SOUTH YORKSHIRE FIRE & RESCUE AUTHORITY

Meeting	**AUDIT AND GOVERNANCE COMMITTEE**
Meeting date	**11th MARCH 2024**
Report of	**THE TREASURER**
Report Sponsor(s)	**NEIL COPLEY, TREASURER**
Subject	**QUARTER 3 TREASURY MANAGEMENT REPORT 2023/24**

SUMMARY

This document reviews the treasury management activities carried out on behalf of South Yorkshire Fire & Rescue during the third quarter of 2023/24, in accordance with statutory guidance.

In broad terms it covers the following:

- The agreed Treasury Management Strategy for 2023/24;
- An economic summary for the year to date;
- An update on the Authority's borrowing and investment activities, and
- The Authority's Prudential and Treasury Indicators.

The Authority is committed to the principles of achieving value for money in treasury management, acknowledging that effective treasury management will provide support towards the achievement of its business and service objectives.

RECOMMENDATIONS

It is recommended that Members note:

- **The latest expectations for interest rates (pages 2-3);**
- **The activities undertaken during the year to support the Authority's borrowing and investment strategies (pages 3-6), and**
- **The Authority's Prudential and Treasury Indicators (Appendix 1).**

THE AGREED STRATEGY FOR 2023/24

1. The Treasury Management Strategy identifies the key risks associated with the Authority's borrowing and investment activities and sets out how those risks will be managed.

2. The current borrowing strategy is to maintain a minimum proportion of fixed-rate borrowing to limit the Authority's exposure to interest rate risk whilst managing an appropriate level of internal borrowing to keep financing costs low.

3. The current investment strategy seeks to minimise credit risk and maintain a suitable balance of liquid funds to ensure that sufficient cash is available when needed. As such the pursuit of higher investment returns is a secondary objective.

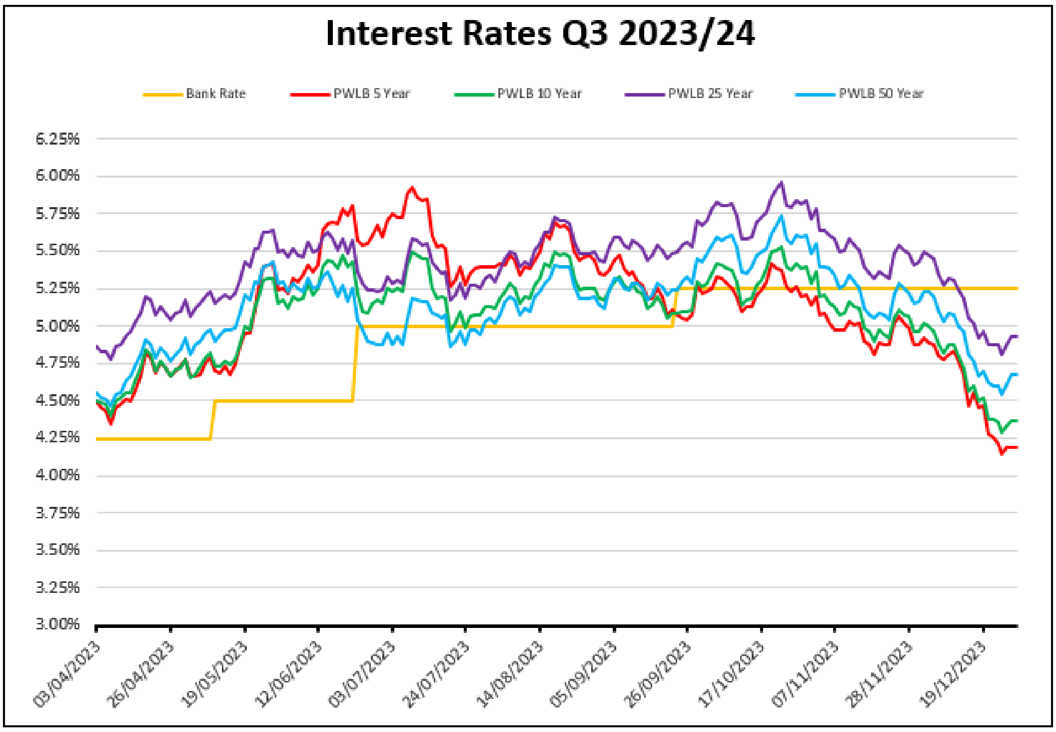
ECONOMIC SUMMARY

Highlights:

- *The UK Bank Rate held at 5.25% during the quarter;*
- *A decline in PWLB borrowing rates during the third quarter of 2023/24;*
- *A reduction in the Consumer Price Index (CPI) inflation in the UK to 3.9% in November 2023.*

4. The UK economy performed better than expected during 2023, but the outlook is currently weak, and the economy remains vulnerable to shocks. The concern for the UK continues to centre on containing inflation alongside avoiding recession within a stagnant economy. CPI inflation fell to 3.9% in November; a bigger than expected fall and a sign of easing in domestic inflationary pressures. However, the latest forecasts are for the recent downward trends in CPI to stall over the next few months before starting to decline more decisively again in February 2024.

5. Interest rates are a key driver of the Authority's treasury management activities and are closely monitored by officers. As illustrated in the graph overleaf, PWLB rates have begun to fall during the latter part of 2023, based on signs of improvement within domestic and international economies.



6. Interest rate forecasts are received from the Authority's Treasury Management Advisers, Link Group. For comparison purposes, the Authority reviews forecasts published by other leading economists (Capital Economics) in addition to those provided by Link Group. The UK Base Rate and PWLB 50

Year Certainty Rate forecasts are shown below, and these are closely monitored in order to mitigate the risk of movements which could adversely impact on Authority finances.

Latest Interest Rate Projections (provided by Link Group & Capital Economics as at 08.01.24)

	Latest	**Mar-24**	**Sep-24**	**Mar-25**	**Sep-25**	**Mar-26**
UK Base Rate ~ Link Group	*5.25%*	5.25%	4.75%	3.75%	3.00%	3.00%
UK Base Rate ~ Capital Economics	*5.25%*	5.25%	4.50%	3.50%	3.00%	-
PWLB Certainty 50 Years ~ Link Group	*5.10%*	5.00%	4.70%	4.40%	4.10%	4.00%
PWLB Certainty 50 Years ~ Capital Economics	*5.10%*	4.80%	4.50%	4.30%	4.40%	-

7. As shown above, the latest forecasts (as at 8th January 2024) are for the Bank of England to keep the Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures. The timing of further rate cuts will depend on a wide range of both national and international factors. As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts

BORROWING ACTIVITY

Highlights:

- *No new borrowing was undertaken during the period;*
- *An external borrowing requirement of up to £19.4 Million by the end of 2025/26;*
- *Around £19.2 Million of this will need addressing through fixed-rate borrowing in order to meet the Authority's agreed exposure targets.*

8. As outlined previously (see paragraph 2) the Authority's borrowing strategy is to limit its exposure to interest rate risk whilst maintaining an appropriate level of internal borrowing* in order to reduce its financing costs.

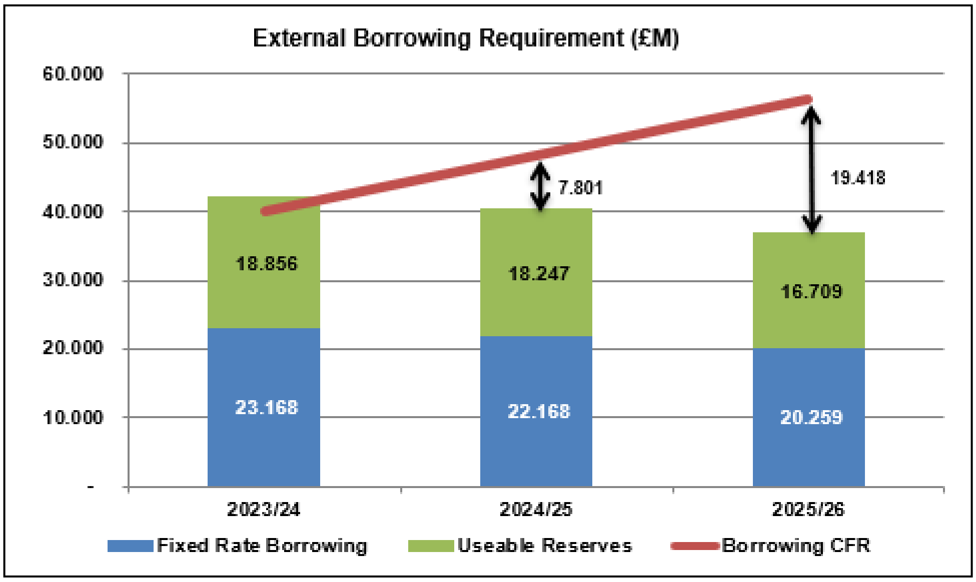
** Refers to the temporary use of internal cash resources (e.g. earmarked reserves or grants received in advance of expenditure) to support its borrowing requirement.*

