Mae'r ddogfen yma ar gael yn Gymraeg

Agenda Item 8

Report to	**Audit Committee**
Date	**19 June 2023**
Lead Officer	**Treasurer, Dafydd Edwards**
Contact Officer	**Head of Finance, Helen Howard**
Subject	**Treasury Management Activity and Actual Prudential Indicators for 2022/2023**

PURPOSE OF REPORT

1. To inform Members of the treasury management activity and prudential indicators for North Wales Fire and Rescue Authority (the Authority) during the 2022/23 financial year. This report is a requirement of the Prudential Code (the Code).

EXECUTIVE SUMMARY

2. The Authority's treasury management activities are regulated by professional codes, statutes and guidance. The borrowing position at 31 March 2023 was £26.5m which is within the limit approved by members. The value of short-term loans was £8.7m which is within the limit set within the strategy. No variable rate loans were held during the financial year.

RECOMMENDATION

3. Members are requested to:

    i) note the treasury management activity; and
    ii) approve the final prudential indicators for 2022/23.

INTRODUCTION

4. The Authority's treasury management activity is regulated by professional codes, statutes and relevant guidance. The Authority has adopted the Chartered Institute of Public Finance Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

5. The Authority's Treasury Management Strategy for 2022/23 was approved at a meeting of 14 March 2022. The Authority has borrowed substantial sums of money and is therefore exposed to the financial risks including the revenue effect of changing interest rates. The successful identification, monitoring and control of the risk remains central to the Authority's treasury management strategy.

6. The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by the Authority covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved at a meeting on 14 March 2022.

EXTERNAL CONTEXT

Economic background

7. The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices and high inflation,

8. The Bank of England increased the official Bank Rate to 4.25% during the financial year, from 0.75% in March 2022.

9. **Credit review:** Following credit changes by the ratings agency, the Authority's treasury advisors, Arlingclose, reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. The banks/institutions used by the Authority all remained on the list.

10. As 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. The day to day decisions on borrowing are delegated to the Authority's Finance officers, who are required to ensure the most appropriate form of borrowing depending on the prevailing interest rates at the time. This includes the use of shorter-term fixed rates, which may provide lower cost opportunities in the short/medium term.

12. A cautious approach is taken to the investment of surplus funds. Cash deposits required in order to maintain working capital are made with banks or building societies. Other vehicles are only used for longer term investments.

Borrowing Activity

13. As outlined in the Treasury Management Strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being 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 and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

14. The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March almost 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Rates have now fallen from September peaks but remain volatile and well above recent historical norms.

15. The increase in interest rates has had an impact on interest costs for this year, due to the requirement to take out new loans amounting to £10m. These were necessary to replace existing maturing loans and to fund the capital programme. The effect of the higher interest rates will continue to have an ongoing impact on the revenue budget.

16. The outstanding loan debt as at 31 March 2023 was £26.46m. Loans are taken out to finance the Authority's capital programme. A further analysis of maturity profiles is provided in Appendix A.

17. The Public Works Loans Board (PWLB) loans held as at 31 March 2023 are detailed below and amounted to £20.46m:

Organisation	Percentage Analysis	Amount £
PWLB (1 to 2 years)	31.2%	£6.39m
PWLB (3 to 5 years)	38.9%	£7.96m
PWLB (6 to 10 years)	7.9%	£1.62m
PWLB (10 and more years)	22.0%	£4.49m
Total PWLB	**100%**	**£20.46m**

18. During the year, new PWLB loans totalling £10m were taken out. The loan portfolio includes Equal Instalment of Principal loans (EIP). Overall, the loans held by the Authority increased by £2.1m compared to the previous year.

19. In addition to borrowing through the PWLB, the Authority had £6.0m in short term loans taken out with other local authorities at year end, as detailed below:

Organisation	Percentage Analysis	Amount
Tameside Metropolitan Borough Council	50.0%	£3.0m
Warwickshire County Council	50.0%	£3.0m
Total Short-Term Borrowing	**100%**	**£6.0m**

20. These loans provided a low-cost short-term option for the Authority, with interest rates averaging 1.3%, which compares favourably with the prevailing PWLB rates.

21. The position at 31 March 2023 was that 22.7% of loans were short term loans taken out with other Local Authorities, and 4% were PWLB loans that were due to mature within 12 months. The total loans maturing within 12 months as at 31 March 2023 was 26.7% compared to the indicator of 60%. This approach is consistent with the advice of the Authority's Treasury Management Advisors.

