Lancashire Combined Fire Authority
Resources Committee

Meeting to be held on 29 November 2023

Treasury Management Mid-Year Report 2023/24
Contact for further information:

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Executive Summary

The report sets out the Authority's borrowing and lending activities during 2023/24. Decisions taken were in accordance with the Treasury Management Strategy and were based on anticipated spending and interest rates prevailing at the time.

Recommendation

The Committee is asked to note and endorse the report.

Information

In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and to strengthen members' oversight of the Authority's treasury management activities, the Resources Committee receives a treasury management mid-year report and a final outturn report. Reports on treasury activity are discussed on a quarterly basis with Lancashire County Council Treasury Management Team and the Authority's Director of Corporate Services and the content of these reports is used as a basis for this report to the Committee.

Economic Overview

Treasury management activity is taken within the context of prevailing and forecasted economic conditions. The first half of the year saw the continuation of high levels of inflation. As measured by the CPI, inflation was 10.1% in March 2023. Although the rates had fallen during the year to a level of 6.7% in September this is still above the Bank of England Monetary Policy Committee (MPC) target for inflation of 2%. In addition to high inflation there continued to be strong wage growth. As a consequence, the MPC have raised the Base rate several times in the year. The rate on the 1 April was 4.25% and this had increased to 5.25% in August.

Many economic forecasters consider that interest rates have reached a peak with the economy showing signs of low growth and the potential of a recession increasing. However, despite this and the Bank of England's expectation that inflation will continue to fall during the year it is not anticipated that there will be a fall in the Base rates in this financial year with the Bank stating that "we will keep interest rates high enough for long enough to ensure that we achieve our goal" (of meeting its 2% target).

The latest forecast from Arlingclose, the treasury adviser to the County Council, is:

	Base	10 year	20 year
	Rate %	Gilt%	Gilt%
Current	5.25	4.27	4.67
December 23	5.25	4.40	4.65
Mar 24	5.25	4.35	4.60
Jun 24	5.25	4.30	4.55
Sep 24	5.00	4.25	4.45
Dec 24	4.75	4.15	4.35
Mar 25	4.25	4.00	4.25
Jun 25	4.00	3.80	4.20
Sep 25	3.75	3.75	4.20
Dec 25	3.50	3.65	4.20
Mar 26	3.25	3.60	4.20
Jun 26	3.00	3.65	4.20
Sep 26	3.00	3.70	4.20

Treasury Management position and Policy

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The treasury management activity is influenced both by the position at the beginning of the year and the plans in year. The position at the start of the financial year is summarised in the Table below:

	Balance 31/3/23
	£m
Capital Finance Requirement	11.9
Less other debt liabilities	(11.9)
Borrowing Requirement	0.000
External borrowing	2.000

The table above shows that the level of loans was above the borrowing requirement. This is the result of the Authority adopting a policy of setting aside additional Minimum Revenue Provision (MRP) in order to generate the cash to repay loans either on maturity or as an early repayment. This has resulted in the CFR being reduced but due to early repayment charges it has not been financially beneficial to repay three loans.

It is not anticipated that the new capital expenditure will be funded from borrowing in the year while it was anticipated that there will be some reduction in the level of reserves held.

Borrowing

There has been no new borrowing in the first six months of the financial year. This is consistent with the position that the current borrowing is already above the CFR and that the capital programme does not include any expenditure to be financed from borrowing.

The long-term debt outstanding of £2m has been borrowed from the Public Works Loan Board. The table below show the maturity profile of the Authority's borrowings, along with an interest rate paid.

Loan Amount	Maturity Date	Interest rate
£0.700m	June 2037	4.480%
£0.650m	June 2036	4.490%
£0.650m	December 2035	4.490%

If the loans were to be repaid early there would be an early repayment (premium) charge. Previous reports on treasury management activities have reported that the premium and the potential loss of investment income have been greater than the savings made on the interest payments therefore it has not been considered financially beneficial to repay the loans especially with the potential for increased interest rates. However, at the 30 September the estimated premium charge to repay the three loans was minimal although rates and the premium change on a daily basis. To offset the net savings on repaying the loans it was estimated that future interest on investments over the remaining period of the loans would need to be 4.5%. If it is estimated that investment interest rates will be lower than this figure, then it may be beneficial to repay the loans.

Investments

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 investments before seeking the highest 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 low investment returns and having the value of reserves eroded by inflation.