9. As shown in the table below, no new borrowing was undertaken or repaid during the period.

Source	**Balance on 01/10/2023 (£M)**	**New Borrowing (£M)**	**Principal Repaid (£M)**	**Balance on 31/12/2023 (£M)**	**Net Increase / (Decrease) (£M)**
Fixed Rate PWLB	23.168	-	-	23.168	-
Short-Term Borrowing	-	-	-	-	-
Total External Borrowing	**23.168**	**-**	**-**	**23.168**	**-**

10. The chart overleaf shows the Authority's projected borrowing requirement over the next two years and the cash available to support this from external borrowing and useable reserves. As shown, the Authority's underlying need to

borrow is anticipated to be in the region of £19.4M by the end of 2025/26, and a breakdown is provided in the table below.



Projected external borrowing requirement 2023/24 - 2025/26	£M
Planned capital investment	26.487
Maturing loans / support from useable reserves	(5.404)
Amounts set aside to repay debt	(1.665)
Total	**19.418**

11. To limit the impact of rising interest rates, the Authority's existing commitment is to maintain its exposure to interest rate risk within 30% of its borrowing requirement. To deliver against this strategy, it is anticipated that the Authority may need to fix out in the region of £19.2M by the end of 2025/26. The remainder could be funded through temporary borrowing or internal cash resources:

	2023/24 **(£M)**	2024/25 **(£M)**	2025/26 **(£M)**
Fixed Rate Borrowing Requirement (Cumulative)	4.790	11.583	19.211
Temporary Borrowing Requirement (Cumulative)	-	-	0.207
Total	**4.790**	**11.583**	**19.418**

12. The need to adopt an agile approach to Treasury Management has never been as important following recent events within the economy, namely the continued increase in the UK Bank Rate and the rise in the cost of borrowing. In light of the current climate and rising interest rates, the Treasurer has recommended to defer the £4.8M borrowing requirement in 2023/24. Although the Authority has a continued commitment to maintaining the exposure rate target, fixing out borrowing with rates at current levels may not create best value. The recommended approach during this period is to utilise cash balances in lieu of long-term borrowing and, where necessary, taking on short-term debt to cover cash flow requirements.

13. The risk associated with this flexible strategy and deferring borrowing is minimal as a 1% rise in rates on the £4.8M requirement would see an impact of just £48K on the budget. Expectations are for rates to drop gradually over the next two years (see paragraph 7) and officers will monitor the position of capital plans alongside wider economic conditions to ensure borrowing is cost effective for the Authority.

14. Officers will continue to assess the following borrowing options:

- **Deferred loans -** these would allow the Authority to borrow from financial institutions such as banks at a fixed rate and draw down the cash up to two years in advance. Whilst they may no longer be cheaper than the PWLB, deferred loans help to protect the Authority from interest rate risk without the additional cost of carry and credit risk. Lenders tend to have a minimum size of £30M, however officers will continue to explore any potential opportunities.

- **Loans from other local authorities** - the Authority could look to secure an element of its borrowing requirement with some short or medium-term funds from other local authorities, which would help to spread refinancing risk typically at a cheaper rate than the PWLB.

- **PWLB** - the latest forecasts (see paragraph 6) show a gradual decline in PWLB rates during the forecast period to March 2026. There is likely to be unpredictable volatility during this period and officers will continue to monitor PWLB closely to take advantage of the best possible rates. Any such borrowing would be carried out in small tranches to minimise the cost of carry and mitigate credit risk and assessed against alternate options available (e.g. deferred loans).

