NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

TREASURY MANAGEMENT ANNUAL REPORT 2022/23

Report of the Treasurer

Date: 14 July 2023

Purpose of Report:

To provide Members with an update on treasury management activity during the 2022/23 financial year.

Recommendations:

That Members note the update on treasury management activity during the 2022/23 financial year as required under the Local Government Act 2003.

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1. BACKGROUND

1.1 Treasury management is defined as:

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

1.2 The Fire 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 2022/23. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised in 2021) was adopted by the Fire Authority on 9 April 2010.

1.3 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.

5. Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority the delegated body is the Finance and Resources Committee.

1.4 This annual report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic review of 2022/23;
- A review of Capital Activity during 2022/23 and the impact of this on the Authority's Capital Financing Requirement;
- A review of the Investment and Cash Management Strategy during 2022/23;
- Investment and cash activity during 2022/23;
- A review of the year end investments, cash position and usable reserves;
- A review of the Borrowing Strategy and borrowing activity during 2022/23;
- A summary of compliance with treasury and prudential limits for 2022/23.

1.5 The Authority has appointed Link Asset Services as its external treasury management adviser.

2. REPORT

ECONOMIC REVIEW

2.1 Economic growth was tepid throughout 2022/23. Quarter 2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was reversed in the third quarter, in part due to the extra bank holiday which was scheduled as a result of the Queen’s funeral. Quarter 4 of 2022 GDP was positive at 0.1%, and the first quarter estimate for 2023 was also +0.1%. The level of quarterly GDP in Q1 2023 was 0.5% below its pre-pandemic level (Q4 2019).

2.2 Inflation has been a major issue during the year. CPI inflation peaked in October 2022 at 11.1% and was at 10.1% by the end of the financial year. Hopes for significant falls from this level will very much rest on the movements in energy markets, as well as supply-side factors impacting food prices.

2.3 The UK unemployment rate fell to a 48-year low of 3.6% during 2022, and this was despite a net migration increase of circa 500k. Due to the high number of economic participants registered as long-term sick, the UK labour force shrunk by circa 500k in the year to June 2022. Without an increase in the labour force participation rate it will be difficult for the UK economy to grow its way to prosperity, and with average wage increases running at over 6% the Bank of England Monetary Policy Committee will be concerned that increasing pay inflation will heighten the risk of elevated inflation rates becoming embedded.

2.4 Given the upheaval caused by the Russian invasion of Ukraine, stubborn inflationary pressures, and political turmoil leading to the appointment of two different Prime Ministers within the space of two months, it is perhaps unsurprising that UK interest rates have been volatile right across the yield curve, from bank rate through to 50-year gilts. Bank rate rose steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

REVIEW OF CAPITAL ACTIVITY IN 2022/23

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

- Financed immediately by way of capital or revenue resources (capital receipts, capital grants, revenue contributions), which does not give rise to a requirement to borrow; or

- If insufficient financing is available, or if a decision is taken not to apply resources, the capital expenditure will need to be financed by borrowing.

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

	2021/22 Actual	2022/23 Revised Budget	2022/23 Actual
	£000's	£000's	£000's
Capital Expenditure	**6,499**	**4,084**	**2,265**
Resourced By:			
- Capital Grants	0		0
- Capital Receipts	473		513
- Revenue Contributions/Earmarked Reserves	527		298
- Borrowing	5,499		1,454
Total Financed Capital Expenditure	**6,499**		**2,265**

2.7 The 2022/23 revised capital budget underspent by £1.8m. The largest area of underspend was ICT (£964k), and there were underspends of £4754k relating to property, £189k relating to operational equipment and £192k relating to transport. Further details of these variances can be found in the 2022/23 Revenue and Capital Outturn Report, which was presented to members of the Finance and Resources Committee on 16 June 2023.

