



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

TREASURY MANAGEMENT MID-YEAR REVIEW 2023/24

Report of the Treasurer

Date: 15 December 2023

Purpose of Report:

To provide Members with an update on treasury management activity during the first half of the 2023/24 financial year.

Recommendations:

That Members note the update on treasury management activity during the 2023/24 financial year as required under the Local Government Act 2003.

CONTACT OFFICER

Name : Mark Kimberley
Treasurer to the Fire Authority

Tel : 0115 8445998

Email : mark.kimberley1@notts.police.uk

Media Enquiries Contact : Corporate Communications Team
0115 8388100 corporatecomms@notts-fire.gov.uk

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 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.

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 adopted by the Fire Authority on 9 April 2010. The Code was last revised in 2021. 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. Quarterly reports are also required. These reports, which monitor and update the Treasury/Prudential indicators, are presented to the Finance and Resources Committee.
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 Authority delegates the role of scrutinising the treasury management strategy and policies to the Finance and Resources Committee.

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 2023/24 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 2023/24
- A review of the Authority's borrowing strategy for 2023/24
- A review of any debt rescheduling undertaken in 2023/24
- A review of compliance with Treasury and Prudential Limits for 2023/24.

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

1.6 The Code also requires that the Authority prepares a Capital Strategy which provides the following:

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability

The Capital Strategy forms part of the Medium Term Financial Strategy which is also on this agenda.

2. REPORT

ECONOMIC UPDATE

- 2.1 Interest rates rose by a further 100 basis points during the first half of 2023/24, taking the bank rate from 4.25% to 5.25%. It is possible that this could be the peak in the interest rate cycle.
- 2.2 Short, medium and long-dated gilts remained elevated as inflation also remained higher than expected. This directly affects the PWLB borrowing rates which are available to the Authority. The yield on 10-year gilts fell from a peak of 4.74% on 17 August to 4.44% on 29th September, mainly due to investors revising down their interest rate expectations. Even after this recent pullback, the rise in gilt yields has exceeded the rise in most other developed market government yields since the start of the year. Looking forward, once inflation falls back then gilt yields will reduce further.
- 2.3 There was a 0.5% m/m decline in real GDP in July, mainly due to more working days being lost as a result of strike action.
- 2.4 CPI inflation fell from 8.7% in April to 6.7% in August. This was its lowest rate since February 2022, but still the highest in the G7.

- 2.5 Core inflation (excluding energy, food, alcohol and tobacco) declined to 6.2% in August from the 31 year high of 7.1% seen in April and May.
- 2.6 The tightness of the labour market continues to ease, with employment levels falling and the number of job vacancies declining. This hasn't yet fed through into an easing in wage growth, which remains above the levels predicted by the Bank of England.
- 2.7 As the growing drag from higher interest rates intensifies over the coming months the economic advisors at Link believe that the economy will continue to lose momentum and could fall into a mild recession. The phasing out of financial support packages provided by the government during the energy crisis, together with the impact of sustained higher interest rates on mortgage holders, means that real incomes are unlikely to grow strongly, despite strong wage growth.

INTEREST RATE FORECASTS

- 2.8 The Authority's treasury advisors regularly provide interest rate forecasts. The latest forecast sets out a view that short, medium and long-dated interest rates will be elevated for some time as the Bank of England seeks to bring inflation under control. The PWLB forecasts below are based on the certainty rate which has been available to the Authority since November 2012.

Link Group Interest Rate View 07/11/2023													
	Dec 2023 %	Mar 2024 %	Jun 2024 %	Sep 2024 %	Dec 2024 %	Mar 2025 %	Jun 2025 %	Sep 2025 %	Dec 2025 %	Mar 2026 %	Jun 2026 %	Sep 2026 %	Dec 2026 %
Bank Rate	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month average earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month average earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month average earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY UPDATE

- 2.9 The Treasury Management Strategy, including the Annual Investment Strategy, was approved by Fire Authority Members on 24 February 2023. No changes to the Strategies are proposed at this time.

