For Publication

Bedfordshire Fire and Rescue Authority
15 December 2023

SUBJECT: **TREASURY MANAGEMENT – MID-YEAR REVIEW REPORT TO 30 SEPTEMBER 2023**

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Background Papers: Treasury Management Strategy 2023/24

Appendix	Title	Protective Marking
1	Economic Update from Link Asset Services	N/A

Will this report affect any of the following?

Implications	Yes/No	Impact/Reference
Financial	Y	Impacts investment income, where cash balances are invested
Risk Management	Y	Low risk appetite in terms of organisations invested in
Legal	N	
Privacy and Security	N	
Duty to collaborate	Y	There is an option for inter authority loans
Health and Safety	N	
Equality, Diversity and Inclusion	N	
Environmental Sustainability	Y	Consideration is always given to Green investment organisations
Consultation and Communication	N	

PURPOSE:

To provide an update on the Authority's Treasury Management to 30 September 2023.

RECOMMENDATION:

It is recommended that the report be noted.

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1. Introduction

1.1 The management of the Fire and Rescue Authority's (FRA) Treasury operations is undertaken by the Authority's Finance staff. Treasury management activities are undertaken with the objective of maximising return/minimising cost, consistent with minimising risk. When investing, the over-riding principle is the maintenance of the capital sum.

In order to support this function, the Authority also employs Link Asset Services to provide independent, professional treasury advice.

1.2 The FRA's banking facilities are also arranged and monitored by the Finance staff.

1.3 The FRA adopted the Code of Practice for Treasury Management in the Public Services published by the Chartered Institute of Public Finance and Accountancy (CIPFA), revised in 2021. One of the requirements of the CIPFA Code is for there to be regular reports on Treasury Management to be presented to the appropriate 'committee'. This is the mid-year Review Report for 2023/24 to 30 September 2023.

1.4 The FRA is asked to note the report, as there are no changes requested to the Prudential Indicators, approval is not required by the FRA.

2. Treasury Management Reports

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

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Authority's capital expenditure (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 (if applicable) during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24; and
- An economic update for the first six months of 2023/24.

3. Treasury Management Training

3.1 The Responsible Officer (the Section 151 Officer) must ensure that Group/FRA Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

3.2 Training was provided to Members by our Treasury Advisor's, Link Asset Services in July 2022. Further training is planned for Members on Thursday 25th January 2024 as recommended by the Treasurer and agreed with the FRA.

4. Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy Update

4.1 For the current year, these were approved by the FRA on 30th March 2023. There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5. Authorities Capital Position (Prudential Indicators)

This part of the report is structured to update:

- 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.

5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	**2023/24 Original Estimate £'000**	**Current Position £'000**	**2023/24 Revised Estimate £'000**
As per Budget	2,258	1,011	2,000

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Authority by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2023/24 Original Estimate £'000	2023/24 Revised Estimate £'000
Total Capital Expenditure	2,258	2,000
Financed by:		
Capital receipts	72	72
Capital grants	0	0
Capital reserves	350	350
Revenue	1,836	1,578
Total financing	**2,258**	**2,000**
Borrowing Requirement	0	0

It should be noted that if changes to the Capital Programme are supported in the Budget Monitoring Report also on this agenda, this will change the figure above and be included in the next report.

5.3 **Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary**

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement. Although the CFR is lower than the Authority's borrowing position, this has been discussed with our Treasury Advisors and there are no concerns to flag. The position will continued to be monitored.

Prudential Indicator – the Operational Boundary for external debt

	2023/24 Original Estimate £'000	**Current Position £'000**
Prudential Indicator – Capital Financing Requirement		
TOTAL CFR	**7,375**	**7,375**
Net movement in CFR	**(396)**	**(396)**
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	9,987	9,987
Other long term liabilities	405	405
Total debt (year end position)	**10,392**	**10,392**

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure 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 2023/24 and 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.

	2023/24 Original Estimate £'000	**Current Position £'000**
Borrowing	9,987	9,987
Other long term liabilities	405	405
Total debt	**10,392**	**10,392**
CFR (year end position)	**7,375**	**7,375**

The Treasurer reports that no difficulties are envisaged for the current future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be 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 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	2023/24 Original Indicator £'000	Current Position £'000
Borrowing	9,987	9,987
Other long term liabilities	2,500	2,500
Total	**12,487**	**12,487**

5. Borrowing/Investment Strategy for 2023/24

5.1 It was anticipated at the beginning of 2023/24 that the Authority would have surplus funds available for short-term investment, either within its Special Interest Bearing Account (SIBA) at its bankers or through the money market. As at the 30th September 2023 the SIBA account is paying a rate of 1.70%.

5.2 The Authority's call-account with Barclays Bank has been used during 2023/24. As at the 30th September 2023 the Barclays account is paying a rate of 4.25%.

