



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

TREASURY MANAGEMENT MID- YEAR REVIEW 2021/22

Report of the Treasurer

Date: 17 December 2021

Purpose of Report:

To provide Members with an update on treasury management activity during first half of the 2021/22 financial year.

Recommendations:

That Members note the contents of this report.

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1. BACKGROUND

1.1 The Fire 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 Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council 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 Council risk or cost objectives.

1.2 Accordingly, treasury management is defined as:

“The management of the 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.”

1.3 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management (the Code) was updated by the Fire Authority on 9 April 2010. The Code was revised in 2017. The primary requirements of the Code are as follows:

1. The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
2. The 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 Fire Authority of an annual Treasury Management Strategy Statement for the year ahead, a mid-year review report and an annual 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.

1.4 This mid-year report has been prepared in accordance with the Code, and covers the following:

- An economic update for the first half of the 2021/22 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 2021/22;
 - A review of the Authority's borrowing strategy for 2021/22;
 - A review of any debt rescheduling undertaken in 2021/22;
 - A review of compliance with Treasury and Prudential Limits for 2021/22.
- 1.5 The Authority has appointed Link Asset Services as its external treasury management adviser.
- 1.6 The Code also requires that the Authority has a Capital Strategy – this forms part of the Medium-Term Financial Strategy which is a separate item on this meeting's agenda.

2. REPORT

ECONOMIC UPDATE

- 2.1 At its meeting on 4th November the Monetary Policy Committee (MPC) voted 7-2 to leave bank rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases. This was contrary to the expectations of the financial markets, which had built in an expectation that bank rate would be increased to 0.25%.
- 2.2 The MPC is now forecasting inflation to reach 5% in April, driven mostly by surging energy prices, before falling back to just below the 2% target by the end of its 3-year forecast period. As a result, it is likely that bank rate may be raised in the coming months if the economy performs as expected.
- 2.3 The MPC revised down expectations for 2021 growth to 7%, with the economy expected to return to its pre-pandemic level by Q1 2022. Growth expectations for 2022 were reduced from 6% to 5%, and growth is then expected to slow sharply to 1.5% in 2023 and 1% in 2024.
- 2.4 Over the next year the MPC will be attempting to combat high inflation whilst not dampening growth. Growth already faces challenges in the form of supply shortages, labour shortages, surging fuel prices and tax increases. However, the impact of these challenges will be at least partially offset by consumers spending at least part of the £160bn+ of excess savings accumulated during the pandemic, although it is possible that people may be content to hold onto their savings and investments and therefore not support economic recovery to the extent that the MPC may forecast.
- 2.5 Interest rate forecasts provided by Link Asset Services can be found at Appendix A.

REVIEW OF THE TREASURY MANAGEMENT STRATEGY

- 2.6 The Treasury Management Strategy approved by the Authority sets out the policies for managing investments and for giving priority to the security and

liquidity of those investments. The risk appetite of this Authority is low in order to give priority to security of its investments. Accordingly, the following types of low-risk investments may be made:

- Deposits with the Debt Management Office (Government);
- Term deposits with Banks and Building Societies;
- Call deposits with Banks and Building Societies;
- Term Deposits with uncapped English and Welsh local authority bodies;
- Triple-A rated Money Market Funds (CNAV and LVNAV);
- UK Treasury Bills;
- Certificates of Deposit.

2.7 The Treasury Management Strategy includes a limit of £4m to be invested with any single counterparty, although this limit is only used in exceptional circumstances and a maximum of £2m is normally adhered to. No term deposits will be made for more than 1 year without the prior approval of the Treasurer and the Chair of Finance and Resources Committee. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link's weekly credit list of potential counterparties. The Authority will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days

2.8 The Authority will avoid locking into longer term deals whilst investment rates are down at such low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

2.9 In terms of cash resources, the strategy is to maintain a bank overdraft facility of £200,000, to continue to use cash flow forecasting to predict cash surpluses and shortfalls so that these can be managed and to invest small bank account balances in the Business Premium Account on a daily basis if the interest rate is favourable.

2.10 In the first half of the year the current account has not been overdrawn.

REVIEW OF THE INVESTMENT PORTFOLIO

2.11 The Authority's priority is to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with its risk appetite. As shown by interest rate forecasts in Appendix A, investment returns are currently low when compared with rates commonly seen in previous decades. The current economic environment prompts a low risk and short-term investment strategy.

2.12 Investments at 31 October 2021 totalled £13.5m and are all held with banks or building societies. Investment rates are monitored within the benchmarking

group supported by Link Asset Services. The group consists of 14 members, including NFRS. The latest report (June 2021) showed NFRS's weighted average rate of return to be 0.14% compared with a group average of 0.16%. As at 31 October NFRS's weighted average rate of return was 0.13% and the weighted average life (WAL) of its investments was 55 days.

