**LANCASHIRE COMBINED FIRE AUTHORITY**

Meeting to be held on 22 February 2021

**TREASURY MANAGEMENT STRATEGY 2021/22**
**(Appendix 1 refers)**

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**Executive Summary**

The report sets out the Treasury Management Policy and Strategy for 2021/22.

The Strategy is based on the capital programme as presented to the Authority elsewhere on the agenda, and the financial implications of this are reflected in the revenue budget, also presented elsewhere on this agenda.

**Recommendation**

The Authority is asked to: -

- Approve the revised Treasury Management Strategy, including the Prudential Indicators, as set out in the report;
- Agree the Minimum Revenue Provision (MRP) calculation as set out in the report;
- Agree the Treasury Management Policy Statement at Appendix 1.

**Information**

Treasury Management is defined as "The management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Combined Fire Authority adopts the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice (*the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. The authority also adheres to investment guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG). In 2018 the MHCLG issued new guidance which widens the definition of investments. For treasury management investments the guidance requires authorities to prioritise security, liquidity and yield in that order of importance. This is consistent with previous guidance. In addition, the guidance definition of investments includes financial and non-financial assets which are held primarily or partially to generate a profit.

Where an authority holds non treasury investments it is required to produce a separate investment strategy. The definition of non-treasury investments is wide ranging covering for example loans to third parties and the holding of property to make a profit. However, it is not considered that the Combined Fire Authority hold any such assets and it does not propose to engage in any such investments in 2021/22.

**Statutory requirements**

The Local Government Act 2003 (the Act) and supporting Regulations requires the Authority to “have regard to” the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable.

This report fulfils the Authority’s legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the MHCLG Guidance.

**Treasury Management Strategy for 2021/22**

This Strategy Statement has been prepared in accordance with the CIPFA Treasury Management Code of Practice. Accordingly, the Lancashire Combined Fire Authority's Treasury Management Strategy will be approved by the full Authority, and there will also be a mid-year and a year-end outturn report presented to the Resources Committee. In addition there will be monitoring and review reports to members in the event of any changes to Treasury Management policies or practices. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

This Authority has adopted the following reporting arrangements in accordance with the requirements of the revised Code: -

| Area of Responsibility | Committee/ Officer | Frequency |
|---|---|---|
| Treasury Management Policy Statement | Resources Committee/Authority | Annually |
| Treasury Management Strategy / Annual Investment Strategy / MRP policy – scrutiny and approval | Resources Committee/ Authority | Annually before the start of the year |
| Treasury Management mid-year report | Resources Committee | Mid-year |
| Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times | Resources Committee | As required |
| Annual Treasury Management Outturn Report | Resources Committee/ Authority | Annually by 30 September after the end of the year |
| Treasury Management Monitoring Reports | Director of Corporate Services | Quarterly |
| Treasury Management Practices | Director of Corporate Services | Annually |

The Treasury Management Strategy, covers the following aspects of the Treasury Management function:-

- Prudential Indicators which will provide a controlling framework for the capital expenditure and treasury management activities of the Authority;
- Current Long-term debt and investments;
- Prospects for interest rates;
- The Borrowing Strategy;
- The Investment Strategy;
- Policy on borrowing in advance of need.

**Setting the Treasury Management Strategy for 2021/22**

In setting the treasury management strategy the following factors need to be considered as they may have a strong influence over the strategy adopted:

- economic forecasts;
- Interest rate forecasts;
- the current structure of the investment and debt portfolio;
- Future Capital Programme and underlying cash forecasts.