CAPITAL EXPENDITURE

- 2.10 This table shows the revised estimates for capital expenditure and changes to the capital programme since the budget was agreed on 24 February:

	2023/24 Original Budget £'000	2023/24 Revised Budget £'000	2023/24 Forecast outturn £'000
Transport	4,621	4,641	4,641
Equipment	150	212	112
Estates	1,075	1,497	1,447
IT & Communications	490	2,233	2,250
Total Capital Expenditure:	6,336	8,583	8,450
Financed by:			
Capital grants	0	12	12
Capital receipts	3,310	3,310	3,310
Revenue contributions to capital and earmarked reserves	0	10	10
Borrowing	3,026	5,251	5,118
Total:	6,336	8,583	8,450

The movement between the original and revised budgets is due to capital slippage which has been documented in previous reports and approved by Members.

REVIEW OF PRUDENTIAL INDICATORS FOR THE CAPITAL FINANCING REQUIREMENT (CFR), EXTERNAL DEBT AND THE OPERATIONAL BOUNDARY

- 2.11 The table below shows the CFR, which is the underlying external need to incur borrowing for capital purposes. It also shows the expected debt position over the period, which is termed the Operational Boundary.

	2023/24 Original Estimate £'000	Current position £'000	2023/24 Revised Estimate £'000
Prudential Indicator - Capital Financing Requirement			
Opening CFR	31,680	30,533	30,533
Net movement during the year	(1,034)	786	5,118
Closing CFR	30,646	31,319	35,651
Prudential Indicator – the Operational Boundary			
Borrowing	36,901	32,900	35,400

A key control over treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for capital purposes. Gross external borrowing should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the next two financial years. This allows

some flexibility for limited early borrowing for future years. The Authority has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

REVIEW OF THE AUTHORISED LIMIT

- 2.12 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited. It is set and revised by Members. 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 with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Authorised Limit for 2023/24 has been set at £41,591,000. There is no need for this limit to be revised.

REVIEW OF THE BORROWING STRATEGY

- 2.13 The strategy for 2023/24 is to use a combination of capital receipts, borrowing and internal funds to finance capital expenditure. The capital programme is being kept under review due to the effects of inflationary pressures and long lead times due to shortages of materials and labour. The borrowing strategy will therefore also be regularly reviewed and revised if necessary in order to achieve optimum value and risk exposure in the long term.
- 2.14 In the Treasury Management Strategy it was predicted that the Authority would need to borrow up to £6m during the 4 year period from 1 April 2023 to finance the capital programme and replace £3m of maturing loans.
- 2.15 PWLB rates have been on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and reached 4.14%, whilst the 25-year rate was relatively expensive at 4.58%. July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5% rate to 5.93%. Although short-dated rate expectations then fell, the medium dated shifted higher through August as the 10-year rate reached 5.51% and the 25-year rate reached 5.73%. The 50-year rate was 4.27% at the beginning of April but rose to 5.45% on 28 September. Rates are expected to fall back over the next two to three years as inflation dampens.
- 2.16 The Authority's capital financing requirement (CFR) as of 31 March 2023 was £30.53m, and the revised estimate for 2023/24 is £35.65m. The CFR denotes the Authority's underlying need to borrow for capital purposes. Current borrowing stands at £32.90m and £3m of this is due to be repaid in March 2024.
- 2.17 No rescheduling of debt has been undertaken during the first half of the financial year. Debt rescheduling opportunities have increased over the course of the last six months and will be considered if they give rise to long-term savings.

- 2.18 The Authority holds a £4m Lender Option Borrower Option (LOBO) loan. This means that on 7 March 2013 and on that anniversary every five years, the lender may revise the interest rate, which is currently 4.13%. The Authority may choose to repay the loan without penalty if the amended interest rate is not advantageous. The next opportunity for a revision of the interest rate is 7 March 2028.
- 2.19 All aspects of the borrowing strategy remain in place at this mid-point in the year.