- 2.13 The Authority has adopted a liquidity benchmark, which is a WAL of approximately 3 months and recommended maximum WAL limit of 0.40 years. The current WAL is just under 2 months, meaning that the portfolio has a higher level of liquidity.
- 2.14 The Authority's yield benchmark is for investment returns to be above the 3-month LIBID (London Interbank Bid rate) rate. LIBID is calculated using market convention of 1/8th (0.125%) taken off the LIBOR (London Interbank Offered rate) figure. This methodology is currently giving negative rates for LIBID (-0.04% at 31 October). Both LIBID and LIBOR rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average) and a new benchmark will be adopted in the 202/23 Treasury Management Strategy.
- 2.15 The approved limits within the Authority's Annual Investment Strategy have not been breached during the period from 1 April 2021 to 31 October 2021.
- 2.16 The Authority's budget for investment interest for 2021/22 is £20k. The forecast outturn for the 2021/22 financial year is £12k as rates have remained lower than forecasted when the budget was set.

REVIEW OF THE BORROWING STRATEGY

- 2.17 The strategy for 2021/22 is to use a combination of capital receipts, borrowing and internal funds to finance capital expenditure.
- 2.18 In the Treasury Management Strategy, it was predicted that the Authority would need to borrow up to £14.5m during the 4-year period from 1 April 2021 to finance the capital programme and replace £3m of maturing loans. The Authority has repaid £26k of principal relating to annuity loans and has not repaid any maturity loans in the period to 31 October. The Authority has taken a £2m maturity loan from the Public Works Loans Board (PWLB) in October, and it is likely that more long-term borrowing will be taken before the end of the financial year while interest rates are relatively favourable. No short-term borrowing has been undertaken.
- 2.19 PWLB rates were on a falling trend between May and August but then began to rise towards the end of September as speculation grew about increases in bank rate. However, rates have since fallen back again. The 50-year target rate recommended by Link currently stands at 2.00%.
- 2.20 The Authority's capital financing requirement (CFR) as at 31 March 2021 was £26.67m, and the estimate for 2021/22 is £31.97m. The CFR denotes the Authority's underlying need to borrow for capital purposes. Current borrowing stands at £28.93m. As borrowing rates are currently higher than investment

rates the Authority can avoid carrying costs by not borrowing too far in advance of expenditure, however a balance needs to be struck between avoiding unnecessary carrying costs and managing the interest rate risk which arises from delaying borrowing while interest rates are at relatively low levels.

- 2.21 No rescheduling of debt has taken place to date, as the interest rate climate has not resulted in an advantageous environment for rescheduling.
- 2.22 All aspects of the borrowing strategy remain in place at this mid-point in the year.

REVIEW OF COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

- 2.23 The following indicators were approved by Members for the 2021/22 financial year. As at 31 October, the actual performance was as shown in the final column of the table below.

Treasury or Prudential Indicator or Limit	Approved for 2021/22	Actual as at 31/10/21
Estimate of Ratio of Financing Costs to Net Revenue Stream	5.4%	Not available until year end
Estimate of Total Capital Expenditure to be Incurred	£5,835,000	£7,977,000
Estimate of Capital Financing Requirement	£31,971,000	Not available until year end
Operational Boundary	£33,959,000	Not exceeded
Authorised Limit	£38,255,000	Not exceeded
Upper limit for fixed rate interest exposures	100%	100%
Upper limit for variable rate interest exposures	30%	0%
Loan Maturity:	<u>Limits:</u>	
Under 12 months	Upper 20% Lower 0%	0.1%
12 months to 5 years	Upper 30% Lower 0%	10.4%
5 years to 10 years	Upper 75% Lower 0%	12.1%
10 years to 20 years	Upper 100% Lower 0%	6.9%
Over 20 years	Upper 100% Lower 30%	70.5%
Upper Limit for Principal Sums Invested for Periods Longer than 364 Days	£2,000,000	Not applicable

3. FINANCIAL IMPLICATIONS

The financial implications of this report are set out in full within the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report gives a review of activities rather than introducing a new policy.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising directly from this report.

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report, other than the requirement to act within the Authority's powers when undertaking treasury management borrowings and investments.

8. RISK MANAGEMENT IMPLICATIONS

Risk management is a key aspect of treasury management, and the Treasury Management Strategy sets out the parameters within which activities will be carried out with a view to managing credit risk, liquidity risk, re-financing risk and market risk. The Authority has approved a prudent approach to treasury management and this report allows Members to review how well risks have been managed during the year.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

That Members note the update on treasury management activity during the 2021/22 financial year as required under the Local Government Act 2003.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Becky Smeathers
TREASURER TO THE FIRE AUTHORITY

INTEREST RATE FORECASTS 2021 – 2025

APPENDIX A

PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction

Link Group Interest Rate View 8.11.21														
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
Capital Economics	1.60	1.70	1.70	1.80	2.10	2.10	2.10	2.10	2.10	-	-	-	-	-
10yr PWLB Rate														
Link	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
Capital Economics	1.80	1.90	2.00	2.20	2.30	2.30	2.30	2.30	2.30	-	-	-	-	-
25yr PWLB Rate														
Link	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
Capital Economics	2.10	2.20	2.40	2.60	2.70	2.80	2.80	2.80	2.90	-	-	-	-	-
50yr PWLB Rate														
Link	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.60	2.60	2.70	-	-	-	-	-

Source: Link Asset Services 10/11/2021