# CHESHIRE FIRE AUTHORITY

**MEETING OF:** **CHESHIRE FIRE AUTHORITY**
**DATE:** **13 FEBRUARY 2019**
**REPORT OF:** **HEAD OF FINANCE**
**AUTHOR:** **WENDY BEBBINGTON**

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## SUBJECT: TREASURY MANAGEMENT STRATEGY 2019-20

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## Purpose of Report

1. This report seeks approval for the Treasury Management Strategy for the year 2019-20. This is a requirement of guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG), the CIPFA Treasury Management Code and the CIPFA Prudential 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 2019-20;

[2] the Authority's Prudential Indicators including the Authorised Limit (Appendix 1, paragraph 5.2.7) and Operational Boundary (Appendix 1, paragraph 5.2.3) be approved.

**Treasury Management Strategy for 2019-20**

2. The Treasury Management Strategy ('the Strategy') 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 CIPFA Treasury Management Code of Practice, the CIPFA Prudential Code and the latest guidance from the Government covering investments and MRP.

4. CIPFA has recently reviewed and revised its Treasury Management Code of Practice and the Prudential Code. Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

5. The primary reporting change is the introduction of a capital strategy, to provide a longer-term focus to the capital plans. The requiremant to

have a capital strategy is being reported separately as part of the annual budget report pack.

6. Another notable change is the inclusion of greater requirements for non-treasury investments, for example the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances. This type of income generation is not within usual Fire Service business and the change is therefore unlikely to impact on the Fire Authority.

7. CIPFA has also made some changes to Prudential Indicators, which are now incorporated into this report along with other revisions and amendments to the code.

8. The Strategy also provides context to inform the four individual elements.

<u>Capital Expenditure Plans and Prudential Indicators</u>

9. 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 these decisions 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 organisation's finances and their affordability in terms of the impact on revenue budgets.

<u>Borrowing Strategy</u>

10. 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. The Authority has, however, approved the use of borrowing to fund its training centre project (and associated works) at Sadler Road in order to preserve reserves for other matters requiring capital expenditure. In addition further borrowing will be required from 2021/22 onwards to fund capital programme plans as available reserves are exhausted.

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

<u>Annual Investment Strategy</u>

12. 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.

13. 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.

14. The Authority will avoid locking into long term investements whilst interest rates remain at their current low levels, and will limit investments over one year to a maximum of £5 million.

MRP

15. 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.

16. It is proposed in Annex 1 that the Authority continues to set the MRP at 6.7% of the opening Capital Financing Requirement (CFR) in respect of its existing CFR. This is considered to be a prudent and sustainable approach, however the 6.7% level remains subject to review. Any future new borrowing will be subject to MRP charged over a period which is reasonably commensurate with the estimated useful life applicable to the asset purchased or created.

**Risk Management**

17. 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.

18. 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.

19. 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 is spread over a period of time. 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 MHCLG 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

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**

20. 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 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

**Legal Implications**

21. The approval of the Treasury Management Strategy is a legal requirement. It provides officers with a clear framework within which to operate.

**Financial Implications**

22. The report is financial in nature.

**Equality and Diversity Implications**

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

**Environmental Implications**

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

**CONTACT: DONNA LINTON, CLEMONDS HEY, WINSFORD**
**TEL [01606] 868804**
**BACKGROUND PAPERS: NONE**