22. The Treasury Management Strategy confirms that the borrowing portfolio should have a maximum of 35% of debt in variable loans, with up to 100% of loans having fixed terms. During 2022/23 the Authority only borrowed on fixed rate terms due to prevailing interest rates and to provide certainty.

23. The total outstanding loans at the year end of £26.46m were below the approved capital financing requirement (CFR) but exceeded the forecast year-end position. On the advice of the professional advisors, the Authority took advantage of prevailing market conditions and secured loans at favourable rates to ensure that maturing debt could be repaid and investments of £4.1m were held at the year end. The net borrowing position was, therefore, £23.4m.

24. The total interest paid during the financial year was £0.465m, compared to the budget of £0.325m which reflects the significant interest rate increases during the financial year.

Investments

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

26. The Authority holds invested funds, representing income received in advance of expenditure, plus balances and reserves held. During the year 2022/23, the Authority's investment balances ranged between £0m and £4.1m, due to timing differences between income and expenditure. All investments were overnight treasury deposits.

27. The investment strategy for 2022/23 approved by the Authority on 14 March 2022 included approval of the following criteria for counterparties:

Institution	Description	Limit
Banks	All UK banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as long term (BBB)	£5m
Central Government	Debt management Office	Unlimited
Money Market Funds (MMF)	Only in conjunction with advice from Arlingclose.	£1m per fund
Local Authorities	All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992 (and with advice from Arlingclose).	£2m
Building Societies	Building societies with a rating (as for the banking sector).	£2m
Building Societies (Assets £1bn)	Building societies without a rating but with assets of £1billion or more.	£2m/ 9 months

28. 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.

29. 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. As the Authority only holds funds for working capital purposes the default position is to utilise the Authority's deposit accounts. Where appropriate advice and guidance is sought from the Authority's professional advisors, Arlingclose.

30. The Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities.

Prudential Indicators

31. The Authority's estimated prudential indicators for 2022/23 were approved as part of the Capital Strategy at the meeting on 14 March 2022. The Authority is required by the Prudential Code to subsequently approve the actual value of those prudential indicators after the year end.

32. Appendix A provides a schedule of all the mandatory prudential indicators. The table below confirms the key limits approved by the Authority and the outturn for 2022/23:

	2022/23 Indicator	**2022/23 Actual**
Borrowing position	£23.895m	£26.460m
Capital Financing Requirement	£29.389m	£28.396m

33. The Capital Financing Requirement (CFR) shows the Authority's underlying need to borrow for a capital purpose. In the short term the borrowing requirement may exceed the capital financing requirement due to the effect of cash and investments. The table above shows the gross borrowing position was lower than the actual CFR for 2022/23 by £1.94m.

34. The Authorised Limit is the affordable borrowing limit required by section 3 of the Local Government Act 2003. The table below demonstrates that during 2022/23 the Authority has maintained its gross borrowing within its Authorised Limit.

35. The Operational Boundary is the expected borrowing position of the Authority during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

	2022/23
Indicator - Authorised Limit	£31.389m
Indicator - Operational Boundary	£29.389m
Maximum borrowing position during the year	£26.738m
Minimum borrowing position during the year	£20.244m

COMPLIANCE

36. All treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

37. Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table above.

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 into 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 and prudent treasury management activity by the Authority's Finance officers, as advised by treasury advisors, is to mitigate this risk.

Appendix A

Prudential Indicators

		2022/23 Estimated Indicator £'000	2022/23 Actual £'000
1	Capital Expenditure	2,916	3,366
2	Capital Financing Requirement	29,389	28,787
3	Borrowing	23,895	26,460
4	Authorised Limit	31,389	30,787
5	Operational Boundary	29,389	28,787
6	Ratio of Financing Costs to Net Expenditure	5.7%	6.2%
7	Investments	0	4,107
8	Fixed Interest rate loans as a % of Total Borrowing	100%	100%
9	Variable rate loans as a % of Total Borrowing	0%	0%
10	Maturity Structure of Fixed Rate Borrowing		
	Under 12 months	0% - 60%	26.7%
	12 months to 2 years	0% - 45%	4.5%
	2 years to 5 years	0% - 45%	38.9%
	5 years to 10 years	0% - 75%	7.9%
	10 years and above	0% - 100%	22.0%