2.8 As at 31 March 2023 the Authority's capital financing requirement was £30,533k, which was within the prudential indicator set of £34,526k. The Capital Financing Requirement (CFR) figure represents the Authority's underlying need to borrow to fund capital expenditure and equates to un-financed capital expenditure which has not yet been paid for by revenue funding or other resources such as capital grants or receipts. The CFR is reduced over time by way of a statutory Minimum Revenue Provision charge to revenue which effectively charges the revenue budget for the use of capital assets over their asset lives.

REVIEW OF THE INVESTMENT AND CASH MANAGEMENT STRATEGY

2.9 The Treasury Management Strategy approved by the Authority set 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 specified investments may be made:

- Deposits with the Debt Management Agency (Government);
- Term deposits with Banks and Building Societies;
- Term Deposits with uncapped English and Welsh local authority bodies;
- Call deposits with Banks and Building Societies;

- Triple-A rated Money Market Funds;
- UK Treasury Bills;
- Certificates of Deposit.

During the year, all investments were made with banks or building societies (term deposits or call deposits).

2.10 The Authority has a maximum limit of investments with any single counterparty of £4m. The maximum investment placed with any single counterparty during the year was £4m.

2.11 No term deposits are made for more than 1 year without the prior approval of the Treasurer and the Chair of Finance and Resources Committee. There have been no term deposits for more than 1 year made during the year.

2.12 The selection of counterparties with a high level of creditworthiness is achieved by reference to Link's weekly credit list of potential counterparties. The Link weekly credit list shows potential investment counterparties, which are colour-coded to indicate the maximum period it is recommended that investments are made for. The Authority has made all investments with counterparties during the year in accordance with the maximum periods advised by Link.

2.13 Due to the volatile interest rate environment, the Authority avoids locking into longer term deals unless exceptionally attractive rates are available which make longer term deals seem worthwhile.

2.14 In terms of cash resources, the strategy is to maintain a bank overdraft facility of £200,000 and to continue to use cash flow forecasting to predict cash surpluses and shortfalls. These surpluses and shortfalls are managed, and current account balances are transferred to the Business Premium Account on a daily basis if the interest rate is favourable. The current account was overdrawn on two occasions during 2022/23, resulting in the payment of £71 in interest costs.

2.15 The Treasury Management Strategy stated that the Authority will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch ratings. An exception to this policy can be made for the UK in the event that its sovereign credit rating is downgraded to AA-, in which case the Authority can continue to use counterparties from the UK. The UK was downgraded to AA- by Fitch on 27th March 2020.

2.16 All aspects of the Annual Investment Strategy outlined for 2022/23 remained in place throughout the year.

INVESTMENT AND CASH ACTIVITY IN 2022/23

2.17 As at 31 March 2022, the Authority held £3.0m of principal as short term investments on the Balance Sheet and £7.0m of principal as shorter dated "cash equivalent" investments.

2.18 The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties. All investments during the year were made with UK or European banks and building societies.

2.19 Of the five call accounts held at 31 March 2023, four had been held for more than 1 year. These accounts had notice periods ranging from 1 day to 95 days. All counterparties have their creditworthiness continually monitored against Link's credit listings, and had it looked likely that the maximum recommended investment term for these institutions would have fallen below the call account notice period then the funds would have been withdrawn.

2.20 Investment returns increased steadily during 2022/23. The weighted average rate of return for the Authority's investments went from 0.17% in April 2022 to 3.51% in March 2023. Interest rate forecasts were initially suggesting only gradual rises in bank rate during 2022/23, but by August it had become clear that inflation was moving up towards a 40-year high. The Bank of England Monetary Policy Committee increased bank rate at every meeting during 2022/23 in an effort to control inflation. Bank rate increased from 0.75% on 17 March 2022 to 4.25% 23 March 2023.

2.21 The average 90 days backward looking SONIA compounded benchmark rate for the year was 1.3804%. The Authority's investments earned an average rate of 1.6103% during the year. This resulted in total investment (including overnight savings interest on the current account) income earned of £220k, against a budgeted sum for investment income of £20k. This means that the investment returns achieved by the Authority were above the benchmark set in the Treasury Management Strategy.

