Lancashire Combined Fire Authority

Resources Committee

Meeting to be held 3 July 2024

Year End Treasury Management Outturn 2023/24

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Executive Summary

The report sets out the Authority's borrowing and lending activities during 2023/24. All treasury activities undertaken throughout the year are in accordance with the Treasury Management Strategy 2023/24.

Recommendation

The Committee is asked to note and endorse the outturn position 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 regular updates on treasury management issues including a 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 Director of Corporate Services.

Investment and borrowing decisions are taken in the light of long-term borrowing requirements, the estimated level of reserves and actual and estimated cash-flow. Consideration is also given to various risks and ensuring compliance with the Prudential Indicators. Decisions are taken in the light of current and forecasted economic situation. Therefore, this report provides information on:

- An economic overview
- Borrowing position
- Investment activity
- Comparison to the Prudential Indicators

Economic Overview

The treasury management activity was undertaken against a backdrop of inflation being above the Bank of England's target and consequently in the first part of the year increasing Bank Rate. With generally weak growth and falling inflation attention turned to when Bank Rate would peak and whether or not there would be subsequent reductions.

At the start of the year UK inflation was at 8.7% which was a fall from the peaks seen in 2022/23. The year saw inflation continuing to fall and in March 2024 the rate was at 3.2%. However, this was still above the Bank of England’s 2% target at the end of the period.

The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year Gross Domestic Product (GDP) growth only expanded by 0.1% compared to 2022. Towards the end of the financial year there were signs of an increase in activity with the Office for National Statistics (ONS) reporting that the economy expanded by 0.2% in January 2024. Subsequently, the first estimate of the UK GDP in Q1 (January to March) 2024 is estimated to have increased by 0.6%.

Having begun the financial year at 4.25%, the Bank of England’s (BoE) Monetary Policy Committee (MPC) increased the Bank Rate in May, June and August to reach a level of 5.25%. The Bank Rate was maintained at 5.25% through to March 2024.

Generally, forecasts have seen 5.25% as the peak rate and following the Bank's quarterly Monetary Policy Report (MRP) in February which showed the Banks expected growth in the UK economy in the first half of 2024 and headline consumer price index (CPI) was to fall below target many forecasters anticipated that interest rates will most likely start to be cut in the second half of 2024.

Sentiment in financial markets during 2023/24 remained uncertain and bond yields, which determine the borrowing rates from the Public Works Loan Board (PWLB), continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to high inflation. From October they started declining again before falling sharply in December as falling inflation caused financial markets to expect cuts in interest rates in 2024. When it emerged in January that inflation was stickier than expected and the BoE were not inclined to cut rates soon, yields rose once again.

Over the financial year, the 10-year UK benchmark gilt yield rose from 3.44% to peak at 4.75% in August, before then dropping to 3.44% in late December 2023 and rising again to 3.92% (28 March 2024).

Borrowing

The borrowing levels of the Fire Authority have remained unchanged at year end at £2m with no new long-term loans being taken. The existing loans were taken out with the PWLB in 2007 when the base rate was 5.75%. The maturity and interest rate of the Authority's borrowing is:

Loan amount	Maturity	Interest rate
£650k	December 2035	4.49%
£650k	June 2036	4.49%
£700k	June 2037	4.48%

Total interest paid on PWLB borrowing was £90k, which equates to an average interest rate of 4.49%. The authority did take a temporary loan during the year of £5m to cover a cashflow deficit for two weeks. The interest payable on this was £0.005m at a rate of 5.25%.

The levels of borrowings for the last six financial years are shown below:-

Financial Year Ended	**PWLB £**	**Total £**
2018-2019	2,000,000	2,000,000
2019-2020	2,000,000	2,000,000
2020-2021	2,000,000	2,000,000
2021-2022	2,000,000	2,000,000
2022-2023	2,000,000	2,000,000
2023-2024	2,000,000	2,000,000

The current approved capital programme has no requirement to be financed from borrowing until 2026/27 and the debt relates to earlier years' capital programmes. While the borrowing is above its Capital Financing Requirement (CFR), which is the underlying need to borrow for capital purposes, this is because the Fire Authority has had a policy of setting aside monies in the form of statutory and voluntary minimum revenue provision (MRP) in order to repay debt as it matures or to make an early repayment.

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 30 September the estimated premium charge to repay the three loans was minimal although rates and the premium changed 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. It was concluded that the repayment was not considered to be financially beneficial at the time as the expectation was that interest rates would fall during the period for which the loan is outstanding. However, the situation was, and continues to be periodically reviewed by the Director of Corporate Services.

Investments

Both the CIPFA Code and the then Ministry of Housing, Communities and Local Government (MHCLG) 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. Throughout the year when investing money, the key aim was to strike an appropriate balance between risk and return.

In order to reduce credit risk to the Authority, Lancashire County Council (credit rating by Moodys A2) is the main counterparty for the Authority's investments via the operation of a call account. However, the Treasury Management Strategy does permit investment with other high-quality counterparties including other local authorities. During the year the total cash held by the Authority has been positive with the highest balance being £49.0m and the lowest £25.8m. For the monies invested with Lancashire County Council the range was £34.0m to £0.7m. The balance of the call account at year end was £4.185m.