ANNUAL INVESTMENT STRATEGY

- 2.20 The Treasury Management Strategy for 2023/24 includes the Annual Investment Strategy. In accordance with the CIPFA Treasury Management Code of Practice, it sets the Authority's investment priorities as being:
- Security of capital
 - Liquidity
 - Yield
- 2.21 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. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs.
- 2.22 Following the Government's fiscal event on 23 September 2022, both S&P and Fitch have placed the UK sovereign rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook. The Authority's Annual Investment Strategy allows for the continued use of UK counterparties even though the current UK sovereign credit rating of AA- falls below the required minimum rating of AA, subject to other creditworthiness criteria. A list of approved countries for investments can be found in Appendix A.
- 2.23 The current investment counterparty criteria selection approved in the Treasury Management Strategy is meeting the requirement of the treasury management function.
- 2.24 Investments at 30 September 2023 totalled £15.5m, £13.5m of which were held with UK banks or building societies with the remaining £2m being held with a German bank. A list of investments can be found in Appendix B. Investment rates are monitored within the benchmarking group supported by Link Asset Services. The group consists of 15 members, including NFRS. The latest report (September 2023) showed NFRS's weighted average rate of return to be 5.02% compared with a group average of 5.17%.
- 2.25 The Authority has adopted a liquidity benchmark, which is a WAL (Weighted Average Life) of approximately 3 months and recommended maximum WAL

limit of 0.40 years. The current WAL of 71 days is around 2.3 months, meaning that the portfolio has a higher level of liquidity.

- 2.26 The Authority's yield benchmark is for investment returns to be above the 3 month SONIA (Sterling Overnight Index Average)compounded rate. At 29 September the 3 month SONIA compounded rate was 5.117% The Authority's weighted average rate of return is below this largely because the WAL of its portfolio is less than 3 months.
- 2.27 The approved limits within the Authority's Annual Investment Strategy have not been breached during the period from 1 April 2023 to 30 September 2023.
- 2.28 The Authority's original budget for investment interest for 2023/24 was £138.3k, but this has been increased to £374.3k following the approval of a virement by members of the Finance and Resources Committee on 20th October. The forecast outturn for the 2023/24 financial year is £374.4k. Returns have increased significantly due to the increases in bank rate. For comparison, the investment income received in 2022/23 was £219.9k.

REVIEW OF COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

- 2.29 It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2023 the Authority has operated within the treasury and prudential indicators set out in the 2023/24 Treasury Management Strategy. The Head of Finance reports that no difficulties are envisaged for the current or future years with complying with these indicators. All treasury management operations have been conducted in full compliance with the Authority's Treasury Management Practices.

Treasury or Prudential Indicator or Limit	Approved for 2023/24	Estimate as at 30/09/23
Maximum ratio of Financing Costs to Net Revenue Stream	8.0%	Not exceeded
Estimate of Ratio of Financing Costs to Net Revenue Stream	5.6%	Not available until year end
Estimate of Total Capital Expenditure to be Incurred	£3,995,000	£8,450,000
Estimate of Capital Financing Requirement	£30,646,000	£35,651,000
Operational Boundary	£36,901,000	Not exceeded
Authorised Limit	£41,591,000	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>	<u>Actual as at 30/09/23</u>
Under 12 months	Upper 20% Lower 0%	9%
12 months to 5 years	Upper 30% Lower 0%	6%

5 years to 10 years	Upper 75% Lower 0%	5%
10 years to 20 years	Upper 100% Lower 0%	12%
Over 20 years	Upper 100% Lower 30%	68%
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 AND ETHICAL IMPLICATIONS

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

6. ENVIRONMENTAL AND SUSTAINABILITY IMPLICATIONS

There are not environmental and sustainability impacts arising 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 2023/24 financial year as required under the Local Government Act 2003.

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

None.

Mark Kimberley
TREASURER TO THE FIRE AUTHORITY

Approved Countries for Investments as of 30th September 2023

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- U.K.

Investments held as of 30 September 2023

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
Lloyds Bank Plc (RFB)	4,000,000	5.14%		Call1	A+	0.000%
Nationwide Building Society	1,000,000	3.40%		Call1	A	0.000%
Barclays Bank Plc (NRFB)	2,000,000	4.45%		Call32	A+	0.004%
Landesbank Hessen-Thüringen Girozentrale (Helaba)	2,000,000	5.44%	31/07/2023	30/11/2023	A+	0.008%
Goldman Sachs International Bank	2,000,000	5.76%	31/07/2023	15/12/2023	A+	0.009%
Goldman Sachs International Bank	1,500,000	5.79%	31/07/2023	28/12/2023	A+	0.011%
Nationwide Building Society	500,000	4.35%		Call95	A	0.012%
Santander UK PLC	2,500,000	4.68%		Call95	A	0.012%
Total Investments	£15,500,000	5.02%				0.006%

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.