2.22 The Treasury Management Strategy set a Weighted Average Life (WAL) benchmark for liquidity of approximately 0.4 years for the Authority's investment portfolio. The actual WAL during 2022/23 was 0.16 years. The Strategy also set a security benchmark of 0.08% historic risk of default. The historic risk of default as at 31/03/2023 was 0.004%.

REVIEW OF INVESTMENTS / CASH POSITION AND USABLE RESERVES

2.23 For the first time since 2019/20 the Authority's usable reserves were fully cash backed at 31 March 2023. The reason for the increase in cash and investments relative to usable reserves are twofold: firstly, the Authority opted to borrow £6m in 2021/22 in order to secure reasonably low interest rates, and secondly there has been significant slippage in the capital programme which has led to a sizeable amount of the borrowed funds being temporarily invested rather being applied to capital expenditure. Current cash flow forecasts indicate that the Authority will not have to borrow further until the end of the 2023/24 financial year.

REVIEW OF THE BORROWING STRATEGY AND BORROWING ACTIVITY IN 2022/23

2.24 The strategy recommended that a combination of capital receipts, internal funds and borrowing would be used to finance capital expenditure during 2022/23. Capital receipts of £513k, borrowing of £1,454k and revenue contributions of £298k were applied to finance expenditure.

2.25 The Authority did not take any short-term borrowing during 2022/23.

2.26 The Authority repaid £5.8k in principal on PWLB annuity loans during 2022/23. No new long-term borrowing was taken during the year.

2.27 No rescheduling of debt took place, as the differential between new borrowing rates and premature repayment rates made rescheduling unviable.

2.28 The Authorised Limit is the affordable borrowing limit above which the Authority does not have the power to borrow. Total external debt as at 31 March 2023 was £32.9m, which was well within the Authorised Limit.

2.29 The Operational Boundary is the expected borrowing position of the Authority within the year. This was set at £36,907k for 2022/23. The Operational Boundary was not exceeded at any point during the year.

SUMMARY OF COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

2.30 The following indicators were approved by Members for the 2022/23 financial year. Actual performance is shown in the final column of the table below:

Treasury or Prudential Indicator or Limit	**Approved for 2022/23**	**Actual for 2022/23**
Estimate of Ratio of Financing Costs to Net Revenue Stream	5.6%	4.65%
Estimate of Total Capital Expenditure to be Incurred	£3,909,000	£2,266,606
Estimate of Capital Financing Requirement	£34,526,000	£30,533,000
Operational Boundary	£36,907,000	Not exceeded
Authorised Limit	£40,598,000	Not exceeded
Upper limit for fixed rate interest exposures	100%	100%
Upper limit for variable rate interest exposures	30%	0%
Loan Maturity:		
Under 12 months	Upper 30% Lower 0%	9.1%

12 months to 5 years	Upper 30% Lower 0%	6.1%
5 years to 10 years	Upper 75% Lower 0%	4.6%
10 years to 20 years	Upper 100% Lower 0%	12.2%
Over 20 years	Upper 100% Lower 30%	68.1%
Upper Limit for Principal Sums Invested for Periods Longer than 365 Days	£2,000,000	£0

Local Indicator or Limit	**Approved for 2022/23**	**Actual for 2022/23**
Upper limit for internal borrowing as a % of the Capital Financing Requirement	20%	No internal borrowing
Lower limit for proportion of net debt to gross debt	50%	Not breached
Upper limit for proportion of net debt to gross debt	85%	Not breached
Investment security benchmark: maximum historic default of investment portfolio	0.08%	0.004%
Investment liquidity benchmark: maximum weighted average life of investment portfolio	0.40 years	0.16 years
Investment yield benchmark	Internal returns to be above 3 month compounded SONIA rate	0.16103% (above the 3 month compounded SONIA rate)

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 2022/23. 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