By placing monies in longer term fixed rate investments, it is anticipated a higher level of interest will be earned. However, having fixed term deals does reduce the liquidity of the investments and therefore their use is limited. At the year-end fixed investments of £23.5m were in place. During the year three fixed term investments had matured and 5 new investments were made. The table below shows the interest earned of £0.670m on fixed term investments in 2023/24:

Amount	Interest Rate	Start	Finish	Interest in 2023/24
Current Investments				
5,000,000	5.55%	17-Oct-23	15-Oct-24	£126,966
5,000,000	5.85%	20-Nov-23	18-Nov-24	£106,582
5,000,000	5.55%	23-Feb-24	21-Feb-25	£ 28,890
5,000,000	5.60%	12-Dec-23	12-Sep-24	£ 85,151
3,500,000	5.05%	14-Dec-23	12-Dec-24	£ 52,783
Matured Investments				
5,000,000	3.30%	27-Oct-22	26-Oct-23	£ 94,027
5,000,000	4.00%	7-Oct-22	6-Oct-23	£103,014
5,000,000	1.50%	21-Mar-22	21-Mar-24	£ 72,945

The call account provided by Lancashire County Council paid the base rate throughout 2023/24. Each working day the balance on the Authority's current account is invested in this to ensure that the interest received on surplus balances is maximised. The average balance in this account during the year was £17.7m earning interest of £0.896m.

The overall interest earned during this financial year was £1.566m at a rate of 4.45% which compares unfavourably with the benchmark 7 day index (Sterling Overnight rate 7 day rate) which averages 4.96% over the same period. The main reason for this under performance is due to the fixed deposit taken with low rates out in previous financial periods.

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

Cash flow and interest rates continue to be monitored by the Director of Corporate Services and the County Council's treasury management team, and when rates are felt to be at appropriate levels further term deposits will be placed.

The levels of investments for the last six financial years are shown below:-

Financial Year Ended	**LCC Call Account £**	**Local Authorities £**	**Total £**
2018-2019	14,640,455	20,000,000	34,640,455
2019-2020	27,385,455	10,000,000	37,385,455
2020-2021	22,395,455	15,000,000	37,395,455
2021-2022	17,720,455	15,000,000	32,720,455
2022-2023	16,160,455	15,000,000	31,160,455
2023-2024	4,185,455	23,500,000	27,685,455

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 revised indicators for 2023/24 are shown in the table below alongside the actual outturn position.

	Revised Indicators	**Actual**
Adoption of the CIPFA Code of Practice for Treasury Management	Adopted	Adopted
Authorised limit for external debt	£000	£000
A prudent estimate of total external debt, which does not reflect the worst case scenario, but allows sufficient headroom for unusual cash movements		
Borrowing	4,000	2,000
Other long-term liabilities – these relate to vehicle finance leases and the PFI agreements	30,000	12,000
Total	34,000	14,000
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	3,000	2,000
Other long-term liabilities – these relate to vehicle finance leases and the PFI agreements	16,000	12,000
Total	19,000	14,000

	Revised Indicators	Actual
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	85%
Upper limit for variable rate exposure		
Borrowing	25%	0%
Investments	100%	15%
Upper limit for total principal sums invested for over 365 days (per maturity date)	25.000	0
Maturity structure of debt	Upper/ Lower Limits	Actual
Under 12 months	100%/nil	-
12 months and within 24 months	50%/nil	-
24 months and within 5 years	50%/nil	-
5 years and within 10 years	50%/nil	-
10 years and above	100%/nil	100%

Ratio of financing costs to revenue stream (%)	**Budget**	**Actuals**
Ratio of financing costs to revenue stream (%)	-1.8%	-2.2%

Financial Implications

The following table summarises the Financing costs for the Authority, comparing actual with budget:-

	Revised Budget £m	**Actual £m**	**Reason for variance**
Interest Payable on PWLB loans	0.090	0.095	
Interest Receivable on call account and fixed term investments	(1.300)	(1.566)	Largely due increase in call account rate in year along with new investments taken out with local authorities for the last quarter of the financial year at higher rates than anticipated when setting the budget
Minimum Revenue Provision re PWLB loans	0.000	0.000	

Net financing income from Treasury Management activities*	(1.210)	(1.471)	

* There are financing costs associated with vehicle finance leases and the PFI agreements, which are not included in the balances above as they are not the result of Treasury Management activities.

Legal Implications

None

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

The Treasury Management Strategy is designed to maximise interest earned, minimise interest paid whilst maintaining an acceptable level of risk. The reviews of performance provide members with an assurance that this has been complied with.

Environmental Impact

None

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact
Treasury Management Strategy 2023/24	February 2023	Steven Brown, Director of Corporate Services
Treasury Management Guidance	February 2017	Steven Brown, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		