current borrowing relates to the Training Centre.

24. The approved Treasury Management Strategy included provision for a further £4m of borrowing, mainly for the completion of Crewe Fire Station. This is in addition to the £ 7.5m of external borrowing approved for in 2022/23 for the initiation of the Crewe Fire Station replacement and purchase of the Wilmslow day-crewing houses. All of these external borrowings have been deferred in light of the high interest rates on PWLB loans in the year. We have utilised current cash (internal borrowing) to fund these capital programmes but will eventually need external loans to replace this cash. Market rates and forecasts will continue to be kept under close review in order to secure the borrowing at the optimum point.

25. At this point increasing internal borrowing as detailed above, supported by short periods of temporary external borrowing if required, is considered to be manageable and a sensible target position in view of the current high cost of borrowing and forecasts that this will begin to reduce as the economy stabilises over the next two, to three years. The position was reviewed as part of the ongoing Treasury Management Strategy and will continue to be monitored closely.

26. The maturity structure for borrowing can be seen in Table 3. This indicator is designed to be a control over an authority having large concentrations of fixed rate debt which need to be replaced at times of uncertainty over interest rates. The limits set represent sensible boundaries and are intended to draw attention to potential issues before they arise. There are currently no potential issues.

Table 3 - Maturity Structure of Borrowing – 31/03/2024				
	Upper Limit %	**Lower Limit %**	**Actual %**	**Amount £000**
Under 12 months	15	0	4	467
12 months and within 24 months	15	0	0	0
24 months and within 5 years	25	0	1	119
5 years and 10 years	25	0	0	0
10 years and above	100	50	95	11,000
Total			100	11,586

Prudential and Treasury Indicators

27. The Authority must approve Prudential and Treasury Indicators annually, to reflect the impact of the Capital Programme on the Authority's financial position. Table 4 below shows performance in 2023/24 against the indicators, which were approved by the Authority in February 2023 and reviewed at the mid year Treasury Management Report.

Table 4: Prudential and Treasury Indicators			
Prudential Indicators	2023/24 Indicator £000	2023/24 Outturn £000	Comment
Capital expenditure	9,592	8,484	Completion of Crewe Fire Station and re-profiling of Fire Station Modernisation programme.
Capital financing requirement	25,925	25,395	
Annual change in capital financing requirement	3,719*	3,660	
Gross borrowing requirement: (Under) / Over borrowing	(13,868)*	(13,806)	Deferral of £4m external borrowing in the year in aggregate with deferral of external borrowing last year
Ratio of financing costs to net revenue stream	2.07%	1.74%	Deferral of new borrowing.
Treasury Indicators	2023/24 Indicator £000	2023/24 Outturn £000	
Authorised limit for external debt	20,636	20,636	Set 15/2/23, no change in the year 23/24.
Operational boundary for external debt	18,636	18,636	
Actual external debt - Borrowing - Other long term liabilities Total	 11,586 0 11,586	 11,586 0 11,586	Further planned PWLB borrowing was deferred due to current high interest rates and improved cash balances. One loan of £426k was repaid at 31 March 2023
Upper limit of fixed interest rate exposure	100%	100%	
Upper limit of variable interest rate exposure	25%	Nil	No variable rate loans held or planned
Upper limit for principal sums invested for over 364 days	£nil	£nil	No longer term investments held or planned.

**Indicators revised at Mid Year Treasury Management Report*

28. The above table shows that the Authority remained within both the authorised limit and operational boundary for external debt. These are limits on the amount of external debt permitted and include both loans and financial leases.

Conclusion

29. Increases to the Bank Rate during 2023/24 and proactive cashflow management, have enabled the Authority to secure significantly increased investment returns over recent months which will continue into 2024/25. Opportunities for seeking improved returns will continue to be pursued within the approved confines of the Annual Investment Strategy.

30. Borrowing rates remain high and new borrowing is required to finance the major estates projects at Crewe and Wilmslow. In view of the current high interest rates available through PWLB we are utilising our current cash (internal borrowing) to defer any new borrowing as long as prudently possible. Current Cashflow projections indicate we will need to take on loans by Nov 2024.

Financial Implications

31. The report is in its nature financial and the implications are covered in the body of the report.

Legal Implications

32. All transactions between the Authority and counterparties are governed by the agreements between the two parties, and take into account advice from our Treasury Management partner Link Asset Services.

Equality and Diversity Implications

33. There are none.

Environmental Implications

34. There are none.

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BACKGROUND PAPERS: NONE