NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

TREASURY MANAGEMENT MID-YEAR REVIEW 2024/25

Report of the Treasurer to the Fire Authority

Date: 13 December 2024

Purpose of Report:

To provide Members with an update on treasury management activity during the first half of the 2024/25 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 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. Opportunities for restructuring any debt previously drawn may also be considered to meet the 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.

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.

5. Quarterly reports on the Treasury Management position are required. The quarterly reports monitor and update the Treasury/Prudential indicators and are included along with the budget monitoring reporting to 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 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 in 2024/25
- A review of compliance with Treasury and Prudential Limits for 2024/25.

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

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

2. REPORT

ECONOMIC UPDATE

2.1 At the start of the financial year, April 2024, the Bank of England interest rate was 5.25%, reducing to 5.0% in August 2024. It was held at this rate at the Monetary Policy Committee September meeting and has been reduced to 4.75% at the November meeting.

2.2 In April 2024 the twelve-month CPI inflation rate was 2.3% falling to the 2% target in May and June 2024 then increasing to 2.2% in July and August 2024, then falling again in September 2024 to 1.7%. Core CPI inflation, which excludes energy, food, beverages and tobacco, was 3.2% in September 2024 down from 3.5% in June 2024.

2.3 Gross Domestic Product (GPD) growth in 2024 Q2 was slightly weaker than expected, increasing by an estimated 0.5% in the three months to June 2024. GDP growth has been underpinned by growth in household consumption and business investment, supported by increases in household real incomes and a waning drag from higher interest rates. However, wage growth is easing as the annual growth in the private sector average weekly earnings fell to 4.8% in the three months to August, down from a peak of just above 8% in mid-2023.

2.4 The 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank of England's August rate cut signalled the start of its loosening cycle. Following the Bank's decision to hold the base rate at 5% in September, the market response was muted with only a 5-basis point increase following the announcement. The base rate was reduced further to 4.75% at the November meeting of the Monetary Policy Committee. This led to a slight reduction of between 5 and 7 basis points on gilt yields across the curve, although rates have risen against since. Gilt yields are currently fairly volatile as investors continue assess the likely impact of numerous factors, including the recent UK Budget, the US election results and continuing conflict in the Middle East.

2.5 Looking ahead, the policy announcements made by the Chancellor during her delivery of the October 2024 are expected to be inflationary, at least in the near-term. The Bank of England forecasts CPI to be 2.7% year on year in Q4 2025 and 2.2% in Q4 2026, before dropping back to 1.8% in 2027. The anticipated major investment in the public sector is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The election of Donald Trump as US President could contribute to inflationary pressures.

INTEREST RATE FORECASTS

2.6 The Authority's treasury advisors regularly provide interest rate forecasts (see table 1 below). They forecast that the next reduction in bank rate will be in February, and that a pattern will evolve whereby rate cuts are made quarterly. However, any movement in bank rate below 4% will be very much dependent on inflation data in the second half of 2025. PWLB rate forecasts have been revised upwards to reflect increased concerns around the future path of inflation and the increased level of government borrowing over the term of the current parliament.

Table 1 – Link Group Interest Rate Forecasts as at 11 November 2024

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY UPDATE

2.7 The Treasury Management Strategy, including the Annual Investment Strategy, was approved by Fire Authority Members on 23 February 2024. No changes to the Strategies are proposed.

CAPITAL EXPENDITURE

2.8 Table 2 below shows the revised estimates for capital expenditure and changes to the capital programme since the budget was agreed on 23 February:

Table 2 – Capital Expenditure

	Original budget 2024/25 £'000	Revised budget 2024/25 £'000	Estimated outturn 2024/25 £'000
Transport	3,117	4,740	3,436
Equipment	455	711	711
Estates	2,030	2,582	2,582
IT and Communications	2,626	3,554	3,606
Total	**8,228**	**11,587**	**10,335**
To be financed by:			
Borrowing	7,601	6,934	5,682
Capital Receipts	10	3,000	3,000
Revenue/Earmarked Reserves	617	1,284	1,284
Capital Grant	0	369	369
Total	**8,228**	**11,587**	**10,335**

