TREASURY MANAGEMENT UPDATE

Mid-year review reflecting performance and the position as at 30 September 2024

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

Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.

3. Receipt by the full Fire Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

4. Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

• An economic update for the first part of the 2024/25 financial year;

• A review of the Treasury Management Strategy Statement and Annual Investment Strategy;

• The Authority's capital expenditure, as set out in the Capital Strategy, and prudential indicators;

• A review of the Authority's investment portfolio for 2024/25.

• A review of the Authority's borrowing strategy for 2024/25.

• A review of any debt rescheduling undertaken during 2024/25.

• A review of compliance with Treasury and Prudential Limits for 2024/25.

In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

• a high-level overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of services;

• an overview of how the associated risk is managed;

• the implications for future financial sustainability.

A report setting out our Capital Strategy is presented to Fire Authority annually as part of the budget setting papers each February.

The Authority operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning to ensure the Authority can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Authority risk or cost objectives.

Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Economic Update

The last section of this report provides an update on the global outlook and interest rate forecasts. The Bank of England's Monetary Policy Committee (MPC) maintained Bank Rate at 5% in September 2024.

Movements in the Bank rate agreed by the MPC affect the Authority in two ways. Firstly, the yield we are able to generate from our investment portfolio will have a direct link to the Bank Rate. As the rate decreases, the investment rates we are able to access, and therefore the return we generate, should also decrease.

In a similar way, the rates we are able to access for borrowing purposes will also reflect movements in the Bank Rate.

Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement and the Annual Iinvestment Strategy for 2024/25 were approved by Fire Authority on 15 February 2024. There are no changes to either strategy; the details in this report update the position in the light of the updated economic and budgetary position.

Authority's Capital Position and Prudential Indicators

This part of the report is structured to update:

• the Authority's capital expenditure plans;

• how these plans are being financed;

• the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and

•compliance with the limits in place for borrowing activity.

The table below shows the expected outturn for 2024/25, and the spend to the end of September 2024.

Capital Expenditure	**2024/25 Expected Outturn (£000's)**	**Actual costs as at 30 September 2024 (£000's)**
Property	4525	944
Fleet & Equipment	1397	657
ICT	1788	295
TOTAL	**7,710**	**1,896**

Training Centre phase 2 contract commenced with ground breaking on the 26th of July 2024 and demolition work on the 5th of August 2024. Slough refurbishment was completed in August 2024. The modifications to Slough Fire Station to accommodate the water rescue facility were also completed. LED Lighting contract was awarded, and the project is anticipated to commence in the third quarter.

White fleet (including EV Vehicles) ordered were delivered: a Fiat Ducato was delivered in the first quarter; three Skoda vehicles were delivered in July 2024 and one Ford Ranger was delivered in August 2024. The purchase of six additional light vehicles in 2024/25 has been approved.

Limits to Borrowing Activity

A key control over the treasury activity is the prudential indicator that ensures that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years. This allows some flexibility for limited early borrowing for future years.

	2024/25 Original Estimate (£000's)	Position as at 30 September 2024 (£000's)	2024/25 Revised Estimate (£000's)
Debt	8,922	8,922	8,922

The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator. No new external borrowing arrangements have been entered into during 2024/25, and there has been no repayments of debts.

A further prudential indicator sets the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for External Debt	2024/25 Original Estimate (£000's)	Position as at 30 September 2024 (£000's)	2024/25 Revised Estimate (£000's)
Debt	11,535	11,535	11,535
Other long-term liabilities	5,000	0	0
Total	**16,535**	**11,535**	**11,535**

The amount under *Other long-term liabilities* reflects the reclassified leases under the accounting standard IFRS 16. Subsequent work has identified that there are no other long-term liabilities relating to IFRS 16.

Investment Portfolio

The CIPFA Treasury Management Code of Practice sets out the Authority's investment priorities as being security of capital, liquidity and yield. The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, which is consistent with the Authority's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the suggested creditworthiness approach provided by our treasury advisors.

The increase in bank rate overseen by the MPC over the course of 2024 has provided the Authority an opportunity to increase return on investments. In recent years, when rates have been historically low, options have been scarce, but in conjunction with our treasury advisors we have placed several fixed-term deposits with counterparties.

The Authority continues to closely monitor liquidity needs and all of these fixed-term deposits mature in the current financial year to provide flexibility where needed. The added advantage of this approach is that if bank rate remains high, the Authority will continue to benefit from this when placing further investments in the future and maximise return.

The Authority held investments totalling £17.229m as at 30th September 2024.

	30 Sept 2024 Principal (£000's)	Average Rate / Return
Investments:		
Fixed Term Deposits	7,000	5.25%
Call Accounts	10,229	4.88%
Total Investments	**17,229**	

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2024/25.

The budgeted investment return for 2024/25 is £460,000. With the additional investments made outlined above, the Authority estimates that the total return in 2024/25 will be £737,000. This area is closely monitored as part of standard cash flow management procedures.

Borrowing Strategy

The Authority's capital financing requirement (CFR) estimate for 2024/25 is £9,535k. The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

Debt Rescheduling

No debt rescheduling has been undertaken to date in the current financial year.

Economic Update

At the 18 September 2024 meeting, The MPC voted by a majority of eight members-one to maintain Bank Rate at 5%. One member voted to reduce Bank Rate by 0.25% to 4.75%.