Lancashire Combined Fire Authority
Resources Committee
Meeting to be held on 27 November 2024

Treasury Management Mid-Year Report 2024/25 as at 30 September 2024

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Executive Summary

The report sets out the Authority's borrowing and lending activities during 2024/25. 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 Authority 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. UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices.

The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.The latest forecast from Arlingclose is:

	Base rate %	10 year gilt %	20 year gilt %
Current	5.00	3.91	4.40
Dec-24	4.75	3.90	4.35
Mar-25	4.25	3.80	4.20
Jun-25	3.75	3.75	4.20
Sep-25	3.25	3.70	4.20
Dec-25	3.00	3.70	4.20
Mar-26	3.00	3.70	4.25
Jun-26	3.00	3.70	4.25
Sep-26	3.00	3.75	4.25
Dec-26	3.00	3.80	4.30
Mar-27	3.00	3.80	4.35
Jun-27	3.00	3.80	4.35
Sep-27	3.00	3.80	4.35

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 31/3/24 £m
Capital Finance Requirement	12.8
Less other debt liabilities	(12.8)
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 3.91%. 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.

In the period the Authority principally has invested in a call account provided by Lancashire County Council which pays the equivalent of the Debt Management Account Deposit Facility (DMADF) overnight facility. Each working day the balance on the Authority's Current Account was 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. However on 30 September this balance was transferred back to the authority to be managed internally. Therefore on the 30 September this balance was invested in the DMADF overnight facility.

At 30th September there was a balance of £29.875m invested in DMADF overnight facility while the average for the period for both LCC call account and DMADF deposits was £16.421m. The current rate for these investments is 4.94% in line with the current overnight rate for DMADF.

To increase the rate earned on current balances, the authority have 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	Finish	Principal £m	Interest Rate	Annual interest	Interest in 2024/25
12-Dec-23	12-Sep-24	5	5.60%	£280,000	£125,808
17-Oct-23	15-Oct-24	5	5.55%	£277,500	£149,774
20-Nov-23	18-Nov-24	5	5.85%	£292,500	£185,116
14-Dec-23	12-Dec-24	4	5.05%	£176,750	£123,483
23-Feb-24	21-Feb-25	5	5.55%	£277,500	£247,849
29-Aug-24	28-Aug-25	5	4.80%	£240,000	£141,370

At 30 September there was £23.5m fixed term investment in place, therefore the total investment held at 30 September is £53.375m.

The overall rate of interest earned during this period was 5.322% which is more favourable when compared with the Sterling Overnight Rate (SONIA) which averaged 5.12% 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 has been a further fixed term investment taken out with other Local Authorities during the period which only start later in the financial year as follows:-

Start	Finish	Principal £m	Interest Rate	Annual interest	Interest in 2024/25
2-Oct-24	1-Oct-25	5	4.70%	£235,000	£116,534

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

Period	Interest rate
6 months	4.85%
1 year	4.50%
2 year	4.30%
3 year	4.20%

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 2024/25 were approved by the Authority on 19 February 2024 are shown in the table below alongside the current actual.

		2024/25 PIs	Actual at 30/9/24
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	13
	Total	**34**	**15**
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**	**13**
	Total	**19**	**15**
Upper limit for fixed interest rate exposure			
	Borrowing	100%	100%
	Investments	100%	**44**%
Upper limit for variable rate exposure			
	Borrowing	**50**%	0%
	Investments	100%	**56**%
Upper limit for total principal sums invested for over 364 days (per maturity date)		25	0
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 (%)	-1.3%	-2.7%	

Revenue Budget Implications

The 2024/25 revenue budget for treasury management activity shows that anticipated income will exceed expenditure by £1.050m. Considering 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:

	2024/25	2024/25	2024/25
	Budget	Forecast	Variance
	£m	£m	£m
MRP	0.000	0.000	0.000
Interest payable	0.090	0.090	0.000
Interest receivable	-1.050	-2.100	-1.050
Net budget	-0.960	-2.010	-1.050

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 4.42% 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.

Legal Implications

None.

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

Paper	Date	Contact
Treasury Management Strategy 2024/25	February 2024	Steven Brown, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		