**Economic Context**

The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

**Interest Rate Forecast and Prospects for Market Liquidity**

The treasury management consultant Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The latest forecast is shown in the table below:

| | Bank Rate % | 3 month money market rate% | I year money market rate% | 5 year gilt yield % | 10 year gilt yield % | 20 year gilt yield % | 50 year gilt yield % |
|---|---|---|---|---|---|---|---|
| March 21 | 0.10 | 0.10 | 0.15 | 0.00 | 0.25 | 0.70 | 0.60 |
| June 21 | 0.10 | 0.10 | 0.15 | 0.00 | 0.30 | 0.70 | 0.60 |
| September 21 | 0.10 | 0.15 | 0.25 | 0.05 | 0.35 | 0.75 | 0.65 |
| December 21 | 0.10 | 0.15 | 0.25 | 0.10 | 0.25 | 0.75 | 0.65 |
| March 22 | 0.10 | 0.20 | 0.30 | 0.15 | 0.40 | 0.75 | 0.65 |
| June 22 | 0.10 | 0.20 | 0.30 | 0.20 | 0.40 | 0.80 | 0.70 |
| September 22 | 0.10 | 0.20 | 0.30 | 0.20 | 0.45 | 0.80 | 0.70 |
| December 22 | 0.10 | 0.20 | 0.30 | 0.20 | 0.45 | 0.85 | 0.75 |
| March 23 | 0.10 | 0.20 | 0.30 | 0.25 | 0.50 | 0.85 | 0.75 |
| June 23 | 0.10 | 0.20 | 0.30 | 0.25 | 0.55 | 0.85 | 0.75 |
| September 23 | 0.10 | 0.20 | 0.30 | 0.25 | 0.55 | 0.85 | 0.75 |
| December 23 | 0.10 | 0.20 | 0.30 | 0.25 | 0.55 | 0.90 | 0.80 |
| March 24 | 0.10 | 0.20 | 0.30 | 0.25 | 0.60 | 0.90 | 0.80 |

In the above table 'bank rate' refers to the policy rate of the Bank of England. PWLB borrowing rates are based on 'Gilt Yield' and so this is a forecast of long term interest rates. The Authority can borrow at 80 basis points above the gilt yield, so for example a fixed interest rate to borrow PWLB money for 10 years would be 1.05%, 0.25% plus 0.80%.

**Current Treasury Portfolio Position**

At the 31 December 2020 the debt and investments balances were: -

| **Debt** | Principal £m | % |
|---|---|---|
| Fixed rate loans from the Public Works Loan Board | 2.000 | 100% |
| Variable rate loans | | - |
| | 2.000 | 100% |
| **Investments** | | |
| Variable rate investments with Lancashire County Council | 24.110 | 61.6 |
| Fixed rate investments | 15.000 | 38.4 |
| | 39.110 | 100% |

The level of investments represents the Authority's cumulative surplus on the General Fund, the balances on other cash-backed earmarked reserves and a cash-flow balance generated by a surplus of creditors over debtors and by grant receipts in advance of payments. There is a net investment figure of £37.110m.

**Borrowing and Investment Requirement**

In the medium term LCFA borrows for capital purposes only. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The table below compares the estimated CFR to the debt which currently exists, this gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing. The table gives an indication of the minimum borrowing or investment requirement through the period.

The CFR forecast includes the impact of the latest forecast of the funding of the Capital Programme which currently assumes that there will be no borrowing in the next three years. A voluntary MRP was made in 2019/20 to take the future loans element of the MRP to nil.

| | 31/3/2020 | 31/3/2021 | 31/3/2022 | 31/3/2023 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Capital Financing Requirement | 13.799 | 13.382 | 12.930 | 12.439 |
| *Less long term liabilities (PFI and finance leases)* | (13.799) | (13.382) | (12.930) | (12.439) |
| *Less* external borrowing | (2.000) | (2.000) | (2.000) | (2.000) |
| Borrowing requirement | (2.000) | (2.000) | (2.000) | (2.000) |
| | | | | |
| Reserves and working capital | 33.116 | 36.366 | 24.690 | 21.702 |
| Borrowing/(investment) need | (31.116) | (34.366) | (23.690) | (19.702) |

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. However, the table above shows that the level of loans was above the CFR at 31.3.20. This was the result of the Authority adopting a policy of setting aside additional

Minimum Revenue Provision (MRP) in order to generate the cash to repay loans either on maturity or as an early repayment.

The table above indicates that rather than having a need for borrowing it is estimated that the authority has an underlying need to invest although the available balances are forecast to reduce.

