CHESHIRE FIRE AUTHORITY

MEETING OF: **CHESHIRE FIRE AUTHORITY**
DATE: **14 FEBRUARY 2017**
REPORT OF: **HEAD OF FINANCE**
AUTHOR: **PAUL VAUGHAN**

SUBJECT: TREASURY MANAGEMENT STRATEGY AND PRACTICES 2017-18

Purpose of Report

1. This report seeks approval for the Treasury Management Strategy and Practices for the year 2017-18. This is a requirement of guidance issued by the Department of Communities and Local Government (DCLG) in April 2010, and the 2009 CIPFA Treasury Management Code. It also assists the Authority in showing its compliance with requirements contained in the Local Government Act 2003.

Recommended: That

[1] approval be given to the Authority's Treasury Management Strategy for the year 2017-18; and

[2] the Authority's approach to treasury risk management and its Treasury Management Practices be approved.

Treasury Management Strategy for 2017-18

2. The Treasury Management Strategy ('the Strategy') is comprised of three main elements, namely:

   - Borrowing Strategy (paragraphs 50 to 57 of the Strategy)
   - Annual Investment Strategy (paragraphs 64 to 80 of the Strategy)
   - Minimum Revenue Provision (MRP) Strategy (paragraphs 19 to 22 of the Strategy)

3. The Strategy is required in order to comply with the Local Government Act 2003, the 2009 CIPFA Treasury Management Code of Practice and the latest investment guidance from the Government which came into force with effect from April 2010.

4. The Strategy also provides context to inform the three individual elements.

Borrowing Strategy

5. The Borrowing Strategy for the Authority reflects the current approach that while interest rates for investments remain low, the Authority will finance its capital programme from cash balances as far as possible.

6. The Authority's current borrowing is almost exclusively with the Public Work Loans Board (PWLB). There are no immediate plans to increase the Authority's borrowing.

Annual Investment Strategy

7. The Annual Investment Strategy explains that the overarching principle is to ensure that the Authority is prudent in its investment decisions, whilst trying to maximise returns.

8. The Annual Investment Strategy also sets out the investment instruments used by the Authority, and how the Authority uses credit ratings to help determine which institutions to invest in.

9. The Authority will avoid locking into long term deals, i.e. greater than three years, whilst interest rates remain at their current low levels, and will limit investments over one year to a maximum of £5 million.

MRP

10. All authorities have a legal requirement to set money aside to cover the repayment of debt, and this is known as the MRP. The amount of MRP charged needs to be a prudent amount. The broad aim of this is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which capital expenditure provides benefits, or, in the case of borrowing supported by formula grant, reasonably commensurate with the period implicit in the determination of the grant.

11. It is proposed that the Authority continues to set the MRP at 6.7% of the opening Capital Financing Requirement. This is considered to be a prudent and sustainable approach. The level remains subject to review.

Risk Management

12. The identification, understanding and management of risk are a significant part of the Authority's treasury management activities. Risk management is, and has been for a number of years, well embedded in the area of treasury management.

13. To avoid the Authority suffering loss as a result of its treasury management activities, a number of risk management procedures are in place. These procedures are based on the principles that security of deposit is paramount, and there is a need to maintain liquidity. Returns should be commensurate with these principles.

14. Key risks are:

a. Counter-Party Risk

Counter-parties is the term used for another party to an agreement or contract. In the context of this risk, this means a body with whom we have invested surplus funds. The risk is that an amount deposited by the Authority will not be repaid in full when it becomes due.

When selecting counter-parties the avoidance of loss of principal is regarded as paramount. This is achieved by having in place formal policies and procedures that ensure that the risk of a potential loss of principal through the default of a counter-party is reduced to an appropriate level. Those policies include setting minimum requirements on the financial standing of counter-parties and an upper limit on the amount that can be deposited with an individual counter-party or group of related counter-parties.

b. Liquidity Risk

This risk is that cash will not be available when it is required to meet the Authority's obligations.

To mitigate that risk, the Authority prepares and monitors a cashflow forecast which identifies expected inflows and outflows. The purpose of preparing the forecast is to identify the timing, duration and magnitude of any cash surpluses and shortfalls.

c. Refinancing Risk

This risk is that the Authority will be unable to renew its maturing loans or reinvest deposits on reasonable terms.

This risk is managed to an acceptable level by ensuring that the maturity profile of the Authority's long term loans portfolio remains relatively even. The Authority also tries to avoid having a number of large deposits maturing on the same day.

d. Legal and Regulatory Risk

This is the risk that one of the parties to an agreement will be unable to honour its legal obligations to the other party.

When investing its cash balances, the Authority adheres to the guidance issued by DCLG in April 2010 which defines and encourages a prudent investment policy, particularly in relation to security (protecting invested capital sums from loss) and liquidity (keeping funds readily available to meet immediate expenditure needs).

e. Prevention of Fraud, Error and Collusion

Loans and deposits are made on the Authority's behalf by our treasury management advisers (Warrington Borough Council).

In addition, our advisers cannot enter into a short or long term deal without specific approval from the Head of Finance or another nominated officer. Every deal is also recorded and reconciled within the Authority's general ledger and bank account by one officer and approved by another officer (segregation of duties)

Treasury Management Practices for 2017-18

15. It is a requirement of the 2009 CIPFA Treasury Management Code that the Authority's Treasury Management Practices (TMPs) be reported to the Authority on an annual basis. The TMPs are a substantial document and have not been included with these papers but have been made available on the Authority's web site for Member consideration. They demonstrate in some detail the way in which the Authority meets its requirement to properly manage its treasury management activities.

Prudential Indicators for 2017-18

16. The Prudential Indicators ('the Indicators') are included in Appendix 1 at paragraphs 9 to 18 and 24 to 32.

17. Performance against the Indicators demonstrates that the Authority's strategy in relation to capital expenditure and investment is prudent and robust. The Indicators deal with the Authority's position in relation to capital expenditure and capital financing requirement, net borrowing, limits on borrowing, the impact on revenue, and the impact on council tax.

18. In addition the Indicators confirm the prudence and sustainability of the Authority's Treasury Management Strategy, and help set a framework of prudence within which the Authority will continue to operate.

End of Year Treasury Management Performance Report

19. In accordance with both the requirements of the Prudential Code and the CIPFA Code for Treasury Management in the Public Services, the Authority will report on its treasury management activities for the year in the form of a Treasury Management Annual Report. This report will be presented to the Authority annually by September.

Legal Implications

20. The approval of the Treasury Management Strategy and Treasury Management Practices is a legal requirement. They provide officers with a clear framework within which to operate.

Financial Implications

21. The report is financial in nature.

Equality and Diversity Implications

22. There are no differential impacts identified on any section of our community in relation to this report.

Environmental Implications

23. There are no specific environmental implications identified in relation to this report.