- **Internal Borrowing -** while borrowing rates remain elevated, the Authority could continue with the temporary use of internal cash resources (e.g. earmarked reserves or grants received in advance of expenditure) in lieu of external borrowing. This is a temporary measure and should be considered in line with the reserves strategy and capital spend projections over the planning period.

INVESTMENT ACTIVITY

Highlights:

- *A net decrease in investment balances of £4.5M during the year to date;*
- *Security and liquidity remained the key priorities, with all deposits placed in Money Market Funds, instant access accounts and short-term investments in accordance with the approved TMSS 2023/24.*

15. As outlined previously (see paragraph 3) the Authority's investment strategy is to ensure that its cash balances are invested prudently and are available when needed to meet its spending commitments.

16. To reflect this strategy a balance of investments were kept within secure Money Market Funds (MMFs) and instant access accounts throughout the quarter.

17. During quarter 3, the authority also continued to invest cash short-term in order to take advantage of enhanced investment rates. These are arranged to ensure a better return during a period where the authority is experiencing higher cash balances. All investments are placed with organisations in line with the approved annual investment strategy.

18. As shown in the table below, there was a net decrease in investment balances of £4.5M during the period, mainly comprising of the maturity of a short term investment. Further investment details are available on request:

Source	Balance on 01/10/2023 (£M)	New Investments (£M)	Redeemed Investments (£M)	Balance on 31/12/2023 (£M)	Net Increase / (Decrease) (£M)
MMFs / Instant Access Accounts	3.250	6.500	(5.950)	3.800	0.550
Short Term Investments	10.000	-	(5.000)	5.000	(5.000)
Total Investments	**13.250**	**6.500**	**(10.950)**	**8.800**	**(4.450)**

19. The key investment issues currently being managed by the Authority are as follows:

    - **Local Authority Creditworthiness** – this is an ongoing issue particularly in light of the current ecopnomic crisis. Whilst there are no issues foreseen from a credit perspective (there are regulations in place to avoid local authorities going bankrupt), officers recognise the reputational risk associated with such investments and will take this into consideration when deciding where to invest the Authority's surplus cash.

PERFORMANCE MEASUREMENT / COMPLIANCE WITH PRUDENTIAL AND TREASURY LIMITS

20. The Authority's Capital Financing budget is anticipated to underspend in the region of £0.5M as at quarter 3. This is due to the aforementioned delay of 2023/24 planned fixed-rate borrowing. Further updates on the budget position will be provided in subsequent quarterly monitoring reports.

21. Capital Financing costs are expected to rise over the medium term as the Authority takes on more external borrowing, however these costs have been provided for in the Authority's Medium Term Financial Plan.

22. The Authority has operated within the prudential and treasury indicators set out in the agreed strategy and in compliance with the Authority's Treasury Management Practices (see Appendix 1 for more details).

CONTRIBUTION TO SERVICE PRIORITIES

23. ☐ Community - Making people safer - working to prevent emergencies.

☐ Operations - Responding to emergencies - effectively and safely.
☐ People - Valuing people - those we serve and employ.
☒ Finance and Resources - Maximising efficiency - making our resources go further.

CORPORATE RISK ASSESSMENT & BUSINESS CONTINUITY IMPLICATIONS

24. Treasury management activities expose the Authority to several financial risks, in particular:

- Credit risk - the possibility that other parties may fail to pay amounts due to the Authority
- Liquidity risk - the possibility that the Authority may not have sufficient cash available to meet its commitments to make payments
- Market risk - the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates.

25. These are managed as part of the Treasury Management Policy, Strategy and Procedures.

EQUALITY ANALYSIS COMPLETED

26. ☐ Yes

☐ No
☒ N/A

This report does not relate to the introduction of a new policy, strategy or procedure.

IMPLICATIONS

27. Industrial Relations, Financial, Legal, Asset Management, Environmental and Sustainability, Diversity, and Communications implications have been considered in compiling this report.