5.3 The Authority had seven fixed term deposits maturing during the first half of 2023/24. These being First Abu Dhabi Bank (£1M), Goldman Sachs (£2M), Two with Standard Chartered Sustainable Account (£1M and £2M), Lloyds (£3M) and two with Qatar National Bank (£3M and £2M).
The seven maturing investments were then reinvested with some additional funds during the first half of 2023/24, via our Treasury Agents, Link Asset Services. Two with First Abu Dhabi Bank for 12 months (£3M @ 5.22% and £2M @ 5.81%), one with Lloyds Corporate Bank for 6 months (£3M @ 5.29%), two with Qatar National Bank for six months each (£3M @ 6.03% and £2M @ 5.96%). The two remainder deposits were placed with Standard Chartered Bank for 6 months and 3 months (£1M @ 5.75% and £2M @ 5.37% consecutively) in their sustainable fixed term deposit.

5.4 During the second half of 2023/24 this Authority will be considering using Money Market Funds for short-term investments. Operators use the credit ratings agencies which lay down investment restrictions to enable the funds to maintain its AAA status. Money Market Funds may also be governed by the Institutional Money Market Fund Association (IMMFA) which is a voluntary code of practice issued in 1992 by a trade body for Money Market Funds. This ensures all members offer a consistently high quality product by promoting best practice, transparency of fund values and a standardised format for published data.

5.5 Borrowing has not been undertaken in 2023/24 to finance the Capital Programme. The funding for the 2023/24 Capital Programme was through Reserves and Revenue contributions.

6. Interest Rate Movements During 2023/24

6.1 Bank base rate was 4.25% at the beginning of the year but by 30th September had increased to 5.25%.

6.2 Interest rates applicable to temporary investments were short-term money market rates. These investments were fixed for a set period (between one month and one year), at a greater interest rate than bank base rate. During the first six months of 2023/24, seven investments reached maturity, and then all were reinvested for a period between 6 months and 1 year. When placing these, several factors were considered, including cashflow, security and return in order to meet our Policies and at the same time get the best return.

7. Investment/Borrowing Operations

7.1 Investments:

Surplus cash is invested on a temporary basis through the money market. Levels of investment were £14M at the start of 2023/24 and increased to £16M as at 30th September 2023. In the year 2023/24 to 30th September 2023, £127,400 interest had been generated through these investments and through the local SIBA account and Barclays Account. Interest on PWLB borrowings totals of £210,817 was paid on 2nd October for period of April to September. This will give a net interest paid position of £83,417 as at 30th September 2023.

7.2 The FRA's budgeted investment return (interest receivable) for 2023/24 was set at £195,400. However, due to the unexpected increase in Bank of England base rate this has been revised to an expected return of approximately £900,000 by 31st March 2024.

7.3 Long-Term Borrowing:

Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.

7.4 **Borrowing and Investments Outstanding:**

	Temporary Investments £000s	**Long-Term Borrowing £000s**
Outstanding at 1 April 2023	14,000	9,987
Raised	16,000	0
Repaid	14,000	0
Outstanding at 30 September 2023	**16,000**	**9,987**

NB – The Temporary Investments above do not include the balances from the Authority's bank Accounts

8. Performance Measurement

8.1 The success of cash flow management, and hence the Fire Authority's temporary investment and borrowing activity, is measured by comparing the actual rates of interest achieved and borne against a benchmark of the 7 day SONIA (Sterling Overnight Index Average) compounded rate.

8.2 For the period ending 30 September 2023, the average interest rate achieved from temporary investments, the SIBA and Barclays Accounts was 5.31%, higher than the average 7 day SONIA over the same period of 4.73%.

9. General Economic Conditions

9.1 In brief, the first six months of this financial year has seen:

- Inflation – Target Inflation (CPI) was at 10.40% on 1 April 2023 and at 6.70% by 30 September 2023 (-3.70% change).

9.2 Economic Update **-** An economic update is provided at Appendix 1.

10. Economic Forecast – (Link Group Update 25th September 2023)

10.1 The Authority's Treasury Advisers, Link Asset Services, have provided the following forecast:

	End Q3 2023	End Q4 2023	End Q1 2024	End Q2 2024	End Q3 2024	End Q4 2024
Bank Rate	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%
5yr PWLB rate	5.10%	5.00%	4.90%	4.70%	4.40%	4.20%
10yr PWLB rate	5.00%	4.90%	4.80%	4.60%	4.40%	4.20%
25yr PWLB rate	5.40%	5.20%	5.10%	4.90%	4.70%	4.40%
50yr PWLB rate	5.20%	5.00%	4.90%	4.70%	4.50%	4.20%

ANDREW HOPKINSON
CHIEF FIRE OFFICER

GAVIN CHAMBERS
TREASURER

Economic Update from Link Asset Services

Appendix 1

- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the

Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in

policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.
- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their 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, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).
- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.