ANNUAL TREASURY MANAGEMENT REVIEW

End of year review reflecting performance in 2023/24 and the position as at 31 March 2024.

RoyalBerksFRS @RBFRSOfficial RoyalBerkshireFire
Royal Berkshire Fire & Rescue Service www.rbfrs.co.uk

Introduction

The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2023/24 the minimum reporting requirements were that the full Fire Authority should receive the following reports:

- an annual treasury strategy in advance of the year (Fire Authority 15/02/2023)
- a mid-year (minimum) treasury update report (Fire Authority 19/12/2023)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

The Authority's Capital Expenditure and Financing

The Authority undertakes capital expenditure on long-term assets. These activities may either be:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which have no resultant impact on the Authority's borrowing need; or
- if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

Actual capital expenditure forms one of the required prudential indicators. The table below shows actual capital expenditure and how this was financed.

	2022/23 Actual (£000's)	2023/24 Original Planned (£000's)	2023/24 Actual (£000's)
Capital Expenditure	1,670	4,672	1,079
Financed in year	1,670	4,672	1,079
Unfinanced capital expenditure	0	0	

The 2023/24 original planned expenditure included £2.9m for Training Centre rebuild and Slough Fire Station refurbishment, Training Centre main upgrade for the Decant was completed in Q4 and phase 2 commenced in Q2 of 24/25.Slough Station ground floor works was handed to the station in Q1 2024/25, and the first-floor works was completed in Q2 2024/25. Investment in new fleet were delayed much longer than previously anticipated due to long lead times; vehicles ordered in early 2022/23 were delivered in Q1 and Q2 of 2024/25. MDT Refresh, DCS implementation (SanH) projects were completed in Q4, whilst Station End Refresh and Hardware- Laptops project was completed in Q1 of 2024/25

The Authority's Overall Borrowing Need

The Authority's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allowed the Authority some flexibility to borrow in advance of its immediate capital needs in 2023/24. The table below highlights the Authority's gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

	2022/23 Actual (£000's)	2023/24 Budget (£000's)	2023/24 Actual (£000's)
Gross Borrowing position	8,922	8,922	8,922

CFR	10,770	10,085	9,750

There was no new borrowing in 2023/24.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Authority does not have the power to borrow above this level. The table below demonstrates that during 2023/24 the Authority has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

	2023/24 (£000's)
Authorised Limit	14,422
Maximum gross borrowing position	8,922
Operational boundary	9,022
Average gross borrowing position	8,922
Financing costs as a proportion of net revenue stream	1.95%

Treasury Position as at 31 March 2024

At the beginning and the end of 2023/24, the Authority's treasury position was as follows:

	31st March 2023 Principal (£000's)	Rate / Return	Average Life (Yrs)		31st March 2024 Principal (£000's)	Rate / Return	Average Life (Yrs)
Debt:							
Fixed Rate Funding							
- PWLB	8,922	4.4%	8.9		8,922	4.4%	7.9
CFR	10,770				9,750		
Over / (Under) borrowing	(1,848)				(828)		
Investments:							
Call accounts	4,967	2.88%			10,662	3.57%	
Short Term	6,084	3.73%			4,222	5.46%	
Long Term	618	2.68%			364	5.75%	
Total Investments	**11,669**				**15,248**		

The maturity structure of the debt portfolio was as follows:

	31st March 2023 Actual (£000's)	31st March 2024 Actual (£000's)
Under 12 months	0	0
12 months and within 24 months	0	394
24 Months and within 5 Years	991	597
5 Years and within 10 years	3,581	3,581
10 Years and within 20 Years	1,350	1,350
20 Years and within 30 Years	3,000	3,000
Total	**8,922**	**8,922**

The Strategy for 2023/24

Investment strategy and control of interest rate risk

Investment returns remained steady throughout the course of 2023/24 as the Bank of England's MPC monetary policy was set to meet the 2% inflation target in other to sustain growth.

In May 2023, Bank Rate increased by 0.25% to reach 4.5%, in June Bank Rates moved up again by 0.5% and 0.25% in September reaching 5.25% by the end of the financial year.

The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cash-flow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates.

While the Authority has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis in 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, when possible, rather than borrowing externally from the financial markets. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

Borrowing strategy and control of interest rate risk

The Authority's debt position in 2023/24, is £8,922k

During 2023/24, the Authority had an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Authority's reserves, balances and cash flow was used as an interim measure.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when this Authority may not be able to avoid new borrowing to finance capital expenditure and / or the refinancing of maturing debt.

Investment Outturn

Investment Policy – the Authority's investment policy is governed by the Department for Levelling Up, Housing and Communities' investment guidance, which has been implemented in the annual investment strategy approved by the Fire Authority on 15 February 2023. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

Investments held by the Authority –the Authority had investments totalling £15.25m at the end of 2023/24, The Authority regularly reviews its cash flow requirements over the forthcoming period to ensure liquidity, whilst also looking to maximise return by investing sums for longer periods where possible. The Authority placed a number of fixed term deposits throughout the year to maximise return. Arrangements for immediate access investments were also reviewed and funds were placed with several counterparties to take advantage of the enhanced rates that were on offer as the year progressed.

The Authority's long-term investments of £0.6m relate to its share of the TVFCS Renewals Fund. The fund is managed by Oxfordshire County Council on behalf of the three partners.

Borrowing Outturn

The Authority's debt position in 2023/24, is £8,922k. No debt rescheduling was undertaken.

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