CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 15th FEBRUARY 2023
REPORT OF: TREASURER
AUTHOR: JERRY FAULKNER

SUBJECT: TREASURY MANAGEMENT STRATEGY 2023-24

Purpose of Report

1. This report seeks approval for the Treasury Management Strategy for the year 2023-24. This is a requirement of the Local Government Act 2003, the Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government) Investment Guidance, DLUHC Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

Recommended: That Members

[1] approve the Treasury Management Strategy for 2023-24 (in doing so Members are confirming the Authorised Limit at paragraph 5.2.7 of the Strategy).

Treasury Management Strategy for 2023-24

2. Treasury Management covers the cashflow, investment and borrowing activities together with the impact of budgetary decisions on such activities. The Treasury Management Strategy ('the Strategy'), which is attached to this report as Appendix 1, is comprised of four main elements, namely:

   - Capital Expenditure Plans and Prudential Indicators
   - Borrowing Strategy and Prudential Limits
   - Annual Investment Strategy
   - Minimum Revenue Provision (MRP) Statement

3. The Strategy is required in order to comply with the Local Government Act 2003, the DLUHC Investment Guidance, DLUHC Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

4. CIPFA published revised Prudential and Treasury Management Codes on 20 December 2021. The Authority must have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and included Annual Investment Strategy.

5. The revised codes have a number of implications for public sector organisations although most have limited or no impact on the Authority, which does not currently hold or plan to enter into any commercial or non-treasury investments. In view of this, the most notable new requirement for the Authority is a requirement to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement (included at paragraph 4.3 of Appendix 1).

6. The CIPFA Prudential and Treasury Management Codes require the preparation of a Capital Strategy providing a longer-term focus to capital plans. This is being considered separately under Item 5.

Capital Expenditure Plans and Prudential Indicators

7. Capital expenditure plans are a key driver of treasury management activity. The funding of such plans impacts on cash balances and borrowing requirements in the short and longer terms. The on-going consequences of decisions about capital expenditure and Prudential Indicators have a direct impact on the annual revenue budget. As such, the Prudential Indicators included in this section of the Strategy show the proposed capital expenditure plans, how they are to be funded, the impact on the Authority's finances and their affordability in terms of the impact on revenue budgets.

Borrowing Strategy

8. The Borrowing Strategy for the Authority reflects the current approach that the Authority will finance its capital programme from cash balances as far as possible. The Authority has, however, approved the use of borrowing to help to fund its major build projects.

9. It is anticipated that c£12m of additional borrowing requirement will be utilised over the period to finance planned major estates projects in Crewe and Wilmslow, along with continuing modernisation of Service houses.

10. In view of the current high cost of borrowing and temporarily reduced cashflow pressure from the re-profiling of the Fire Station Modernisation programme expenditure, the 2022-23 new borrowing requirement is currenty being deferred as forecasts suggest that rates will begin to reduce closer to target levels as the economy stabilises. The Treasurer will keep interest rates and the cashflow under regular review in order to adopt a pragmatic approach to changing circumstances, supported by advice from the external Treasury Management advisers.

11. It should also be noted that there is currently no financial provision included in any plans relating to either Ellesmere Port or Warrington Fire Stations. If significant additional capital expenditure is approved in respect of these sites, it will be necessary to increase the future borrowing requirement and to recognise the impact of associated financing costs in the Medium Term Financial Plan.

12. The Authority's current borrowing is exclusively with the Public Work Loans Board (PWLB) and this will continue to be the preferred source of future borrowing. Prudential limits for borrowing activites are also included in this section for approval.

Annual Investment Strategy

13. The Authority's principal objectives for investments are security first, liquidity next and finally yield (return). The Authority will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate, the Authority will also consider the value available in periods up to 12 months with high credit rated financial institutions.

14. 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.

Minimum Revenue Provision (MRP)

15. All authorities are required to make an annual provision from revenue to contribute towards the repayment of borrowing, known as the MRP. Under amendment regulation 4(1) of the 2008 Regulations, the Authority is charged with a simple duty to set aside the MRP which it considers to be prudent. Guidance has been issued which sets out recommendations on the interpretation of 'prudent' and the Authority is required to prepare an annual statement on how it proposes to calculate MRP. The 2023-24 annual statement is set out in the Annex to the Treasury Management Strategy.

Risk Management

16. 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.

17. 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.

18. 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. <u>Liquidity Risk</u>

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

To mitigate this 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. <u>Refinancing Risk</u>

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 is spread over a period of time.

d. <u>Legal and Regulatory Risk</u>

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 DLUHC 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. <u>Prevention of Fraud, Error and Collusion</u>

All loans and deposits are made on the Authority's behalf by 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 Performance Reporting

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 receive:

    i) A mid-year treasury management report – this will update members with the progress about the capital position, lead to the amendment of prudential indicators as necessary, and determine whether any policies require revision.

    ii) An annual treasury management report – this is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy

    iii) Quarterly reports – in addition to the major reports detailed above, from 2023-24, additional quarterly reporting (end of June/end of December) is also required. This new reporting requirement will be fulfilled by the inclusion of updated and forecast Treasury/Prudential Indicators within the main First Quarter and Third Quarter financial review reports to Performance and Overview Committee.

Legal Implications

20. The approval of the Treasury Management Strategy is a legal requirement. It provides 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.

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BACKGROUND PAPERS:

TREASURY MANAGEMENT STRATEGY 2022-23 APPROVED BY THE FIRE AUTHORITY ON 9TH FEBRUARY 2022