Although the Authority does not have plans for new borrowing in the next three years it does currently holds £2.0m of loans as part of its strategy for funding previous years' capital programmes. The draft capital programme, reported elsewhere on the agenda, identifies a borrowing requirement in 2025/26.

**Borrowing Strategy**

The draft Capital Programme implies there may be a requirement to use borrowing to fund the capital programme in the later years. At this stage it is extremely unlikely that borrowing will be required in 2021/22. However, it is still best practice to approve a borrowing strategy and a policy on borrowing in advance of need. In considering a borrowing strategy the Authority needs to make provision to borrow short term to cover unexpected cash flow shortages or to cover any change in the financing of its Capital Programme.

In the past the Authority has raised all of its long-term borrowing from the Public Works Loan Board, but if long term borrowing was required other sources of finance, such as local authority loans, and bank loans, would be investigated that may be available at more favourable rates.

Short term borrowing if required would most likely be taken from other local authorities.

Therefore the approved sources of long-term and short-term borrowing are:

- Public Works Loan Board;
- UK local authorities;
- any institution approved for investments;
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK;
- UK public and private sector pension funds.

**Policy on Borrowing in Advance of Need**

In line with the existing policy the Authority will not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. However advance borrowing may be taken if it is considered that current rates are more favourable than future rates and that this advantage outweighs the cost of carrying advance borrowing. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds and relationships.

In determining whether borrowing will be undertaken in advance of need the authority will:-

- Ensure that there is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- Ensure the on-going revenue liabilities created, and the implications for the future plans and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- Consider the merits and demerits of alternative forms of funding;
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

**Debt Restructuring**

The Authority’ debt has arisen as a result of prior years' capital investment decisions. It has not taken any new borrowing out since 2007 as it has been utilising cash balances to pay off debt as it matures, or when deemed appropriate with the authority making early payment of debt. The anticipated holding of debt at 31 March 2021 is £2.0m. All the debt is from the Public Works Loans Board (PWLB) and is all at fixed rates of interest and is repayable on maturity. The table below shows the maturity profile and interest rate applicable on these:-

| Loan Amount | Maturity Date | Interest rate |
|---|---|---|
| £650k | December 2035 | 4.49% |
| £650k | June 2036 | 4.49% |
| £700k | June 2037 | 4.48% |

(Note, this debt was taken out in 2007 when the base rate was 5.75% and when the Authority was earning 5.84% return on its investments.)

Given the high interest rates payable on these loans, relative to current interest rates, we have again reviewed opportunities for debt repayment/restructuring.

The level of penalty applicable on early repayment of loans now stands at £1.180m. (As previously reported the level of penalty is dependent upon two factors, the difference between the interest chargeable on the loan and current interest rates, the greater this difference the greater the penalty, and the length to maturity, the greater the remaining time of the loan the greater the penalty. Hence as interest rates increase or as loans get closer to maturity the level of penalty will reduce.)

Outstanding interest payable between now and maturity is £1.407m.

| | |
|---|---|
| Penalty incurred | 1.180 |
| Savings on interest payable | (1.407) |
| Gross Saving | (0.277) |

However as highlighted previously, any early repayment means that cash balances available for investment will be reduced and hence interest receivable will also be reduced. The extent of which is dependent upon future interest rates. It is estimated that if interest rate on investments are at 0.7% over the remaining period of the loan then repaying the loans now will be broadly neutral.

It is also worth noting that the capital budget does allow for additional borrowing within the next 5 years. Current long-term borrowing rates are 1.67% for a 25-year loan and 1.49% for a 50-year loan, both of which exceed the breakeven position noted above. Hence given the penalties it is considered beneficial to retain these loans.

**Investment Strategy**

At 31st December 2020 the Authority held £39.110m invested funds, representing income received in advance of expenditure plus existing balances and reserves. During the year the Authority's investment balance has ranged between £28.6m and £52.0m. The variation arises principally due to the timing of the receipt of government grants. It is anticipated that similar levels will be maintained in the forthcoming year.