The movement between the original and revised budgets is due to a combination of capital slippage, repurposed underspends and other requested increases, all of which have 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

2.9 Table 3 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.

Table 3 – CFR and Operational Boundary

	Original estimate £'000	Current position £'000	Revised estimate £'000
Prudential Indicator – Capital Financing Requirement			
Opening CFR	36,906	35,638	35,638
Net movement during the year	2,800	-222	4,033
Closing CFR	39,706	35,416	39,671
Prudential Indicator – Operational Boundary			

Borrowing	39,700	32,900	32,900
Other long-term liabilities	200	0	See section 2.10
Total external debt	39,900	32,900	32,900

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 2024/25 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.

2.10 The leasing standard *IFRS 16 Leases* has been incorporated into the CIPFA Code of Practice on Local Authority Accounting with effect from 1 April 2024. IFRS 16 removes the operating lease categorisation for lessees. With the exception of short-term leases and leases of low value assets, a lessee will be required to recognise a right of use asset and an associated lease liability. This effectively moves all material long-term leases “on balance sheet”. The resulting lease liability will be reported under “Other long-term liabilities” in the Operational Boundary prudential indicator. Although an assessment of potential lease liabilities in underway, it is not possible to estimate the 2024/25 closing balance at this time.

REVIEW OF THE AUTHORISED LIMIT

2.11 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 2024/25 has been set at £44,670,000. There is no need for this limit to be revised.

REVIEW OF THE BORROWING STRATEGY

2.12 The approved strategy for 2024/25 was to use a combination of capital receipts, borrowing and internal funds to finance capital expenditure. The Authority is due to receive a £3m capital receipt for the sale of the old HQ and it has also received an additional £8m pension grant to fund the additional costs arising from the McCloud and Matthews pension cases. Due to the time taken to process the pension cases it is unlikely that the grant will be required before the end of the financial year. It is therefore probable the Authority will have sufficient cash balances to fund the capital programme through internal borrowing in 2024/25, and will not require additional external borrowing.

2.13 The use of internal borrowing is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in order to manage the interest rate risk should it need to be replaced with external borrowing.

2.14 In the Treasury Management Strategy it was predicted that the Authority would need to borrow up to £8m during the 4-year period from 1 April 2024 to finance the capital programme.

2.15 Public Work Loan Board (PWLB) rates have been less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the gilt yield curve endured a little volatility during the first half of 2024/25, but rates in September were very similar to those in April. There was some downward movement at the shorter part of the curve as markets positioned themselves for cuts to the Bank of England base rate. Going forwards, PWLB rate forecasts have been revised upwards, as outlined in section 2.6.

2.16 The Authority's capital financing requirement (CFR) as of 31 March 2024 was £35.6m, and the revised estimate for 31 March 2025 is £39.7m. 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 2025. This £3m may need to be refinanced, depending on the timing of the capital receipt for the old HQ.

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.

ANNUAL INVESTMENT STRATEGY

2.19 The Treasury Management Strategy for 2024/25 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 The UK's sovereign rating has proven robust through the first half of 2024/25, with S&P and Fitch affirming their ratings at AA- and the outlook as stable.

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 1.

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 2024 totalled £17.5m, £10.5m of which were held with UK banks or building societies. The remaining £7m is held with English Local Authorities. A list of investments can be found in Appendix 2. Investment rates are monitored within the benchmarking group supported by Link Asset Services. The group consists of 14 members, including NFRS. The latest report (September 2024) showed NFRS's weighted average rate of return to be 4.89% compared with a group average of 4.95%.

2.25 The Authority has adopted a liquidity benchmark, which is a Weighted Average Life (WAL) of approximately 3 months and recommended maximum WAL limit of 0.40 years. At 30 September the WAL was 65 days, which is around 0.18 years, 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 Sterling Overnight Index Average (SONIA) compounded rate. At 30 September the 3-month SONIA compounded rate was 5.0766%. 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 2024 to 30 September 2024.