BACKGROUND DOCUMENTS

<table>
<tr><th colspan="3">List of background documents</th></tr>
<tr><td colspan="3">CIPFA Prudential Code
CIPFA Treasury Management Code
DLUHC Guidance on Local Authority Investments
DLUHC Guidance on the Minimum Revenue Provision
Information provided by Link Asset Services</td></tr>
<tr><td rowspan="3">Report author</td><td>Name</td><td>Neil Copley, Treasurer</td></tr>
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APPENDIX 1 - ACTUAL PRUDENTIAL AND TREASURY INDICATORS FOR 2023/24

1. Operational Boundary for External Debt

This is the limit beyond which external debt is not normally expected to exceed and is set to match the Authority's Capital Financing Requirement.

Unlike the authorised limit, breaches of the operational boundary (due to cash flow movements) are allowed during the year as long as they are not sustained over a period of time.

	2023/24 Limit (£M)	Quarter 3 Actual (£M)	Compliant?
Average Debt Compared to Operational Boundary	43.936	23.168	YES

2. Authorised Limit for External Debt

This represents a limit beyond which external debt is prohibited, and is set or revised, if necessary, by the full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit has been set at £4M above the Operational Boundary.

The Authorised Limit is the statutory limit under the Local Government Act 2003 and must not be exceeded during the year.

	2023/24 Limit (£M)	Quarter 3 Actual (£M)	Compliant?
Maximum Debt compared to Authorised Limit	47.936	23.168	YES

3. Maturity Structure of Fixed Rate Borrowing

These limits are set to reduce the Authority's exposure to large sums falling due for refinancing, and are required for upper and lower limits.

The majority of the Authority's debt is due to mature after 10 years or more.

Debt Maturity Structure	2023/24 Limit (%)	Quarter 3 Actual (%)	Compliant?
Less than 12 months	0-20	4	
12 months to 2 years	0-20	8	
2 years to 5 years	0-50	14	YES
5 years to 10 years	0-75	30	
10 years and above	25-100	44	

4. Maximum Principal Sums Invested

This indicator sets an upper limit for the level of investment that may be fixed for a period greater than 365 days. This limit is set to contain exposure to credit and liquidity risk.

At present the Authority has no intentions to invest for periods of more than 365 days.

	2023/24 Limit (£M)	Quarter 3 Actual (£M)	Compliant?
Sums Invested > 365 days	0.000	0.000	YES

APPENDIX 2 - LOAN PORTFOLIO AS AT 31/12/2023

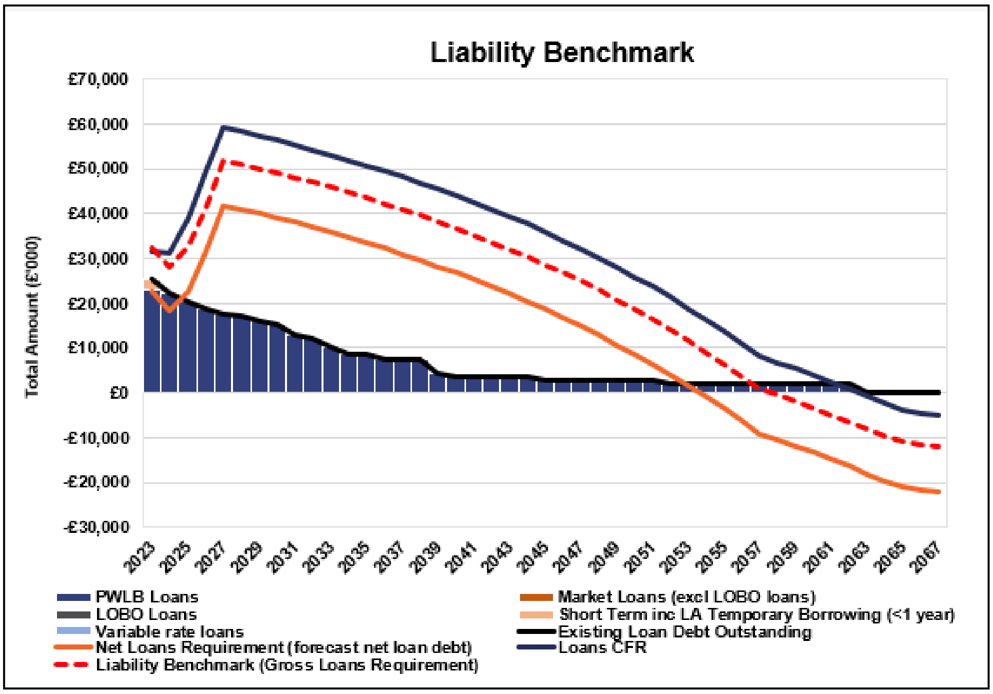
Summary as at 31/12/2023:

	Balance (£M)	**Average Rate (%)**
PWLB	23.168	4.01
Total External Borrowing	**23.168**	**4.01**

No new borrowing during the quarter.