Both the CIPFA Code and the MHCLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Therefore in line with the guidance the Treasury Management Strategy is developed to ensure the Fire Authority will only use very high quality counterparties for investments.

The Authority may invest its surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown.

<table>
<tr><th colspan="2">Counterparty</th><th>Cash limit</th><th>Time limit †</th></tr>
<tr><td rowspan="4">Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:</td><td>AAA</td><td rowspan="4">£5m each</td><td>5 years</td></tr>
<tr><td>AA+</td><td>3 years</td></tr>
<tr><td>AA</td><td>2 years</td></tr>
<tr><td>AA-</td><td>2 years</td></tr>
<tr><td colspan="2">Call Accounts with banks and other organisations with minimum AA- credit rating</td><td>£10m</td><td>next day</td></tr>
<tr><td colspan="2">Call Account with Lancashire County Council</td><td>unlimited</td><td>next day</td></tr>
<tr><td colspan="2">UK Central Government (irrespective of credit rating)</td><td>unlimited</td><td>50 years</td></tr>
<tr><td colspan="2">UK Local Authorities (irrespective of credit rating)</td><td>£5m each</td><td>10 years</td></tr>
<tr><td colspan="2">Secured Bond Funds AA rating and WAL not more than 3 yrs</td><td>£5m each</td><td>n/a</td></tr>
<tr><td colspan="2">Secured Bond Funds AAA rated and WAL not more than 5 yrs</td><td>£5m each</td><td>n/a</td></tr>
</table>

Allowable bond funds are defined by credit rating and weighted average life (WAL). Investing in senior secured bonds backed by collateral provides a protection against bail-in. Although the average life of the securities within the fund will be either 3 or 5 years, funds can be redeemed within 2 days of request but in general these should be seen as longer term investments.

Regarding the risk of investing with another local authority, only a very few authorities have their own credit rating, but those that do are the same or one notch below the UK Government reflecting the fact that they are quasi-Government institutions. On the whole credit ratings are seen as unnecessary by the sector because the statutory and prudential framework within which the authorities operate is amongst the strongest in the world. In addition any lender to a local authority has protection, under statute, by way of a first charge on the revenues of that authority. No local authority has ever defaulted to date and this also may be an indication of security. However, following the downgrade of the UK credit rating by the rating agencies those local authorities with a rating saw a reduction in their ratings. Therefore, consideration has been given to reducing the risk associated with the investment with other local authorities. Arlingclose, the County Council's Treasury Management advisor, state they are "comfortable with clients making loans to UK local authorities for periods up to two years, subject to this meeting their approved strategy. For periods longer than two years we recommend that additional due diligence is undertaken prior to a loan being made." On this basis it is proposed that the investments to local authorities are limited as follows:

| | Maximum individual investment (£m) | Maximum total investment (£m) | Maximum period |
|---|---|---|---|
| Up to 2 years | 5 | 30 | 2 years |
| Over 2 years | 5 | 25 | 10 years |

The investment in LCC as part of the call account arrangement is excluded from the above limits. The balance on this account is dependent upon short term cash flows and therefore does not have a limit.

Whilst the investment strategy has been amended to allow greater flexibility with investments any decision as to whether to utilise this facility will be made based on an assessment of risk and reward undertaken jointly between the Director of Corporate Services and LCC Treasury Management Team, and consideration of this forms part of the on-going meetings that take place throughout the year.

The legislative context referred to earlier in the report effectively means that, because taxpayers will no longer bail-out failed banks, the required funds will be paid by equity investors and depositors. Local authorities' deposits will be at risk and consequently although currently available within the policy it is unlikely that long term unsecured term deposits will be used at the present time.

Currently all of the Authority's investments are with other local authorities.

The Authority currently has access to a call (instant access) account with a local authority, which pays bank base rate, this is currently 0.10%. Each working day the balance on the Authority's current account is invested to ensure that the interest received on surplus balances is maximised.