2.28 The Authority's revised budget for investment interest for 2024/25 is £275k, the forecast outturn for the financial year currently stands at £632k. The £357k forecasted surplus is partly due to relatively high interest rates, but mainly due to the increased level of investment balances resulting from the receipt of an additional £8m pension grant in July.

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 2024 the Authority has operated within the treasury and prudential indicators set out in the 2024/25 Treasury Management Strategy, with the exception of the indicator for the proportion of net debt to gross debt. The August Monitoring report which was presented to Members of the Finance and Resources Committee on 18 October detailed a breach of this indicator. The breach is due to the unusually high level of investment balances. If the additional £8m of balances relating to the pension grant are excluded, then the proportion of net debt to gross debt is within the approved limits. The Head of Finance reports that no difficulties are envisaged for the current or future years with complying with the remaining indicators. All treasury management operations have been conducted in full compliance with the Authority's Treasury Management Practices.

2.30 The approved and estimated Prudential and Treasury Indictors are shown in table 4 below:

Table 4 – Prudential and Treasury Indicators for 2024/25

Treasury or Prudential Indicator or Limit	**Approved for 2024/25**	**Estimate as at 30/09/24**
Maximum ratio of Financing Costs to Net Revenue Stream	8.0%	Not exceeded
Estimate of Ratio of Financing Costs to Net Revenue Stream	5.0%	Revised year end estimate: 3.7%
Estimate of Total Capital Expenditure to be Incurred	£8,228,000	Revised year end estimate: £10,335,000
Estimate of Capital Financing Requirement	£39,706,000	Revised year end estimate: £39,671,000
Operational Boundary	£39,900,000	Not exceeded
Authorised Limit	£44,670,000	Not exceeded
Estimated External Borrowing at 31 March 2025	n/a	£29,900,000
Upper limit for fixed rate interest exposures	100%	100%
Upper limit for variable rate interest exposures	30%	0%
Loan Maturity:	Limits:	Actual as at 30/09/24
Under 12 months	Upper 20% Lower 0%	9%
12 months to 5 years	Upper 30% Lower 0%	11%
5 years to 10 years	Upper 75% Lower 0%	6%
10 years to 20 years	Upper 100% Lower 0%	6%
Over 20 years	Upper 100% Lower 30%	68%
Upper Limit for Principal Sums Invested for Periods Longer than 364 Days	£2,000,000	Not exceeded
Local Indicators:		
Upper limit for internal borrowing as a % of the Capital Financing Requirement	20%	Revised year end estimate: 17.1%
Proportion of net debt to gross debt	50% - 85%	Actual as at 30/09/24: 46.8% Revised year end estimate: 81.6%
Investment security benchmark: maximum historic default risk of investment portfolio	0.05%	Actual as at 30/09/24: 0.003%

Investment liquidity benchmark: maximum weighted average life of investment portfolio	0.40 years	0.18 years
Investment yield benchmark	Internal returns to be above 3 month compounded SONIA rate	Actual as at 30/09/24: SONIA rate 5.077% Authority rate 4.89%

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 no 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 2024/25 financial year as required under the Local Government Act 2003.

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

None.

Bev Bull
TREASURER TO THE FIRE AUTHORITY

APPENDIX 1

Approved Countries for Investments as of 30 September 2024

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar (upgraded from AA- 20/03/24)

AA-

- **U.K.**

APPENDIX 2

Investments held as of 30 September 2024

Borrower	Principal	Interest Rate	Start Date	Maturity Date
Bank of Scotland	£3,000,000	4.88%		Call
Lloyds Bank	£4,000,000	4.88%		Call1
Nationwide Building Society	£1,000,000	3.40%		Call1
Blackpool Borough Council	£4,000,000	5.25%	31/07/2024	31/10/2024
Barclays Bank	£1,000,000	4.95%		Call32
Nationwide Building Society	£500,000	4.35%		Call95
Santander UK	£1,000,000	4.93%		Call95
Surrey County Council	£3,000,000	5.00%	26/07/2024	05/02/2025
Total Investments	**£17,500,000**	**4.89%**		