The Authority principally invests in a call account provided by Lancashire County Council which pays the base rate. Each working day the balance on the Authority's Current Account is invested in this to ensure that interest is received on surplus balances within an acceptable risk framework. During the period all surplus balances were placed with the County Council via this arrangement. At 30th September there was a balance of £24.970m invested in LCC while the average for the period was £20.080m. The current rate for these investments is 5.25% in line with the increase in the Base Rate in August 2023. At the beginning of the financial year the rate was 4.25%.

In order to increase the rate earned on current balances, the Authority has placed fixed term investments with other local authorities. To attract a higher rate of interest than is available on the call account these investments will need to be fixed for a longer period of time. During the year the following investments have been in place:

Start Date	Finish Date	Principal £m	Interest Rate	Annual interest	Interest in 2023/24
21-Mar-22	21-Mar-24	5	1.50%	£72,500	£72,945
27-Oct-22	26-Oct-23	5	3.30%	£165,000	£94,027
7-Oct-22	6-Oct-23	5	4.00%	£200,000	£103,013

At 30 September there was £15m fixed term investment in place, therefore the total investment held at 30 September was £39.970m.

The overall rate of interest earned during this period was 4.06% which is less favourable when compared with the benchmark 7-day index which averages 4.73% over the same period.

All investments are made in accordance with the current Treasury Management Strategy and the CIPFA treasury management code of practice.

There have been a further three fixed term investments taken out with other Local Authorities during the period which only start later in the financial year as follows: -

Start Date	Finish Date	Principal £m	Interest Rate	Annual interest	Interest in 2023/24
14-Dec-23	12-Dec-24	3.5	5.05%	£176,750	£52,783
20-Nov-23	18-Nov-24	5	5.85%	£292,500	£106,582
17-Oct-23	15-Oct-24	5	5.55%	£277,500	£126,966

Current interest rates available for lending to other Local Authorities are: -

Period	Interest rate
6 months	5.30%
1 year	5.50%
2 year	5.10%
3 year	4.90%

Prudential Indicators

In order to control and monitor the Authority's treasury management functions, a number of prudential indicators are determined against which performance may be measured. The indicators for 2023/24 were approved by the Authority on 20 February 2023 are shown in the table below alongside the current actual.

	2023/24 PIs	**Actual at 30/9/23**
Adoption of the CIPFA Code of Practice for Treasury Management	Adopted	Adopted
Authorised limit for external debt	£m	£m
A prudent estimate of total external debt, which does not reflect the worst-case scenario, but allows sufficient headroom for unusual cash movements		
Borrowing	4	2
Other long-term liabilities	30	12
Total	34	14
Operational boundary for external debt		
A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the Authority's current plans		
Borrowing	3	2
Other long-term liabilities	16	12
Total	19	14

Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	38%
Upper limit for variable rate exposure		
Borrowing	50%	0%
Investments	100%	62%
Upper limit for total principal sums invested for over 364 days (per maturity date)	25	5
Maturity structure of loan debt	**Upper/ Lower Limits**	**Actual %**
Under 12 months	100% / nil	0%
12 months and within 24 months	50% / nil	0%
24 months and within 5 years	50% / nil	0%
5 years and within 10 years	50% / nil	0%
10 years and above	100% / nil	100%

Ratio of financing costs to revenue stream (%)	**Budget**	**Sept Estimate**
Ratio of financing costs to revenue stream (%)	-1.6%	-2.1%

Revenue Budget Implications

The 2022/23 revenue budget for treasury management activity showed that anticipated income exceeded expenditure by £105k. Taking into account the activity for the first six months of the year and estimated cash-flow for the remainder of the year the latest forecast is shown below:

	2023/24	2023/24	2023/24
	Budget	Forecast	Variance
	£m	£m	£m
MRP	0.000	0.000	(0.000)
Interest payable	0.090	0.090	(0.000)
Interest receivable	(1.300)	(1.520)	(0.220)
Net budget	(1.210)	(1.430)	(0.220)

The interest receivable is above budget as the balances and interest rates are higher than anticipated when setting the budget. The forecast assumes interest rates on the call account averages 5.25% for the remainder of the financial year.

Financial Implications

Included within report above.

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

The Treasury Management strategy is designed to minimise the Authority's financial risk associated with investment decisions, whilst maximising the return on any investments made. As such the adoption of the CIPFA's Code of Practice on Treasury Management and the monitoring arrangements in place ensure that any risks faced by the Authority are managed.

However, it must be acknowledged that there will always be a balance between risk and return and hence the strategy does not completely eliminate the risk of any further default on investments in the future.

Environmental Impact

None

Local Government (Access to Information) Act 1985

List of background papers

Paper: Treasury Management Strategy 2023/24
Date: February 2023
Contact: Steven Brown, Director of Corporate Services
Reason for inclusion in Part 2 if appropriate: N/A