In addition longer term loans have been placed with an UK local authorities to enhance the interest earned. To this end at the following investments are already impacting 2021/22

| Start Date | End Date | Principal | Rate | Interest 2021/22 |
|---|---|---|---|---|
| 10/12/19 | 10/06/21 | £5,000,000 | 1.20 | £11,506 |
| 20/04/20 | 20/04/22 | £5,000,000 | 1.45 | £72,500 |
| 24/04/20 | 25/04/22 | £5,000,000 | 1.45 | £72,500 |

Consideration is given to fixing further investments if the maturity fits with estimated cash flows and the rate is considered to be attractive. This will continue to be reviewed. Suggested rates payable by other local authorities indicated:

| | |
|---|---|
| 3 month investment | 0.05-0.11% |
| 6 month investment | 0. 05-0.15% |
| 12-month investment | 0.12-0.28% |
| 3-year investment | 0.53-0.68% |
| 4-year investment | 0.62-0.77% |

The overall combined amount of interest earned on Fixed/Call balances as at 31st December 2020 is £0.197m on an average balance of £42.6m at an annualised rate of 0.61%. This compares favourably with the benchmark 7 day LIBID rate which averages 0.12% over the same period, and is 0.51% above the current bank rate.

**Minimum Revenue Provision (MRP)**

Under Local Authority Accounting arrangements the Authority is required to set aside a sum of money each year to reduce the overall level of debt. This sum is known as the minimum revenue provision (MRP).

The Authority will assess their MRP for 2021/22 in accordance with guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The Authority made a voluntary MRP in 2019/20 and it is anticipated that the MRP on loans will be nil in 2021/22 this will be the case until capital expenditure is financed by borrowing.

Whilst the Authority has no unsupported borrowing, nor has any plans to take out any unsupported borrowing in 2021/22 it is prudent to approve a policy relating to the MRP that would apply if circumstances change. As such in accordance with the Local Government Act 2003, the MRP on any future unsupported borrowing will be calculated using the Asset Life Method. This will be based on a straightforward straight – line calculation to set an equal charge to revenue over the estimated life of the asset. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Authority.  However, the Authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.  Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

Assets held under a PFI contracts and finance leases form part of the Balance Sheet. This has increased the overall capital financing requirement and on a 4% basis the potential charge to revenue. To prevent the increase the guidance permits a prudent MRP to equate to the amount charged to revenue under the contract to repay the liability. In terms of the PFI schemes this charge forms part of the payment due to the PFI contractor.

**Revenue Budget**

The capital financing budget currently shows that income received exceeds expenditure. This excludes the PFI and Finance lease payments, which are included in other budgets. Based on the Strategy outlined above then the proposed budget for capital financing are:

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Interest payable | 0.090 | 0.090 | 0.090 | 0.090 |
| MRP | 0.010 | 0.010 | 0.010 | 0.010 |
| Interest receivable | (0.322) | (0.175) | (0.075) | (0.060) |
| Net budget | (0.222) | (0.075) | 0.025 | 0.040 |

Although the MRP requirement is currently nil the budget includes a provision for making a charge either due to incurring a small amount of borrowing or to make a voluntary MRP to offset against future requirements.

**Prudential Indicators for 2020/21(revised) to 2023/24 in respect of the Combined Fire Authority's Treasury Management Activities.**

In accordance with its statutory duty and with the requirements of the Prudential Code for Capital Finance and the CIPFA Code for Treasury Management, the Combined Fire Authority produces each year a set of prudential indicators which regulate and control its treasury management activities.

The following table sets out the debt and investment-related indicators which provide the framework for the Authority’s proposed borrowing and lending activities over the coming three years.  These indicators will also be approved by members as part of the Capital Programme approval process along with other capital expenditure-related indicators, but need to be reaffirmed and approved as part of this Treasury Management Strategy.

It should be noted that contained within the external debt limits, there are allowances for outstanding liabilities in respect of the PFI schemes and leases. However, accounting standards are likely to change in relation to recording leases. In effect more leases are likely to be included on the balance sheet and therefore will be included against the other long term liabilities indicators. At this stage work is on-going to quantify the impact of the change and therefore the other long-term liabilities limits may be subject to change.