APPENDIX 3 – LIABILITY BENCHMARKING INDICATOR

1. A new prudential indicator for 2023/24 is the Liability Benchmark (LB) which has been developed by CIPFA to provide a longer-term view of a local authority's debt position. The Authority is required to estimate and measure the LB and report this to members within the quarterly treasury management updates. The LB is effectively the Net Borrowing Requirement of the Authority plus a liquidity allowance.



2. The graph above shows the Authority's Liability Benchmark at 2023/24 which includes the following four balances:

- **Existing loan debt outstanding (blue stacked bars):** the Authority's existing loans that are still outstanding in future years.
- **Loans CFR (blue line):** the loans CFR projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement (orange line):** the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future based on approved prudential borrowing, planned MRP and any other major cash flow forecasts.
- **Liability benchmark (broken red line):** the net loans requirement plus a short-term liquidity allowance.

3. It should be noted that only approved prudential borrowing is included in the above calculations which covers the period to 2026/27. In practice this means that the Loans CFR will peak after four years, as is demonstrated in the graph above. This creates a slight anomoly in the model given that all other inputs are projected forward to 40 years+.

4. CIPFA recommends that the optimum position for external borrowing should be at the level of the LB (i.e. all balance sheet resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the LB, then this indicates a borrowing requirement, thus identifying where the Authority is exposed to interest rate, liquidity and refinancing risks. Conversely, where external loans exceed the LB then this will highlight an overborrowed position which will result in excess cash in the organisation requiring investment, thus exposing the Authority to credit and reinvestment risks and a potential cost of carry.

5. Members are also asked to note that the LB calculation does not include any targets for interest rate exposure and measures to mitigate the risk of rising borrowing costs. Further calculations are provided in the following borrowing strategy section which sets out the Authority's interest rate exposure targets and plans to create cost certainty.

6. Additional updates on the LB position will be provided throughout the year and included as part of the treasury management training sessions delivered to members.

APPENDIX 4 – FIRE AUTHORITY BENCHMARKING DATA

	South Yorks Fire & Rescue Authority	West Yorks Fire & Rescue Authority	Humberside Fire & Rescue Authority	Derbyshire Fire & Rescue Authority	Nottinghamshire Fire & Rescue Authority
	31/03/2023	**31/03/2023**	**28/02/2023**	**31/03/2023**	**31/03/2023**
	£M	**£M**	**£M**	**£M**	**£M**
Balance Sheet:					
CFR	**31,564**	41,326	19,987	7,461	30,533
External borrowing PWLB	**23,168**	43,937	18,169	6,615	32,948
Under/Over borrowed	**8,396**	- 2,611	1,818	846	- 2,415
Under/Over borrowing as a % of Underlying Borrowing Requirement	**27%**	-6%	9%	11%	-8%
Investments	**5,231**	46,112	10,500	9,300	10,000
Level of Reserves	**18,657**	41,071	14,811	15,691	10,572
Prudential Indicators:					
Capital spend	**3,166**	11,726	3,085	713	2,265
Ratio of financing costs to net revenue stream	**2.50%**	6.39%	2.81%	1.60%	4.65%
Capital Programme:					
Next two years forecast capital spend	**20,890**	65,210	10,437	6,779	12,049

1. The benchmarking data shows that in comparison to the other authorities, SYFRA are currently the highest under borrowed as a percentage of the underlying borrowing requirement. This indicates a good use of internal balances in lieu of expensive external borrowing.

2. The Authority also has the lowest level of investment balances as at 31 March 2023, which creates low credit and counterparty risk.

3. The ratio of financing costs to net revenue stream is lower than most others in the comparator group.