## Treasury Management Prudential Indicators

| Treasury Management Prudential Indicators | 2020/21 (Revised) £m | 2021/22 £m | 2022/23 £m | 2023/24 £m |
|---|---|---|---|---|
| **1. Adoption of the Revised CIPFA Code of Practice on Treasury Management (2011)** | Adopted for all years | | | |
| **2. Authorised limit for external debt** - A prudent estimate of external debt, which includes sufficient headroom for unusual cash movements. | | | | |
| Borrowing | 6.000 | 6.000 | 6.000 | 6.000 |
| Other long-term liabilities | 30.000 | 30.000 | 30.000 | 30.000 |
| TOTAL | 36.000 | 36.000 | 36.000 | 36.000 |
| **3. Operational boundary for external debt** - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the Authority's current plans. | | | | |
| Borrowing | 3.000 | 3.000 | 3.000 | 3.000 |
| Other long-term liabilities | 18.000 | 17.000 | 16.000 | 15.000 |
| TOTAL | 21.000 | 20.000 | 19.000 | 18.000 |
| **4. Upper limit for fixed interest rate exposure** | | | | |
| Upper limit of borrowing at fixed rates | 100% | 100% | 100% | 100% |
| Upper limit of investments at fixed rates | 100% | 100% | 100% | 100% |
| **5. Upper limit for variable rate exposure** | | | | |
| Upper limit of borrowing at variable rates | 25% | 50% | 50% | 50% |
| Upper limit of investments at variable rates | 100% | 100% | 100% | 100% |
| **6. Upper limit for total principal sums invested for over 364 days (per maturity date)** | 25.000 | 25.000 | 25.000 | 25.000 |

| 7. Maturity structure of Debt | Upper Limit % | Lower Limit % |
|---|---|---|
| Under 12 months | 100 | - |
| 12 months and within 24 months | 50 | - |
| 24 months and within 5 years | 50 | - |
| 5 years and within 10 years | 50 | - |
| 10 years and above | 100 | - |

**Financial Implications**

It is worth noting that the Authority currently utilises Lancashire County Council to undertake its Treasury Management Activities, at an annual cost of £7,600, which is built into the current and future budgets.

**Human Resource Implications**

None

**Equality and Diversity Implications**

None

**Environmental Impact**

None

**Business Risk Implications**

The Treasury Management strategy is designed to minimise the Authority's financial risk associated with investment decisions, whilst maximising the return on any investments made. As such the adoption of the CIPFA's Code of Practice on Treasury Management and the monitoring arrangements in place ensure that any risks faced by the Authority are managed.

However, it must be acknowledged that there will always be a balance between risk and return and hence the strategy does not completely eliminate the risk of any further default on investments in the future.

**Local Government (Access to Information) Act 1985**
**List of Background Papers**

| Paper | Date | Contact |
|---|---|---|
| CIPFA Treasury Management Code of Practice and Guidance | 2018 | Keith Mattinson |
| The Ministry of Housing, Communities and Local Government (MHCLG) guidance on local authority investments | 2018 | Keith Mattinson |
| Treasury Management in the Public Services: Code of Practice | 2018 | Keith Mattinson |
| Revenue and Capital Budget Reports | February 2021 | Keith Mattinson |
| Reason for inclusion in Part II, if appropriate: | | |

**APPENDIX 1**

**Treasury Management Policy Statement**

The Authority's financial regulations require it to create and maintain a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

*Definition*
The Authority defines its treasury management activities as: the management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

*Risk management*
The Fire Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

*Value for money*
The Fire Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

*Borrowing policy*
The Fire Authority greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. However, short term and variable rate loans may be borrowed to either offset short-term and variable rate investments or to produce revenue savings. The Authority will also constantly evaluate debt restructuring opportunities of the existing portfolio.
The Fire Authority will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

*Investment policy*
The Fire Authority's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.
The Fire Authority will have regard to the Ministry of Housing, Communities and Local Government Guidance on Local Government Investments. It will approve an Investment Strategy each year as part of the Treasury Management Strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.